

REPORT OF
CITY OF MONTGOMERY, MISSOURI
YEAR ENDED JUNE 30, 2012

CITY OF MONTGOMERY, MISSOURI

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the Board of Aldermen
City of Montgomery, Missouri

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of the City of Montgomery, Missouri (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

PARTNERS

Robert A. Gerding
Fred W. Korte, Jr.
Joseph E. Chitwood
James R. McGinnis
Travis W. Hundley
Jeffrey A. Chitwood

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and where applicable thereof, cash flows and the respective budgetary comparisons for the General Fund and Library Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 3 through 9 and 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The Combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



January 16, 2013

Certified Public Accountants

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2012
(UNAUDITED)

As management of the City of Montgomery, Missouri, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. The City implemented Governmental Accounting Standards Board GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for the first time for fiscal year 2004. Statement 34 allows for prospective reporting of general infrastructure effective with the year beginning July 1, 2003.

Financial Highlights

- The assets of the City of Montgomery exceeded its liabilities at the close of the most recent fiscal year by \$8,036,735 (net assets). Of this amount, \$1,506,304 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets decreased by \$114,407. Capital grants and contributions from developers increased the net assets by \$31,698.
- As of the close of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of \$600,919. Of this amount \$43,260 is unassigned and available for use within the City's designation and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$118,563 or 7.3% of the total general fund expenditures.
- The City's revenue bonds payable decreased \$169,582 due to scheduled payments.
- The City's capital lease debt decreased \$58,308 due to scheduled payments of \$58,308.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with the broad overview of the City's finances, in a manner similar to private-sector business.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, transportation, cultural, parks and recreation and community development. The business-type activities of the City include Water, Sewer, and Gas operations. The government-wide financial statements can be found on page 10-12 of this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories - governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The City maintains six governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Library Fund which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental funds financial statements can be found on pages 13-18.

Proprietary Funds - The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and wastewater, sewer, airport, and gas operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater and gas funds since they are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 19-22 of this report.

Fiduciary Funds - Fiduciary fund statements provide information about the financial relationships, like the Employee Deferred Compensation Fund, in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-54.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 55 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 56-57 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Montgomery, assets exceeded liabilities by \$8,036,735 as of June 30, 2012.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The largest portion of the City's net assets (55.8%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

NET ASSETS

The following table provides a summary of the City's net assets at June 30, 2012, with comparative figures for June 30, 2011:

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Current assets | \$ 1,545,468 | \$ 1,625,352 | \$ 1,307,719 | \$ 1,357,432 | \$ 2,853,187 | \$ 2,982,784 |
| Restricted assets | 21,460 | 17,631 | 1,923,197 | 2,033,287 | 1,944,657 | 2,050,918 |
| Capital assets | 2,028,498 | 2,157,332 | 7,777,236 | 8,078,578 | 9,805,734 | 10,235,910 |
| Total Assets | <u>3,595,426</u> | <u>3,800,315</u> | <u>11,008,152</u> | <u>11,469,297</u> | <u>14,603,578</u> | <u>15,269,612</u> |
| Current liabilities | 935,308 | 1,073,571 | 617,950 | 665,109 | 1,553,258 | 1,738,680 |
| Long-term liabilities | 458,554 | 471,737 | 4,555,031 | 4,908,053 | 5,013,585 | 5,379,790 |
| Total Liabilities | <u>1,393,862</u> | <u>1,545,308</u> | <u>5,172,981</u> | <u>5,573,162</u> | <u>6,566,843</u> | <u>7,118,470</u> |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 1,665,710 | 1,726,855 | 2,821,149 | 2,837,636 | 4,486,859 | 4,564,491 |
| Restricted | 317,116 | 293,619 | 1,726,456 | 1,855,779 | 2,043,572 | 2,149,398 |
| Unrestricted | 218,738 | 234,533 | 1,287,566 | 1,202,720 | 1,506,304 | 1,437,253 |
| Total Net Assets | <u>\$ 2,201,564</u> | <u>\$ 2,255,007</u> | <u>\$ 5,835,171</u> | <u>\$ 5,896,135</u> | <u>\$ 8,036,735</u> | <u>\$ 8,151,142</u> |

As of June 30, 2012, the City is able to report positive balances in all three categories of net assets for the government as a whole.

Analysis of the City's Operations - Overall the City had a decrease in net assets of \$114,407.

Governmental Activities: Governmental activities decreased the net assets by \$53,443.

Business-type Activities: Net Assets from business-type activities decreased by \$60,964 or 1.0% from \$5,896,135 to \$5,835,171.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2012
(UNAUDITED)

CHANGES IN NET ASSETS

The following table provides a summary of the City's operations for the year ended June 30, 2012, with comparative figures for the year ended June 30, 2011.

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Fees, fines and charges for services | \$ 500,832 | \$ 477,921 | \$ 1,660,147 | \$ 1,863,033 | \$ 2,160,979 | \$ 2,340,954 |
| Operating grants and contributions | 25,345 | 36,569 | - | - | 25,345 | 36,569 |
| Capital grants and contributions | 31,698 | 342,806 | - | - | 31,698 | 342,806 |
| General Revenues: | | | | | | |
| Property taxes | 344,177 | 328,558 | - | - | 344,177 | 328,558 |
| Sales and use taxes | 467,097 | 441,708 | - | - | 467,097 | 441,708 |
| Motor vehicle and fuel taxes | 97,109 | 93,769 | - | - | 97,109 | 93,769 |
| Other taxes | 291,216 | 340,461 | - | - | 291,216 | 340,461 |
| Investment earnings | 7,707 | 13,681 | - | 88,656 | 7,707 | 102,337 |
| Transfers | 198,890 | 148,230 | (198,890) | (148,230) | - | - |
| Miscellaneous | 25,640 | 43,584 | 84,842 | - | 110,482 | 43,584 |
| Total Revenues | <u>1,989,711</u> | <u>2,267,287</u> | <u>1,546,099</u> | <u>1,803,459</u> | <u>3,535,810</u> | <u>4,070,746</u> |
| Expenses: | | | | | | |
| General government | 372,612 | 347,255 | - | - | 372,612 | 347,255 |
| Public safety | 438,287 | 449,494 | - | - | 438,287 | 449,494 |
| Public works | 616,335 | 617,116 | - | - | 616,335 | 617,116 |
| Cultural, parks and recreation | 61,713 | 60,013 | - | - | 61,713 | 60,013 |
| Solid waste | 355,524 | 348,827 | - | - | 355,524 | 348,827 |
| Water/sewer | - | - | 920,913 | 901,819 | 920,913 | 901,819 |
| Gas | - | - | 626,292 | 787,448 | 626,292 | 787,448 |
| Interest on long-term debt | 15,480 | 18,276 | - | - | 15,480 | 18,276 |
| Economic development | 135,979 | 227,986 | - | - | 135,979 | 227,986 |
| Total Expenses | <u>1,995,930</u> | <u>2,068,967</u> | <u>1,547,205</u> | <u>1,689,267</u> | <u>3,543,135</u> | <u>3,758,234</u> |
| Total other items | <u>(47,224)</u> | <u>7,006</u> | <u>(59,858)</u> | <u>-</u> | <u>(107,082)</u> | <u>7,006</u> |
| Change in net assets | (53,443) | 205,326 | (60,964) | 114,192 | (114,407) | 319,518 |
| Net Assets - Beginning of Year | <u>2,255,007</u> | <u>2,049,681</u> | <u>5,896,135</u> | <u>5,781,943</u> | <u>8,151,142</u> | <u>8,151,142</u> |
| Net Assets - End of Year | <u>\$ 2,201,564</u> | <u>\$ 2,255,007</u> | <u>\$ 5,835,171</u> | <u>\$ 5,896,135</u> | <u>\$ 8,036,735</u> | <u>\$ 8,470,660</u> |

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Financial Analysis of the Government's Funds

Governmental funds - The focus of the City of Montgomery's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirement. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of \$600,919. Of this amount \$43,260 constitutes unassigned fund balance.

In the general fund, the City originally budgeted for no change in the fund balance. Due to actual revenues being more than budgeted, the actual fund balance increased for fiscal year 2012 by \$58,627. The final budget was adjusted to actual revenues and expenses by the City.

Proprietary funds - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are Gas - \$448,768, Water/Sewer - \$838,798. Funds which had a net assets increase/(decrease) in 2012 were as follows: Gas - \$(46,283) and Water/Sewer - \$(14,681).

Capital Assets

The City of Montgomery's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounts to \$9,805,734 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements and construction in progress. The following table provides a summary of the City's capital assets at June 30, 2012, with comparative figures for June 30, 2011:

| | Capital Assets At Year-End Net of Accumulated Depreciation | | | | | |
|--|---|---------------------|-----------------------------|---------------------|---------------------|----------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Property, plant and equipment: | | | | | | |
| Land, land rights and land improvements/construction in progress | \$ 108,136 | \$ 220,732 | \$ 42,960 | \$ 63,695 | \$ 151,096 | \$ 284,427 |
| Buildings and improvements | 637,101 | 661,097 | 60,213 | 49,493 | 697,314 | 710,590 |
| Infrastructure | 1,003,387 | 945,374 | - | - | 1,003,387 | 945,374 |
| Distribution & collection systems | - | - | 7,530,057 | 7,851,364 | 7,530,057 | 7,851,364 |
| Machinery & equipment | 279,874 | 330,129 | 144,006 | 114,026 | 423,880 | 444,155 |
| Net Capital Assets | <u>\$ 2,028,498</u> | <u>\$ 2,157,332</u> | <u>\$ 7,777,236</u> | <u>\$ 8,078,578</u> | <u>\$ 9,805,734</u> | <u>\$ 10,235,910</u> |

Additional information on the City of Montgomery's capital assets can be found in Note III-D on pages 39 and 40 of this report.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Debt Administration

At the end of the current fiscal year, the City of Montgomery had a total bonded debt and capital leases payable, contracts payable, and accrued compensated absences of \$6,172,204. Of this amount, \$3,772,552 comprises revenue bonded debt backed by the revenues of the Gas, Water and Sewer departments.

**Outstanding Debt at Year End
Revenue Bonds, Special Assessment Debt and Capital Lease**

The following table provides a summary of the City's outstanding debt at June 30, 2012, with comparative figures for June 30, 2011:

| | Capital Assets At Year-End Net of Accumulated Depreciation | | | | | |
|------------------------------|---|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Capital lease obligations | \$ - | \$ - | \$ 1,125,000 | \$ 1,183,308 | \$ 1,125,000 | \$ 1,183,308 |
| Notes payable | 1,148,146 | 1,209,475 | 80,916 | - | 1,229,062 | 1,209,475 |
| Bonds payable | - | - | 2,195,740 | 2,365,322 | 2,195,740 | 2,365,322 |
| DNR loan payable | - | - | 1,576,812 | 1,692,312 | 1,576,812 | 1,692,312 |
| Accrued compensated absences | 36,862 | 33,159 | 8,728 | 5,919 | 45,590 | 39,078 |
| Net Capital Assets | <u>\$ 1,185,008</u> | <u>\$ 1,242,634</u> | <u>\$ 4,987,196</u> | <u>\$ 5,246,861</u> | <u>\$ 6,172,204</u> | <u>\$ 6,489,495</u> |

During the fiscal year, the City's total debt decreased by \$317,291 or 4.9%. The decrease was due to scheduled debt payments.

Additional information on the City of Montgomery's debt can be found in Notes III-F and III-G on pages 41-47 of this report.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Montgomery, Missouri, Attn: Steven Deves, City Clerk or Linda Block, Deputy City Clerk, 723 N. Sturgeon St., Montgomery City, Missouri 63361.

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2012

| ASSETS | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|--------------|
| Current Assets: | | | |
| Cash and cash equivalents | \$ 330,769 | \$ 607,646 | \$ 938,415 |
| Investments | 55,320 | 578,413 | 633,733 |
| Taxes receivable | 164,436 | - | 164,436 |
| Accounts receivable, net | 20,109 | 50,662 | 70,771 |
| Intergovernmental receivables | 13,636 | - | 13,636 |
| Inventories | - | 70,998 | 70,998 |
| Investment - property | 961,198 | - | 961,198 |
| Total Current Assets | 1,545,468 | 1,307,719 | 2,853,187 |
| Non Current Assets: | | | |
| Restricted cash | 21,460 | 139,020 | 160,480 |
| Restricted investments | - | 1,784,177 | 1,784,177 |
| Capital assets: | | | |
| Land | 94,500 | 42,960 | 137,460 |
| Construction in progress | 13,636 | - | 13,636 |
| Other capital assets, net of accumulated depreciation | 1,920,362 | 7,734,276 | 9,654,638 |
| Total Noncurrent Assets | 2,049,958 | 9,700,433 | 11,750,391 |
| Total Assets | 3,595,426 | 11,008,152 | 14,603,578 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Notes payable | 870,489 | 80,916 | 951,405 |
| Accounts payable | 51,399 | 21,924 | 73,323 |
| Accrued liabilities | 6,115 | 1,520 | 7,635 |
| Payable From Segregated Funds: | | | |
| Interest payable | - | 79,184 | 79,184 |
| Bonded debt due within one year | - | 170,000 | 170,000 |
| Refundable deposits | 7,305 | 83,157 | 90,462 |
| Leases payable due within one year | - | 50,000 | 50,000 |
| DNR loan fund due within one year | - | 131,249 | 131,249 |
| Total Current Liabilities | 935,308 | 617,950 | 1,553,258 |
| Noncurrent Liabilities: | | | |
| Obligation for solid waste landfill | 150,150 | - | 150,150 |
| Leases payable | - | 1,075,000 | 1,075,000 |
| Notes payable | 271,542 | - | 271,542 |
| Bonds payable | - | 2,025,740 | 2,025,740 |
| DNR loan fund | - | 1,445,563 | 1,445,563 |
| Compensated absences | 36,862 | 8,728 | 45,590 |
| Total Noncurrent Liabilities | 458,554 | 4,555,031 | 5,013,585 |
| Total Liabilities | 1,393,862 | 5,172,981 | 6,566,843 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,665,710 | 2,821,149 | 4,486,859 |
| Restricted but expendable for (except as noted): | | | |
| Debt service | 14,154 | 1,726,456 | 1,740,610 |
| Other purposes | 302,962 | - | 302,962 |
| Unrestricted | 218,738 | 1,287,566 | 1,506,304 |
| Total Net Assets | \$ 2,201,564 | \$ 5,835,171 | \$ 8,036,735 |

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---------------------|----------------------|------------------------------------|--------------------------------|---|--------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants & Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Governmental Activities: | | | | | | | |
| General government | \$ 372,612 | \$ 51,781 | \$ 9,326 | \$ 22,698 | \$ (288,807) | \$ - | \$ (288,807) |
| Public works | 616,335 | 13,813 | 12,590 | - | (589,932) | - | (589,932) |
| Public safety | 438,287 | 57,414 | 3,429 | 9,000 | (368,444) | - | (368,444) |
| Solid waste | 355,524 | 377,824 | - | - | 22,300 | - | 22,300 |
| Parks | 61,713 | - | - | - | (61,713) | - | (61,713) |
| Community planning/economic development | 135,979 | - | - | - | (135,979) | - | (135,979) |
| Interest on long -term debt | 15,480 | - | - | - | (15,480) | - | (15,480) |
| Total Governmental Activities | <u>1,995,930</u> | <u>500,832</u> | <u>25,345</u> | <u>31,698</u> | <u>(1,438,055)</u> | <u>-</u> | <u>(1,438,055)</u> |
| Business-Type Activities: | | | | | | | |
| Water and waste water | 920,913 | 996,854 | - | - | - | 75,941 | 75,941 |
| Gas | 626,292 | 663,293 | - | - | - | 37,001 | 37,001 |
| Total Business-Type Activities | <u>1,547,205</u> | <u>1,660,147</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>112,942</u> | <u>112,942</u> |
| Total Primary Government | <u>\$ 3,543,135</u> | <u>\$ 2,160,979</u> | <u>\$ 25,345</u> | <u>\$ 31,698</u> | <u>\$ (1,438,055)</u> | <u>\$ 112,942</u> | <u>\$ (1,325,113)</u> |

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Cont'd)
 YEAR ENDED JUNE 30, 2011

| | Net (Expense) Revenue and Changes in Net Assets | | |
|--|--|-------------------------------------|---------------------|
| | Primary Government | | |
| | Governmental Activities | Business-type Activities | Total |
| General Revenues: | | | |
| Taxes: | | | |
| Property taxes, levied for general purpose | \$ 195,578 | \$ - | \$ 195,578 |
| Property taxes, levied for library | 148,599 | - | 148,599 |
| Sales tax | 318,217 | - | 318,217 |
| Sales tax, restricted for street | 148,880 | - | 148,880 |
| Vehicle sales taxes | 97,109 | - | 97,109 |
| Other taxes | 291,216 | - | 291,216 |
| Interest income | 7,707 | - | 7,707 |
| Miscellaneous | 25,640 | 84,842 | 110,482 |
| Transfers | 198,890 | (198,890) | - |
| Total general revenues and transfers | <u>1,431,836</u> | <u>(114,048)</u> | <u>1,317,788</u> |
| Other Items: | | | |
| Asset sales | (23,105) | (59,858) | (82,963) |
| Transfer to Cemetery Association | (24,119) | - | (24,119) |
| Total other items | <u>(47,224)</u> | <u>(59,858)</u> | <u>(107,082)</u> |
| Change in net assets | (53,443) | (60,964) | (114,407) |
| Net assets - beginning | 2,255,007 | 5,896,135 | 8,151,142 |
| Net assets - ending | <u>\$ 2,201,564</u> | <u>\$ 5,835,171</u> | <u>\$ 8,036,735</u> |

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

| | General Fund | Library Fund | Other Governmental Funds | Total |
|--------------------------------------|-------------------------|-------------------------|---|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 285,090 | \$ 119,127 | \$ (73,448) | \$ 330,769 |
| Investments | - | - | 55,320 | 55,320 |
| Taxes receivable | 115,473 | 8,696 | 40,267 | 164,436 |
| Accounts receivable, net | 20,109 | - | - | 20,109 |
| Intergovernmental receivable-grants | 13,636 | - | - | 13,636 |
| Investment property | 961,198 | - | - | 961,198 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 7,305 | - | 14,155 | 21,460 |
| Total Assets | <u>\$ 1,402,811</u> | <u>\$ 127,823</u> | <u>\$ 36,294</u> | <u>\$ 1,566,928</u> |
| LIABILITIES | | | | |
| Notes payable | \$ 864,328 | - | \$ - | \$ 864,328 |
| Accounts payable | 49,109 | 1,687 | 603 | 51,399 |
| Accrued expenses | 5,543 | 572 | - | 6,115 |
| Customer deposits | 7,305 | - | - | 7,305 |
| Compensated absences | 34,606 | 2,256 | - | 36,862 |
| Total Liabilities | <u>960,891</u> | <u>4,515</u> | <u>603</u> | <u>966,009</u> |
| FUND BALANCES | | | | |
| Nonspendable: real estate for resale | 258,116 | - | - | 258,116 |
| Assigned to public safety | 5,273 | - | - | 5,273 |
| Assigned to public works | 59,968 | - | - | 59,968 |
| Assigned to library | - | 123,308 | - | 123,308 |
| Assigned to cemetery | - | - | 96,369 | 96,369 |
| Assigned to library corporation | - | - | 14,625 | 14,625 |
| Assigned to Gouldman cemetery | - | - | - | - |
| Unassigned | 118,563 | - | (75,303) | 43,260 |
| Total Fund Balances | <u>441,920</u> | <u>123,308</u> | <u>35,691</u> | <u>600,919</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,402,811</u> | <u>\$ 127,823</u> | <u>\$ 36,294</u> | <u>\$ 1,566,928</u> |

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

| | |
|---|---------------------|
| Total fund balance - total governmental funds | \$ 600,919 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities of \$3,678,413, net of accumulated depreciation of \$1,649,915, are not financial resources and, therefore, are not reported in the funds. | 2,028,498 |
| Long-term liabilities of \$277,703 are not due and payable in the current period and are not reported in the funds. | (277,703) |
| Long-term obligation for the solid waste landfill of \$150,150 is not due and payable in the current period and is not reported in the funds. | <u>(150,150)</u> |
| Net Assets of Governmental Activities | <u>\$ 2,201,564</u> |

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

| | General Fund | Library Fund | Other Governmental Funds | Total |
|--|-------------------------|-------------------------|---|-------------------|
| REVENUES | | | | |
| Property taxes | \$ 195,578 | \$ 148,599 | \$ - | \$ 344,177 |
| Sales tax | 318,217 | - | 148,880 | 467,097 |
| Railroad, utility and intangible taxes | 261,811 | 13,867 | - | 275,678 |
| Cigarette tax | 15,538 | - | - | 15,538 |
| Motor fuel and vehicle taxes | 97,109 | - | - | 97,109 |
| Intergovernmental | 40,754 | 8,308 | - | 49,062 |
| Charges for services | 404,617 | 9,644 | - | 414,261 |
| Fines and forfeits | 52,339 | - | - | 52,339 |
| Licenses, permits and fees | 30,354 | - | 1,155 | 31,509 |
| Interest | 5,393 | 139 | 2,175 | 7,707 |
| Donations | 3,699 | 4,282 | - | 7,981 |
| Miscellaneous | 2,540 | - | 21,140 | 23,680 |
| Total Revenues | <u>1,427,949</u> | <u>184,839</u> | <u>173,350</u> | <u>1,786,138</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 360,447 | - | - | 360,447 |
| Public works | 294,337 | 153,985 | 82,876 | 531,198 |
| Public safety | 425,212 | - | - | 425,212 |
| Solid waste | 366,249 | - | - | 366,249 |
| Parks | 46,911 | - | - | 46,911 |
| Community planning/economic development | 106,292 | - | - | 106,292 |
| Debt service | 3,781 | - | 17,616 | 21,397 |
| Capital outlay | 26,814 | 4,042 | 20,782 | 51,638 |
| Total Expenditures | <u>1,630,043</u> | <u>158,027</u> | <u>121,274</u> | <u>1,909,344</u> |
| Excess (Deficit) of Revenues over Expenditures and Other Sources (Uses) | <u>(202,094)</u> | <u>26,812</u> | <u>52,076</u> | <u>(123,206)</u> |
| OTHER FINANCING SOURCES AND USES | | | | |
| Sale of property | 3,734 | - | 3,450 | 7,184 |
| Transfer to Cemetery Association | - | - | (24,119) | (24,119) |
| Transfers in | 304,787 | - | - | 304,787 |
| Transfers out | (47,800) | (4,000) | (54,097) | (105,897) |
| Net Other Financing Sources and Uses | <u>260,721</u> | <u>(4,000)</u> | <u>(74,766)</u> | <u>181,955</u> |
| Net Change in Fund Balances | 58,627 | 22,812 | (22,690) | 58,749 |
| Fund Balance, beginning of year | 383,293 | 100,496 | 58,381 | 542,170 |
| Fund Balance, end of year | <u>\$ 441,920</u> | <u>\$ 123,308</u> | <u>\$ 35,691</u> | <u>\$ 600,919</u> |

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ 58,749

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:

| | | |
|--|------------------|-----------|
| Capital outlay | 51,638 | |
| Depreciation expense | <u>(154,867)</u> | |
| Excess of capital outlay over depreciation expense | | (103,229) |

Proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, in the Statement of Activities, a gain or loss on sale of capital assets is recorded. In the current year, these amounts are:

| | | |
|---------------------------------------|--|----------|
| Proceeds from sale of capital assets | | (2,500) |
| Loss on disposition of capital assets | | (23,105) |

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds and is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

| | | |
|---|--|-------|
| Library corporation loan principal payments | | 5,917 |
|---|--|-------|

The City was required to report a long-term obligation for the closure of a solid waste landfill. Related costs are reported as expenditures in governmental funds. However, in the Statement of Activities, the reduction of the obligation is a reimbursement of costs.

10,725

Change in Net Assets of Governmental Activities \$ (53,443)

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Property taxes | \$ 209,000 | \$ 195,578 | \$ 195,578 | \$ - |
| Sales tax | 298,000 | 318,217 | 318,217 | - |
| Railroad, utility and intangible taxes | 255,500 | 261,811 | 261,811 | - |
| Cigarette tax | 14,500 | 15,538 | 15,538 | - |
| Motor fuel and vehicle taxes | 95,500 | 97,109 | 97,109 | - |
| Intergovernmental | 51,500 | 40,754 | 40,754 | - |
| Charges for services | 406,250 | 404,617 | 404,617 | - |
| Fines and forfeits | 40,000 | 52,339 | 52,339 | - |
| Licenses, permits and fees | 29,900 | 30,354 | 30,354 | - |
| Interest | - | 5,393 | 5,393 | - |
| Donations | - | 3,699 | 3,699 | - |
| Miscellaneous | - | 2,540 | 2,540 | - |
| Total Revenues | <u>1,400,150</u> | <u>1,427,949</u> | <u>1,427,949</u> | <u>-</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 376,240 | 360,447 | 360,447 | - |
| Public works | 295,260 | 294,337 | 294,337 | - |
| Public safety | 434,920 | 425,212 | 425,212 | - |
| Solid waste | 335,200 | 366,249 | 366,249 | - |
| Parks | 36,360 | 46,911 | 46,911 | - |
| Community planning/ economic development | 152,060 | 106,292 | 106,292 | - |
| Debt service | - | 3,781 | 3,781 | - |
| Capital Outlay | - | 26,814 | 26,814 | - |
| Total Expenditures | <u>1,630,040</u> | <u>1,630,043</u> | <u>1,630,043</u> | <u>-</u> |
| Excess (Deficit) of Revenues over Expenditures | <u>(229,890)</u> | <u>(202,094)</u> | <u>(202,094)</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of property | 26,000 | 3,734 | 3,734 | - |
| Transfers in | 251,690 | 304,787 | 304,787 | - |
| Transfers out | (47,800) | (47,800) | (47,800) | - |
| Total Other Financing Sources (Uses) | <u>229,890</u> | <u>260,721</u> | <u>260,721</u> | <u>-</u> |
| Net Change in Fund Balances | - | 58,627 | 58,627 | <u>\$ -</u> |
| Fund Balance - beginning of year | <u>383,293</u> | <u>383,293</u> | <u>383,293</u> | |
| Fund Balance - end of year | <u>\$ 383,293</u> | <u>\$ 441,920</u> | <u>\$ 441,920</u> | |

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LIBRARY FUND
YEAR ENDED JUNE 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 143,000 | \$ 148,599 | \$ 148,599 | \$ - |
| Railroad, utility and intangible taxes | 10,000 | 13,867 | 13,867 | - |
| Intergovernmental | 1,800 | 8,308 | 8,308 | - |
| Charges for services | 8,800 | 9,644 | 9,644 | - |
| Interest | - | 139 | 139 | - |
| Donations | <u>1,000</u> | <u>4,282</u> | <u>4,282</u> | <u>-</u> |
| Total Revenues | <u>164,600</u> | <u>184,839</u> | <u>184,839</u> | <u>-</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | 164,600 | 153,985 | 153,985 | - |
| Capital Outlay | <u>-</u> | <u>4,042</u> | <u>4,042</u> | <u>-</u> |
| Total Expenditures | <u>164,600</u> | <u>158,027</u> | <u>158,027</u> | <u>-</u> |
| Excess (Deficit) of Revenues over Expenditures | <u>-</u> | <u>26,812</u> | <u>26,812</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>-</u> | <u>(4,000)</u> | <u>(4,000)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(4,000)</u> | <u>(4,000)</u> | <u>-</u> |
| Net Change in Fund Balances | - | 22,812 | 22,812 | <u>\$ -</u> |
| Fund Balance - beginning of year | <u>100,496</u> | <u>100,496</u> | <u>100,496</u> | |
| Fund Balance - end of year | <u>\$ 100,496</u> | <u>\$ 123,308</u> | <u>\$ 123,308</u> | |

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

| | Water & Waste Water Fund | Gas Fund | Total |
|---|--------------------------------|-------------------|----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 362,126 | \$ 245,520 | \$ 607,646 |
| Investments | 364,054 | 214,359 | 578,413 |
| Accounts receivable, net | 43,855 | 6,807 | 50,662 |
| Inventories | 52,232 | 18,766 | 70,998 |
| Total Current Assets | <u>822,267</u> | <u>485,452</u> | <u>1,307,719</u> |
| Noncurrent Assets: | | | |
| Restricted cash | 99,734 | 39,286 | 139,020 |
| Restricted investments | 1,784,177 | - | 1,784,177 |
| Capital Assets: | | | |
| Land | 34,149 | 8,811 | 42,960 |
| Construction in progress | - | - | - |
| Buildings and improvements | 61,143 | 50,484 | 111,627 |
| Machinery and equipment | 468,007 | 150,279 | 618,286 |
| Distribution and collection systems | 10,322,223 | 664,850 | 10,987,073 |
| Less: Accumulated depreciation | <u>(3,376,557)</u> | <u>(606,153)</u> | <u>(3,982,710)</u> |
| Total Noncurrent Assets | <u>9,392,876</u> | <u>307,557</u> | <u>9,700,433</u> |
| Total Assets | <u>\$ 10,215,143</u> | <u>\$ 793,009</u> | <u>\$ 11,008,152</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 11,754 | \$ 10,170 | \$ 21,924 |
| Accrued expenses | 992 | 528 | 1,520 |
| Current Liabilities Payable From Restricted Cash: | | | |
| Customer deposits | 43,871 | 39,286 | 83,157 |
| Interest payable | 79,184 | - | 79,184 |
| Revenue bonds due within one year | 170,000 | - | 170,000 |
| Lease payable due within one year | 50,000 | - | 50,000 |
| Notes payable | 58,535 | 22,381 | 80,916 |
| DNR loan fund payable within one year | 131,249 | - | 131,249 |
| Total Current Liabilities | <u>545,585</u> | <u>72,365</u> | <u>617,950</u> |
| Non-Current Liabilities: | | | |
| Leases payable | 1,075,000 | - | 1,075,000 |
| Bonds payable | 2,025,740 | - | 2,025,740 |
| DNR loan fund | 1,445,563 | - | 1,445,563 |
| Compensated absences | 5,123 | 3,605 | 8,728 |
| Total Non-Current Liabilities | <u>4,551,426</u> | <u>3,605</u> | <u>4,555,031</u> |
| Total Liabilities | <u>5,097,011</u> | <u>75,970</u> | <u>5,172,981</u> |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | 2,552,878 | 268,271 | 2,821,149 |
| Restricted but expendable for debt service | 1,726,456 | - | 1,726,456 |
| Unrestricted | 838,798 | 448,768 | 1,287,566 |
| Total Net Assets | <u>\$ 5,118,132</u> | <u>\$ 717,039</u> | <u>\$ 5,835,171</u> |

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF OPERATING REVENUES, OPERATING EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

| | Water & Waste Water Fund | Gas Fund | Total |
|---|---|---------------------|---------------------|
| Operating Revenues: | | | |
| Charges for services | \$ 984,756 | \$ 651,728 | \$ 1,636,484 |
| Other | 12,098 | 11,565 | 23,663 |
| Total operating revenues | <u>996,854</u> | <u>663,293</u> | <u>1,660,147</u> |
| Operating Expenses: | | | |
| Personnel services | 156,920 | 130,185 | 287,105 |
| Contractual services | 35,457 | 428,194 | 463,651 |
| Repairs and maintenance | 89,896 | 7,426 | 97,322 |
| Insurance | 18,334 | - | 18,334 |
| Sales tax | 11,053 | 14,624 | 25,677 |
| Utilities | 80,103 | 13,041 | 93,144 |
| Other supplies and expenses | 73,021 | 12,352 | 85,373 |
| Depreciation | 270,564 | 19,601 | 290,165 |
| Total operating expenses | <u>735,348</u> | <u>625,423</u> | <u>1,360,771</u> |
| Operating Income | <u>261,506</u> | <u>37,870</u> | <u>299,376</u> |
| Nonoperating Revenue (Expenses): | | | |
| Interest revenue | 83,126 | 1,716 | 84,842 |
| Interest expense | (185,565) | (869) | (186,434) |
| Loss on sale of fixed assets | (59,858) | - | (59,858) |
| Total nonoperating revenue (expense) | <u>(162,297)</u> | <u>847</u> | <u>(161,450)</u> |
| Net Income Before Transfers | <u>99,209</u> | <u>38,717</u> | <u>137,926</u> |
| Transfers | | | |
| Transfer out | <u>(113,890)</u> | <u>(85,000)</u> | <u>(198,890)</u> |
| Total Transfers | <u>(113,890)</u> | <u>(85,000)</u> | <u>(198,890)</u> |
| Change in Net Assets | (14,681) | (46,283) | (60,964) |
| Net assets - beginning of year | <u>5,132,813</u> | <u>763,322</u> | <u>5,896,135</u> |
| Net assets - end of year | <u>\$ 5,118,132</u> | <u>\$ 717,039</u> | <u>\$ 5,835,171</u> |

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

| | Water & Waste Water Fund | Gas Fund | Total |
|--|---|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 992,088 | \$ 668,109 | \$ 1,660,197 |
| Payments to suppliers and contractors | (306,095) | (486,927) | (793,022) |
| Payments to and on behalf of employees | (155,100) | (128,533) | (283,633) |
| Receipts (payments) of customer deposits (net) | 1,506 | 1,965 | 3,471 |
| Net cash provided (used) by operating activities | <u>532,399</u> | <u>54,614</u> | <u>587,013</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers to other funds | <u>(113,890)</u> | <u>(85,000)</u> | <u>(198,890)</u> |
| Net cash provided (used) by noncapital financing activities | <u>(113,890)</u> | <u>(85,000)</u> | <u>(198,890)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchases of capital assets | (48,681) | - | (48,681) |
| Principal paid on capital debt | (368,249) | (13,347) | (381,596) |
| Interest paid on capital debt | (189,803) | (869) | (190,672) |
| Net cash provided (used) by capital and related financing activities | <u>(606,733)</u> | <u>(14,216)</u> | <u>(620,949)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sales and maturities of investment assets | 122,751 | 24,143 | 146,894 |
| Interest | 83,126 | 1,716 | 84,842 |
| Net cash provided (used) by investing activities | <u>205,877</u> | <u>25,859</u> | <u>231,736</u> |
| Net increase (decrease) in cash and cash equivalents | 17,653 | (18,743) | (1,090) |
| Balances - beginning of year | <u>444,207</u> | <u>303,549</u> | <u>747,756</u> |
| Balances - end of year | <u>\$ 461,860</u> | <u>\$ 284,806</u> | <u>\$ 746,666</u> |
| DISPLAYED AS: | | | |
| Cash and cash equivalents | \$ 362,126 | \$ 245,520 | \$ 607,646 |
| Restricted cash | 99,734 | 39,286 | 139,020 |
| | <u>\$ 461,860</u> | <u>\$ 284,806</u> | <u>\$ 746,666</u> |

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS (CONT'D)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

| | <u>Water & Waste Water Fund</u> | <u>Gas Fund</u> | <u>Total</u> |
|--|---|---------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | |
| Operating income (loss) | \$ 261,506 | \$ 37,870 | \$ 299,376 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 270,564 | 19,601 | 290,165 |
| Amortization expense | - | - | - |
| Change in assets and liabilities: | | | |
| Receivables, net | (4,766) | 4,816 | 50 |
| Inventories | 14,275 | (2,506) | 11,769 |
| Accounts and other payables | (12,506) | (8,784) | (21,290) |
| Accrued expenses | 506 | 157 | 663 |
| Compensated absences payable | 1,314 | 1,495 | 2,809 |
| Customer deposits | 1,506 | 1,965 | 3,471 |
| Total adjustments | <u>270,893</u> | <u>16,744</u> | <u>287,637</u> |
| Net cash provided by operating activities | <u>\$ 532,399</u> | <u>\$ 54,614</u> | <u>\$ 587,013</u> |

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2012

| | Employee Deferred Compensation Fund |
|--------------------------------|--|
| ASSETS | |
| Investment | \$ 43,705 |
| Total Assets | <u>\$ 43,705</u> |
| LIABILITIES | |
| Deferred compensation benefits | \$ 43,705 |
| Total Liabilities | <u>\$ 43,705</u> |

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012

| | Employee Deferred Compensation Fund |
|---|--|
| ADDITIONS | |
| Contributions | |
| Employer/employee | \$ 2,600 |
| Total contributions | 2,600 |
| Investment earnings | |
| Investment income | - |
| Net increase (decrease) in fair value of investments | 919 |
| Net investment earnings | 919 |
| Total Additions | 3,519 |
| DEDUCTIONS | |
| Total Deductions | - |
| Change in net assets | 3,519 |
| Net assets, beginning of year | 40,186 |
| Net assets, end of year | \$ 43,705 |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Montgomery, Missouri, have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. The Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board, as outlined in the Statement of Financial Accounting Standards No. 14, "The Financial Reporting Entity." SFAS No. 14 defines the reporting entity as the primary government and those component units for which primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either, (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Blended Component Unit

The Montgomery City Library Corporation is a not-for-profit corporation governed by a board of directors which is the same as the City's library board and which is appointed by the City Council. The purpose of the corporation is solely to benefit the City's library. The corporation's fiscal year ends June 30.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements provide reports on the financial condition and results of operation for three fund categories - governmental, proprietary, and fiduciary. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating. The City has not elected to apply, under Paragraph 7 of GASB Statement No. 20, for its proprietary funds to follow Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Fiduciary funds financial statements include the statement of assets and liabilities. The statement of assets and liabilities includes information about the assets held in an agency capacity.

C. Fund Accounting

Governmental Funds

The City reports the following major governmental funds:

General Fund

The General Fund is used to account for all revenues and expenditures of the City not accounted for in other funds. It is an operating fund from which most current operations are financed. It is required by law to operate in accordance with a formal budget.

Library Fund

The Library Fund accounts for the operating activities of the City's library. This is reported with governmental activities in the government-wide statements.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds

The City reports the following major enterprise funds:

Water and Waste Water Fund

The Water and Waste Water Fund accounts for the operating activities of the City's water and waste water utilities services.

Gas Fund

The Gas Fund accounts for the operating activities of the City's gas utilities services.

Other Funds

The City also reports the following governmental fund types:

Street Fund

The Street Fund accounts for the operating activities of the City's streets. This is reported with governmental activities in the government-wide statements.

Cemetery Fund

The Cemetery Fund accounts for the operating activities of the City's cemetery. This is reported with governmental activities in the government-wide statements.

Gouldman Cemetery Fund

The Gouldman Cemetery Fund accounts for assets that are held for the Cemetery Fund. Only interest earned on principal can be used by the cemetery. This is a permanent fund reported with governmental activities in the government-wide statements.

Library Corporation Fund

The Library Corporation Fund accounts for the activities of the corporation which receives grants and donations for the library.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City also reports the following fiduciary fund type:

Employee Deferred Compensation Fund

The Employee Deferred Compensation Fund accounts for assets held by the City which are for employees who defer a portion of their compensation under the provisions of Internal Revenue Code Section 457. Agency funds are custodial funds (assets equal liabilities); therefore, they do not involve measurement of operations. All amounts of compensation deferred under the plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in the amount equal to the fair market value of the deferred account for each participant. All assets of the plan are reported at fair market value.

D. Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Fund Financial Statements

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are reported as expenditures in the year due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deposits and Investments

The City's investments include money market accounts, certificates of deposits, and real estate. Accordingly, the City's money market accounts and certificates of deposits at June 30, 2012, carry no market risk; however, the real estate is subject to market fluctuations.

Interest earned on unrestricted investments accounts is allocated to various funds based upon their pro-rate share of the total investment balance.

Statutes, the City Charter, and legal opinions authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; states, agencies, and political subdivisions thereof; mutual funds containing authorized securities; and certificates of deposit of banks and savings and loans in Missouri.

F. Cash and Cash Equivalents

The City considers cash and cash equivalents in the proprietary fund to be cash and all highly liquid investments with an original maturity of 90 days or less.

G. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property Tax Calendar

Property taxes are levied on August 15 and are due no later than December 31. The levy rate is established by the Board of Aldermen each year. Any taxes due and not paid by December 31 are considered delinquent.

I. Inventories

Inventories of materials and supplies in the business-type activities are stated at cost using the specific identification method.

J. Capital Assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated fixed assets are recorded at their estimated fair value at the date of donation. Prior to July 1, 2003, general infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003, are recorded at cost.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. When capital assets are disposed, the costs and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The range of estimated useful lives by types of asset is as follows:

| | |
|-------------------------------------|-------------|
| Buildings | 40-50 years |
| Improvements other than buildings | 10-25 years |
| Machinery, furniture, and equipment | 3-20 years |
| Distribution and collection systems | 10-50 years |
| Infrastructure | 25-50 years |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Accounts Payable

Accounts payable of the governmental activities and business-type activities consist of amounts due to vendors.

L. Long-Term Debt and Bond Discounts/Premiums

In the government-wide and proprietary fund financial statements, outstanding debt is reported as liabilities. Bond issuance costs and bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

M. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity – Fund Financial Statements:

Governmental fund equity is classified as fund balance. Beginning with FY 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The City's nonspendable funds are as detailed in Note III-J.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of resources because they are either:
 - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
 - Imposed by law through constitutional provisions or enabling legislation.

Management has determined there are no amounts that should be considered restricted.

- **Committed:** This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City's board of aldermen, which is the City's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the board of aldermen removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of year-end.
- **Assigned:** This classification includes spendable amounts that are reported in governmental funds *other than the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose in accordance with the provisions of GASB Statement 54. The intent of an assigned fund balance should be expressed by either the City's board of aldermen, or a subordinate high-level body, such as a finance committee, or an official, such as the executive director, that has the authority to assign amounts to be used for specific purposes. The City's management assigned funds during year as detailed in Note III-J.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Unassigned:** This classification is the residual fund balance for the General Fund. It also represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund including any governmental fund in a deficit position.

When fund balance resources are available for a specific purpose in multiple classifications, the City would use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed. However, it reserves the right to selectively spend unassigned resources first and to defer to the use of the other classified funds.

N. Program Revenues

In the statement of activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

| | |
|---|---|
| General Government | Licenses and permits; operating grant from the Missouri Department of Social Services |
| Public Works | Commercial vehicle and gasoline excise tax shared by the State; cemetery lot sales and permits; library fees and operating grants and contributions |
| Public Safety | Fine revenue; operating and capital grants from the Missouri Department of Public Safety |
| Solid Waste | Fees |
| Parks | None |
| Community Planning/ Economic Development | Community development block grants |

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

O. Operating Revenue and Expense

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

Interfund activity, if any, within or among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
3. Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Missouri or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III-A, all deposits were fully insured or collateralized.

B. Budget Basis of Accounting

The City of Montgomery prepares its annual budget on a basis (budget basis), which agrees with generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual to provide a meaningful comparison of actual results with the budget.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, net assets, revenues, and expenditures/expenses.

A. Cash and Investments

The City pools the cash and investments of all funds to maximize investment return. Individual fund balances are maintained by the City's accounting system. The City complies with various restrictions on deposits and investments which are imposed by state statutes as follows:

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Deposits - All deposits with financial institutions must be collateralized in an amount at least equal to uninsured deposits.

Investments - The City may purchase any investments allowed by the State Treasurer. These include (1) obligations of the United States government or any agency or instrumentality thereof maturing and becoming payable not more than three years from the date of purchase, or (2) repurchase agreements maturing and becoming payable within ninety days secured by U. S. Treasury obligations or obligations of U. S. government agencies or instrumentalities of any maturity, as provided by law.

The deposits and investments held at June 30, 2012 are shown below:

| | Maturities | Carrying Value |
|--------------------------------|------------|-------------------|
| Deposits: | | |
| Demand deposits | | \$ 1,084,258 |
| Time deposit | 6/19/2013 | 53,521 |
| Time deposit | 6/29/2013 | 1,800 |
| Time deposits | 11/14/2013 | 18,893 |
| Time deposits | 6/1/2013 | 71,448 |
| Time deposit | 9/9/2012 | 33,269 |
| Time deposit | 7/13/2012 | 415,203 |
| Time deposits | 3/24/2013 | 74,000 |
| Total Deposits | | 1,752,392 |
| Investments: | | |
| U.S. Treasury Obligations | | 1,749,780 |
| Total Investments | | 1,749,780 |
| Total deposits and investments | | \$ 3,502,172 |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

At June 30, 2012, cash of the business-type activities was as follows:

Reconciliation of Statement of Net Assets:

| | |
|---------------------------|--------------|
| Current: | |
| Cash and cash equivalents | \$ 607,646 |
| Investments | 578,413 |
| Total Current | 1,186,059 |
| Noncurrent: | |
| Restricted cash | 139,020 |
| Restricted investments | 1,784,177 |
| Total Noncurrent | 1,923,197 |
| Total | \$ 3,109,256 |

Custodial Credit Risk. Deposits in financial institutions, reported as components of cash and investments had a bank balance of \$1,728,661 at June 30, 2012. Balances at all banks were fully insured or secured with collateral held by the City’s agent in its name. All investments are registered in the name of the City.

Investment interest rate risk. The City has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at June 30, 2012, are provided in the previous schedule.

Investment credit risk. The City maintains cash deposits and investments which are authorized by City ordinances related to the long-term debt issuances. The Council has given the City Administrator and Finance Director the authority to invest idle funds of the City in low-risk investments such as United States government securities or collateralized certificates of deposit.

Concentration of investment credit risk. The City places no limit on the amount it may invest in any one issuer. At June 30, 2012, the City had no concentration of credit risk.

Restricted Assets

The restricted assets represent customer utility deposits and cash and investments reserved in accordance with the Combined Waterworks and Sewerage System revenue bond ordinances. The restricted assets can be used only for the following:

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

| | |
|--|----------------------------|
| Customer Deposits - Refunds of utility deposits to customers discontinuing utility usage. | \$ 90,462 |
| Bond Reserve Account - Payment of principal and interest only when and to the extent other funds are not available for that purpose. | 1,612,258 |
| Bond Replacement and Extension Account - Payments for replacements or extensions to the system. | 34,400 |
| Bond Principal and Interest - Payment of bond principal and interest | <u>193,382</u> |
| Total Restricted Assets | <u><u>\$ 1,930,502</u></u> |

The bond ordinances state that deposits shall be held by banks in the State of Missouri which are members of the Federal Deposit Insurance Corporation. No investment shall be made for a period extending longer than to the date when the moneys invested may be needed for the purpose of the fund.

Investment in Property

The City has purchased property to be used for development within the City. The acquisition cost of the property at June 30, 2012, as recorded on the Government-Wide Statement of Net Assets was \$961,198. Notes payable for which these properties are held as collateral total \$703,082.

B. Receivables

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities consist of miscellaneous receivables. Receivables detail at June 30, 2012, is as follows:

The City provides an allowance for doubtful accounts based upon a review of existing receivables. Based on prior experience of collectability the accounts receivable have been adjusted as follows:

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|------------------|
| Total accounts receivable | \$ 38,791 | \$ 152,018 | \$ 190,809 |
| Less: Allowance for uncollectible accounts | (18,682) | (101,356) | (120,038) |
| Net accounts receivable | <u>\$ 20,109</u> | <u>\$ 50,662</u> | <u>\$ 70,771</u> |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

C. Taxes Receivable

Taxes receivable of the governmental activities consist of property, sales, franchise, gas and motor vehicle tax receivable. Receivables detail at June 30, 2012 was as follows:

| | |
|--------------------------------------|----------------------------|
| | Governmental Activities |
| Taxes receivable | \$ 164,436 |
| Allowance for uncollectable accounts | <u>—</u> |
| Net taxes receivable | <u>\$ 164,436</u> |

D. Capital Assets

Capital asset activity, for the fiscal year ended June 30, 2012, was as follows:

| | Balance at June 30, 2011 | Additions | Disposals | Balance at June 30, 2012 |
|--|--------------------------------|------------------|---------------------|--------------------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 94,500 | \$ - | \$ - | \$ 94,500 |
| Construction in progress | 126,232 | 13,636 | (126,232) | 13,636 |
| | <u>220,732</u> | <u>13,636</u> | <u>(126,232)</u> | <u>108,136</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 930,184 | - | - | 930,184 |
| Machinery, equipment and furniture | 1,172,987 | 41,879 | (82,906) | 1,131,960 |
| Infrastructure | 1,379,723 | 128,410 | - | 1,508,133 |
| | <u>3,482,894</u> | <u>170,289</u> | <u>(82,906)</u> | <u>3,570,277</u> |
| Total capital assets at historical costs | <u>3,703,626</u> | <u>183,925</u> | <u>(209,138)</u> | <u>3,678,413</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (269,087) | (23,996) | - | (293,083) |
| Machinery, equipment and furniture | (842,858) | (60,474) | 51,246 | (852,086) |
| Infrastructure | (434,349) | (70,397) | - | (504,746) |
| Total accumulated depreciation | <u>(1,546,294)</u> | <u>(154,867)</u> | <u>51,246</u> | <u>(1,649,915)</u> |
| Net capital assets being depreciated | <u>1,936,600</u> | <u>15,422</u> | <u>(31,660)</u> | <u>1,920,362</u> |
| Net capital assets | <u>\$ 2,157,332</u> | <u>\$ 29,058</u> | <u>\$ (157,892)</u> | <u>\$ 2,028,498</u> |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

| | Balance at June 30, 2011 | Additions | Disposals | Balance at June 30, 2012 |
|--|--------------------------------|---------------------|--------------------|--------------------------------|
| Business-Type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 42,960 | \$ - | \$ - | \$ 42,960 |
| Construction in progress | 20,735 | - | (20,735) | - |
| | <u>63,695</u> | <u>-</u> | <u>(20,735)</u> | <u>42,960</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 97,770 | 13,857 | - | 111,627 |
| Machinery, equipment and furniture | 562,727 | 55,559 | - | 618,286 |
| Distribution and collection systems | 11,705,357 | - | (718,284) | 10,987,073 |
| | <u>12,365,854</u> | <u>69,416</u> | <u>(718,284)</u> | <u>11,716,986</u> |
| Total capital assets at historical costs | <u>12,429,549</u> | <u>69,416</u> | <u>(739,019)</u> | <u>11,759,946</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (48,277) | (3,137) | - | (51,414) |
| Machinery, equipment and furniture | (448,701) | (25,579) | - | (474,280) |
| Distribution and collection systems | (3,853,993) | (261,450) | 658,427 | (3,457,016) |
| Total accumulated depreciation | <u>(4,350,971)</u> | <u>(290,166)</u> | <u>658,427</u> | <u>(3,982,710)</u> |
| Net capital assets being depreciated | <u>8,014,883</u> | <u>(220,750)</u> | <u>(59,857)</u> | <u>7,734,276</u> |
| Net capital assets | <u>\$ 8,078,578</u> | <u>\$ (220,750)</u> | <u>\$ (80,592)</u> | <u>\$ 7,777,236</u> |

Depreciation expense was charged to functions as follows in the Statement of Activities:

| | |
|---|-------------------|
| Governmental Activities: | |
| General | \$ 12,165 |
| Public works | 85,137 |
| Public safety | 13,075 |
| Parks | 14,802 |
| Community planning/economic development | 29,688 |
| Total depreciation expense for governmental activities | <u>\$ 154,867</u> |
| Business-Type Activities: | |
| Water and waste water | \$ 270,564 |
| Gas | 19,601 |
| Total depreciation expense for business-type activities | <u>\$ 290,165</u> |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

E. Accounts Payable

Payables in the governmental funds are composed of payables to vendors (89%) and accrued salaries and benefits (11%). Payables of Enterprise Funds are composed of payables to vendors (94%) and accrued salaries and benefits (6%).

F. Short-term Notes

Changes in Short-Term Debt:

The following is a summary of changes in short-term debt for the year ended June 30, 2012:

| Type of Debt | Balance at June 30, 2011 | Additions | Disposals | Balance at June 30, 2012 |
|---|--------------------------------|-----------|-----------|--------------------------------|
| Governmental Activities - Notes payable | \$ 925,855 | \$ - | \$ 55,366 | \$ 870,489 |
| Business-Type Activities | \$ 119,122 | \$ - | \$ 38,206 | \$ 80,916 |

In December 1996 the City entered into a short-term note to finance the purchase of land for a business park. The City plans to sell off tracts of land to businesses who wish to build in the business park. The real estate was pledged as collateral for the note amount of \$469,000. The note has been renewed various times over the past several years as required by the bank. The note was renewed once again on June 5, 2012, and will mature on June 5, 2013. The unpaid principal balance will bear interest at an annual rate equal to the prime rate announced by the bank. At June 30, 2012, the interest rate was 2.07%. The interest rate is adjusted each time the prime rate changes. There were no principal payments made during the fiscal year ended June 30, 2012. At June 30, 2012, the note had a principal balance of \$129,000.

On June 1, 2012, the City borrowed \$412,500 for the purchase of developed real estate land. The loan is due June 1, 2013 and the interest rate is 2.07%. The balance at June 30, 2012 is \$412,500.

On June 1, 2012, the City borrowed \$70,000 at 2.45%, with a maturity of June 1, 2013. Certificate of deposit number 34324 is held as collateral. The balance at June 30, 2012 is \$70,000.

On June 1, 2010, the City borrowed \$161,581.67 from the Montgomery City Growth, Inc. at 0% for the purchase of developed land. The loan matures upon the sale of the property. The balance at June 30, 2012 is \$161,581.67.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

On July 13, 2009, the City borrowed \$400,000 to finance street paving, watermain replacement, and the purchase of a backhoe and tractor. The loan is due July 13, 2012, and the interest rate is 2.60%. The repayment of the loan is made from the Street Fund (53%), Water (20.5%) and Sewer Fund (13.5%) and the Gas Fund (13%). The balance at June 30, 2012 is \$172,163.02 and interest paid during 2011-2012 was \$6,689.

The debt balance at June 30, 2012 is reported in the following funds as shown:

| | | |
|-----------------|------------|-----------------|
| General | \$ 91,246 | (governmental) |
| Water and Sewer | 58,536 | |
| Gas | 22,381 | |
| | 80,917 | (business-type) |
| Total | \$ 172,163 | |

G. Long-term Debt

Changes in long-term debt:

The following is a summary of changes of long-term debt for the year ended June 30, 2012:

| Type of Debt | Balance June 30, 2011 | Additions | Deductions | Balance June 30, 2012 | Amounts Due Within One Year |
|----------------------------------|-----------------------------|-----------|------------|-----------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Notes Payable | \$ 283,620 | \$ - | \$ 5,963 | \$ 277,657 | \$ 6,115 |
| Accrued compensated absences | 33,159 | 3,703 | - | 36,862 | - |
| Total General Long-Term Debt | \$ 316,779 | \$ 3,703 | \$ 5,963 | \$ 314,519 | \$ 6,115 |
| Business-Type Activities: | | | | | |
| Bonds Payable | \$ 2,365,322 | \$ - | \$ 169,582 | \$ 2,195,740 | \$ 170,000 |
| Capital Lease Obligations | 1,183,308 | - | 58,308 | 1,125,000 | 50,000 |
| DNR Loan Payable | 1,692,312 | - | 115,500 | 1,576,812 | 131,249 |
| Accrued Compensated Absences | 5,919 | 2,809 | - | 8,728 | - |
| Total Enterprise Fund Debt | \$ 5,246,861 | \$ 2,809 | \$ 343,390 | \$ 4,906,280 | \$ 351,249 |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

The City issued \$3,500,000 of Revenue Bonds on November 1, 2001. The bond proceeds were used to improve and extend the City's Waterworks and Sewerage System. These bonds were approved by the City's voters in November 1997. The following is a summary of bond transactions for the year ended June 30, 2012, for this issue:

| | Revenue Bonds |
|---|--|
| | Combined Waterworks and Sewerage System |
| | 2001 Bond Issue |
| Bonds payable at June 30, 2012 | \$ 2,135,000 |
| Less: Current portion due June 30, 2012 | (170,000) |
| Long-term debt at June 30, 2012 | \$ 1,965,000 |

The Revenue Bonds become due on July 1 in annual installments of \$145,000 to \$220,000 through July 1, 2022. Bonds bear interest ranging from 3.00% to 5.00%. Principal and interest payments required for each of the next five years and five-year increments to maturity are as follows:

| Year Ending June 30, | Annual Rate of Interest | Principal | Interest |
|-------------------------|----------------------------|--------------|------------|
| 2013 | 5.375% | \$ 170,000 | \$ 107,000 |
| 2014 | 5.375% | 175,000 | 97,728 |
| 2015 | 5.375% | 180,000 | 88,188 |
| 2016 | 5.375% | 180,000 | 78,512 |
| 2017 | 5.375% | 185,000 | 68,703 |
| 2018-2022 | 5.375%/5.00% | 1,025,000 | 187,116 |
| 2023 | 5.00% | 220,000 | 5,500 |
| Total | | \$ 2,135,000 | \$ 632,747 |

Total long-term debt for the two bond issuances is reported net of unamortized bond premium, discounts, and issuance costs of \$57,931. Bond premium, discounts, and issuance costs are amortized over the term of the bonds. A summary of net long-term debt at June 30, 2012, is as follows:

| | |
|----------------------|--------------|
| Total Long-Term Debt | \$ 2,135,000 |
| Add: Premium | 89,257 |
| Less: Issuance Costs | (28,517) |
| Net Long-Term Debt | \$ 2,195,740 |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

With the issuance of the 2001 Series Bonds, the City is participating in the Missouri Leveraged State Water Pollution Control Revolving Fund Program (the “SRF Program”) of the Missouri Department of Natural Resources (“DNR”) and the State Environmental Improvement and Energy Resources Authority to provide the most cost effective financing of the extensions and improvements to the City’s Waterworks and Sewerage System. DNR is making the revolving fund loan to the City under the Clean Water SRF Program from the available money in the Water and Wastewater Loan Fund.

The revolving fund loan is funded in installments as disbursements are made to the City. Each installment of the revolving fund loan is an amount equal to the reserve percentage (70%) of the sum of the actual reimbursement amount approved by DNR in accordance with the purchase agreement. No interest is payable on the loan.

The City is responsible for repayment of the revolving fund loan in the following manner. On the date of each payment of the principal amount of the participant bonds or the defeasance, thereof, the trustee (UMB Bank, N.A.) will transfer, from the reserve account to the master trustee (UMB Bank, N.A.), an amount equal to the reserve percentage of the principal amount of the participant bonds paid or deemed paid within the meaning of the ordinance. No transfer will result in the reserve security being less than the reserve percentage of the outstanding principal amount of the participant bonds. The outstanding balance of the revolving loan fund is reduced by the amount of the transfer to the master trustee (UMB Bank, N.A.). During the year ended June 30, 2012, DNR made loan fund payments in the amount of \$0 to the City. The City repaid \$115,500 during the year ended June 30, 2012, leaving a balance of \$1,576,812.

Governmental Activities

Library Corporation

On March 6, 2008, the Montgomery Library Corporation borrowed \$300,000 from USDA Rural Development for the purchase of the library building from the City of Montgomery in the amount of \$310,000. The funds were borrowed at an interest rate of 4.125% per annum, with the principal and interest to be paid over a period of 30 years with the due date of the final installment of March 6, 2038.

A reserve account is to be established in the sum of \$3,524 each year until there is accumulated in that account the sum of \$35,240. As of June 30, 2012, the debt service account balance was \$7,077 and the replacement and extension account balance was \$7,077.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Principal and interest payments required for each of the next five years and five-year increments to maturity are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|-------------------|
| 2013 | \$ 6,161 | \$ 11,455 | \$ 17,616 |
| 2014 | 6,415 | 11,201 | 17,616 |
| 2015 | 6,680 | 10,936 | 17,616 |
| 2016 | 6,955 | 10,661 | 17,616 |
| 2017 | 7,242 | 10,374 | 17,616 |
| 2018-2022 | 40,945 | 47,135 | 88,080 |
| 2023-2027 | 50,115 | 37,965 | 88,080 |
| 2028-2032 | 61,340 | 26,740 | 88,080 |
| 2033-2037 | 75,080 | 13,000 | 88,080 |
| 2038 | 16,770 | 692 | 17,462 |
| Total | <u>\$ 277,703</u> | <u>\$ 180,159</u> | <u>\$ 457,862</u> |

Capital Leases

The changes in capital lease obligations for the year ended June 30, 2012 are shown below:

| | Balance 6/30/2011 | Lease Proceeds | Principal Paid | Balance 6/30/2012 | Interest Paid |
|---------------------------|----------------------|-------------------|-------------------|----------------------|------------------|
| Business-Type Activities: | | | | | |
| Water & waste water | \$ 1,180,529 | \$ - | \$ 55,529 | \$ 1,125,000 | \$ 50,000 |
| Gas | 2,779 | - | 2,779 | - | - |
| | <u>\$ 1,183,308</u> | <u>\$ -</u> | <u>\$ 58,308</u> | <u>\$ 1,125,000</u> | <u>\$ 50,000</u> |

The governmental activities and the business-type activities assets which are subject to these leases have costs as follows:

| | Business-Type Activities |
|--|-----------------------------|
| Leased property | \$ 1,361,652 |
| Leased property accumulated depreciation | (156,023) |
| Total | <u>\$ 1,205,629</u> |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Lease - Purchase Agreement

The City entered into a Base Lease and Lease Purchase Obligation as of February 1, 2007, for certain personal property of the City including the clarifier equipment of the City's combined water and sewerage system. This equipment consists of a traveling bridge with scrapers on the bottom of its basin that rotates around a center point, which sits inside a circular concrete structure with steel wire around its circumference.

The City leased the Leased Property to First Bank of Missouri (The Trustee), who then leased the Leased Property back to the City pursuant to a Lease/Purchase Agreement of even date and executed a Declaration of Trust (The Indenture) of the same date under which the Trustee delivered Certificates of Participation (City of Montgomery, Missouri, Lessee) Series 2007 to provide funds to pay the costs of the project and pay the costs of delivering the Series 2007 Certificates.

The term of the base lease commenced on February 1, 2007, and will end on February 1, 2027.

The Trustee leased the personal property back to the City with the City having the right to purchase the property back. Annual payments consisting of a Base Rental representing a Principal component are payable on each February 1 beginning February 1, 2008. There is also a Base Rental payment representing an Interest Component payable on February 1 and August 1. The first payment was on August 1, 2007.

In addition to the Base Rentals, the City will from time to time be required to pay for certain expenses such as reasonable trustee expenses, maintenance and repairs of the leased property, public liability and workers' compensation insurance and various other costs associated with the property.

If the City is not in default in making payments as discussed above, the City may instruct the Trustee to take all steps that may be necessary under the prepayment provisions of the Indenture to effect the prepayment of all or such part of the then outstanding certificates on such optional prepayment dates as may be specified in writing by the City.

The City has determined the Base Rentals during the Initial Term and any Renewal Term represent the fair value of the Leased Property and that the Option Price represents the fair purchase price of the Trustee's interest in the Leased Property. The City declares that the period during which the City has an option to purchase the Trustee's interest in the Leased Property (that is the maximum term of the Lease including all Renewal Terms) does not exceed the useful life of the Leased Property.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

During the term of the Lease, the City covenants and agrees that its responsible officer will include in the budget proposal submitted to the Board of Aldermen a request or requests for an appropriation equal to the Base Rentals and reasonably estimated Supplemental Rent to become due during the next succeeding Renewal Term. If sufficient funds are not appropriated by the Board of Aldermen for the payment of the Base Rental and the Supplemental Rental, and funds are not otherwise legally available for such purposes, the City shall relinquish the Leased Property as of the expiration of the Initial Term or Renewal Term for which funds have been appropriated.

The City may purchase the Trustee’s interest in the Leased Property on any Optional Prepayment Date by delivering written notice to the Trustee not less than 60 days prior to the Optional Prepayment Date on which the option is to be exercised. The purchase price to be paid by the City to exercise the option shall be an amount equal to (1) the Option Price applicable on such Optional Prepayment dates as indicated in the Option Price Schedule plus interest, premium, if any, and fees, costs, and expenses which must be paid to prepay the then Outstanding Certificates, less all amounts in reverses held by the Trustee under the Indenture which may be applied to the prepayment of such outstanding Certificates and such other expenses, (2) all costs of transferring the Property to the City and (3) all other reasonable costs and expenses incidental thereto.

Title to the Leased Property will be held in the name of the City, subject of the Base Lease and the Indenture.

The City is under no obligation to exercise its option to purchase the Trustee’s interest in the Leased Property.

The Base Rental Payment and Option Price Schedule follow:

| Year Ending June 30, | Principal | Interest |
|-------------------------|---------------------|-------------------|
| 2013 | \$ 50,000 | \$ 56,160 |
| 2014 | 55,000 | 53,735 |
| 2015 | 55,000 | 51,068 |
| 2016 | 60,000 | 48,400 |
| 2017 | 65,000 | 45,490 |
| 2018-2022 | 365,000 | 177,377 |
| 2023-2027 | 475,000 | 75,225 |
| Total | <u>\$ 1,125,000</u> | <u>\$ 507,455</u> |

CITY OF MONTGOMERY, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

H. Interfund Transfers

The governmental-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

Interfund transfers between funds of the City were as follows:

| <u>Disbursing Fund</u> | <u>Receiving Fund</u> | <u>Amount</u> |
|------------------------------|-----------------------|-------------------|
| Library (nonmajor) | General (major) | \$ 4,000 |
| Water and wastewater (major) | General (major) | 108,890 |
| Gas (major) | General (major) | 90,000 |
| Street (nonmajor) | General (major) | 52,313 |
| Cemetery (nonmajor) | General (major) | 1,784 |
| Total | | <u>\$ 256,987</u> |

The above transfers are budgeted routine transfers.

I. Fund Equity

Restricted Net Assets

The following table shows the net assets restricted for debt service and for other purposes as shown on the Statement of Net Assets:

| <u>Activity</u> | <u>Restricted by</u> | <u>Amount</u> |
|----------------------|----------------------|-------------------|
| Public safety | Law | \$ 6,903 |
| Public works | Law | 59,968 |
| Library | Contributors and law | 123,779 |
| Cemetery | Contributors and law | 96,369 |
| Street | Contributors and law | 15,943 |
| Total Other Purposes | | <u>\$ 302,962</u> |
| Debt service-library | | <u>\$ 14,154</u> |

Fund Equity Deficits

Deficit fund balance existed at June 30, 2012 in the Street Fund.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

J. Fund Balance

Classifications of fund balances at June 30, 2012 are as follows:

| Fund Balances: | <u>Nonspendable</u> | <u>Restricted</u> | <u>Committed</u> | <u>Assigned</u> | <u>Unassigned</u> | <u>Total</u> |
|---------------------|---------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| General | \$ 258,116 | \$ - | \$ - | \$ 65,241 | \$ 118,563 | \$ 441,920 |
| Street | - | - | - | - | (75,303) | (75,303) |
| Library | - | - | - | 123,308 | - | 123,308 |
| Cemetery | - | - | - | 96,369 | - | 96,369 |
| Library Corporation | - | - | - | 14,625 | - | 14,625 |
| Total | <u>\$ 258,116</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 299,543</u> | <u>\$ 43,260</u> | <u>\$ 600,919</u> |

The City has not adopted a policy that sets forth a minimum fund balance amount.

IV. OTHER INFORMATION

A. Employee Pension Plan

1. Plan Description

The City of Montgomery participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

2. Funding Status

Full-time employees of the City of Montgomery do not contribute to the pension plan. The June 30th statutorily required contribution rates are 2.3% (General), and 2.4% (Police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

IV. OTHER INFORMATION (continued)

3. Annual Pension Cost (APC) and Net Pension Obligation (NPO)

The subdivision's annual pension cost and net pension obligation for the current year were as follows:

| | | |
|--|----|--------|
| Annual required contribution | \$ | 20,006 |
| Interest on net pension obligation | | - |
| Adjustment to annual required contribution | | - |
| Annual pension cost | | 20,006 |
| Actual contributions | | 20,006 |
| Increase (decrease) in NPO | | - |
| NPO beginning of year | | - |
| NPO end of year | \$ | - |

The annual required contribution (ARC) was determined as part of the February 28, 2010 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 29, 2012 included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Health Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of February 28, 2010 was 7 years for the General division and 9 years for the Police division.

Three-Year Trend Information

| Year Ended <u>June 30</u> | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---------------------------------|---------------------------------|-------------------------------------|------------------------------|
| 2010 | 2,823 | 100% | — |
| 2011 | 11,216 | 100% | — |
| 2012 | 20,006 | 100% | — |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

IV. OTHER INFORMATION (continued)

B. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participants to defer a portion of participants' salary until future years. Participation in the plan is optional and participants elect how the salary deferrals are invested. Investment options include the following: stock funds, bond funds, and money market accounts, including various risk alternatives. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of a general creditor of the City in the amount equal to the fair market value of the deferred account for each participant.

The City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

C. Community Development Block Grant

The City is involved in a community development block grant for road and sewer infrastructure improvements at the AFB International Facility. The total grant for this purpose is \$200,000. As of June 30, 2012 the City had requested \$200,000 of the grant funds and the project was finished in 2012.

The City is involved in a community development block grant program for industrial infrastructure funds for road and drainage systems with the expansion of Porta-King Building Systems. The total grant for this purpose is \$200,000. As of June 30, 2012, the City had requested \$13,636 of the grant funds.

The City is involved in a CDBG for slum/blight removal of 14 vacant houses. The total grant for this purpose is \$116,640. As of June 30, 2012, the City had requested \$105,709 of the grant funds and the project was finished in 2012.

D. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

IV. OTHER INFORMATION (continued)

E. Closure of Montgomery City Sanitary Landfill

The City had previously contracted with an operator for the operation of a municipal solid waste landfill. The landfill stopped accepting solid waste in 1992. As part of the agreement, the operator was supposed to close the landfill in accordance with various regulatory requirements. Certain assets were pledged by the contractor in the amount of \$102,492 to guarantee its obligation.

The landfill was not closed by the operator in accordance with requirements. Due to violations of the contractual agreements, the City gained control of the pledged assets.

The project engineer estimated the costs to be incurred in each of the next fifteen (15) years for post-closure costs and maintenance of the closed facility is approximately \$10,725, which totals \$160,875. This amount is subject to review and adjustments annually and has been reflected as a liability in the government-wide statement of net assets.

F. Commitments and Contingencies

1. Grants

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2012, the City believes that disallowed expenditures, if any, based on subsequent audits of grant expenditures will not have a material effect on any of the individual government funds or the overall financial position of the City.

2. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

IV. OTHER INFORMATION (continued)

G. Litigation

Based on confirmation from the City attorney, management believes there are no outstanding matters which will have a material effect on the financial statements of the City.

H. Environmental Matters

The City is also subject to various laws and regulations with respect to environmental matters such as air and water quality. The effect of any future changes in environmental laws and/or regulations cannot be estimated. However, compliance with such changes may necessitate substantial expenditures.

I. Taxes

Assessed values are established by the County Assessor subject to review by the County's Board of Equalization and State Tax Commission. The assessed value for property located in the City as of January 1, 2011 and 2010 on which the fiscal 2011 and 2010 levies were based, were as follows:

| | 2011 | 2010 |
|-------------------|---------------|---------------|
| Real estate | \$ 33,445,629 | \$ 32,223,075 |
| Personal property | 7,126,187 | 6,808,760 |
| | \$ 40,571,816 | \$ 39,031,835 |

The City is permitted by Missouri State Statutes, which encompass certain limitations, to levy taxes for various general governmental services and in unlimited amounts for the payment of principal and interest on general obligation bonded debt. Property tax levies per \$100 assessed valuation are as follows:

| Fund | 2011 | 2010 |
|-----------------|-----------|-----------|
| General Revenue | \$ 0.5110 | \$ 0.5066 |
| Library | 0.3884 | 0.3851 |
| | \$ 0.8994 | \$ 0.8917 |

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

IV. OTHER INFORMATION (continued)

J. Pledged Revenues

The Water and Wastewater and Gas funds and the Library Corporation have pledged future water and wastewater and gas and Library Corporation revenues, net of specified operating expenses, to repay water and wastewater revenue bonds and water and wastewater and gas capital lease obligations and Library Corporation note payable that were issued for the purpose of water and wastewater improvements and equipment and gas equipment and the Library Corporation building. The bonds and leases are payable from water and wastewater and gas funds net revenues and are payable through 2027. The Library Corporation net revenues are payable through 2038. Annual principal and interest payments in 2012 on the bonds, leases and Library Corporation loan required 64% and 5% of net revenues in the water and wastewater and gas funds, respectively and 83% of net revenues of the Library Corporation. The total principal and interest remaining to be paid on bonds, leases and loans are \$4,400,202 and \$0 for the water and wastewater and gas funds, respectively and \$457,862 for the Library Corporation. Principal and interest paid for the current year were \$544,413 and \$2,850 for the water and wastewater and gas funds, respectively and \$17,616 for the Library Corporation. Total water and wastewater, gas and Library Corporation net revenues for the current year were \$619,316, \$58,881 and \$21,155, respectively.

K. Consideration of Subsequent Events

Subsequent events have been evaluated through January 16, 2013, which is the date the financial statements are available to be issued. No events requiring disclosure were identified as a result of this review.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2012

The following information is required and presented in accordance with Governmental Accounting Standards Board Statement 27, “Accounting for Pensions by State and Local Governmental Employers” (see Note IV-A).

Missouri Local Government Employees Retirement System
Schedule of Funding Progress

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Entry Age Actuarial Accrued Liability | (b-a) Unfunded Accrued Liability (UAL) | (a/b) Funded Ratio | (c) Annual Covered Payroll | [(b-a)/c] UAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|--|--------------------------|-------------------------------------|--|
| 2/28/2010 | \$ 1,020,933 | \$ 835,128 | \$ (185,805) | 122% | \$ 832,562 | |
| 2/28/2011 | 1,129,264 | 976,886 | (152,378) | 116% | 817,264 | |
| 2/29/2012 | 1,246,050 | 1,070,377 | (175,673) | 116% | 833,904 | |

NOTE: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2011 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements - Nonmajor governmental funds
- Statistical Data

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

| | |
|--------------------------|--|
| Street Fund | Accounts for revenues and expenditures of the street department. |
| Cemetery Fund | Accounts for the operation and maintenance of the City-owned cemetery. Financing is provided primarily through fees and interest earned. |
| Library Corporation Fund | Accounts for the activities of the corporation which receives grants and donations for the library. |
| Gouldman Cemetery Fund | Accounts for the assets that are held for the cemetery fund. Only interest earned on principal can be used by the cemetery. |

CITY OF MONTGOMERY, MISSOURI
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

| | Special Revenue Funds | | | Permanent Fund | Total Nonmajor Governmental Funds |
|--------------------------------------|-----------------------|-----------|------------------------|---------------------------|--|
| | Street | Cemetery | Library Corporation | Gouldman Cemetery Fund | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ (114,967) | \$ 41,049 | \$ 470 | \$ - | \$ (73,448) |
| Certificates of deposit | - | 55,320 | - | - | 55,320 |
| Taxes receivable | 40,267 | - | - | - | 40,267 |
| Cash-restricted | - | - | 14,155 | - | 14,155 |
| Total Assets | \$ (74,700) | \$ 96,369 | \$ 14,625 | \$ - | \$ 36,294 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable | \$ 603 | \$ - | \$ - | \$ - | \$ 603 |
| Accrued expenses | - | - | - | - | - |
| Compensated absences | - | - | - | - | - |
| Total Liabilities | 603 | - | - | - | 603 |
| FUND BALANCES: | | | | | |
| Assigned to library | - | - | - | - | - |
| Assigned to cemetery | - | 96,369 | - | - | 96,369 |
| Assigned to library corporation | - | - | 14,625 | - | 14,625 |
| Assigned to Gouldman cemetery | - | - | - | - | - |
| Unassigned (deficit) | (75,303) | - | - | - | (75,303) |
| Total Fund Balances | (75,303) | 96,369 | 14,625 | - | 35,691 |
| Total Liabilities and Fund Balances | \$ (74,700) | \$ 96,369 | \$ 14,625 | \$ - | \$ 36,294 |

CITY OF MONTGOMERY, MISSOURI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

| | Special Revenue Funds | | | Permanent Fund | Total Nonmajor Governmental Funds |
|---|-----------------------|--------------|------------------------|---------------------------|--|
| | Street | Cemetery | Library Corporation | Gouldman Cemetery Fund | |
| REVENUES | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - |
| Sales tax | 148,880 | - | - | - | 148,880 |
| Railroad, utility and intangible taxes | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - |
| Charges for services | - | - | - | - | - |
| Licenses, permits and fees | - | 1,155 | - | - | 1,155 |
| Interest | 857 | 1,293 | 25 | - | 2,175 |
| Donations | - | - | - | - | - |
| Miscellaneous | - | - | 21,140 | - | 21,140 |
| Total Revenues | 149,737 | 2,448 | 21,165 | - | 173,350 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Public works | 81,736 | 1,130 | 10 | - | 82,876 |
| Debt service: | | | | | |
| Principal | - | - | 5,917 | - | 5,917 |
| Interest | - | - | 11,699 | - | 11,699 |
| Capital outlay | 20,782 | - | - | - | 20,782 |
| Total Expenditures | 102,518 | 1,130 | 17,626 | - | 121,274 |
| Excess (Deficit) Revenues | | | | | |
| Over Expenditures | 47,219 | 1,318 | 3,539 | - | 52,076 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Sale of property | - | 3,450 | - | - | 3,450 |
| Transfer to Cemetery Association | - | - | - | (24,119) | (24,119) |
| Transfers in | - | - | - | - | - |
| Transfers out | (52,313) | (1,784) | - | - | (54,097) |
| Total Other Financing Sources (Uses) | (52,313) | 1,666 | - | (24,119) | (74,766) |
| Net Change in Fund Balances | (5,094) | 2,984 | 3,539 | (24,119) | (22,690) |
| Fund Balances - beginning of year | (70,209) | 93,385 | 11,086 | 24,119 | 58,381 |
| Fund Balances - end of year | \$ (75,303) | \$ 96,369 | \$ 14,625 | \$ - | \$ 35,691 |

STATISTICAL DATA

(UNAUDITED)

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2012

| <u>Insurance Agency</u> | <u>Date of Policies</u> | | <u>Amount of Coverage</u> |
|-------------------------|-------------------------|---|---------------------------|
| Scott Agency | 10/1/11 -10/1/12 | Scheduled Equipment | \$ 784,665 |
| | | Business Real Estate and Personal Property | 13,140,840 |
| | | Vehicle Liability Each Occurrence | 2,000,000 |
| | | Uninsured & Underinsured Motorist | 50,000 |
| | | General Aggregate Limit | 4,000,000 |
| | | (Other Than Products-Completed Operations) | |
| | | Products-Completed Operations Aggregate Limit | 4,000,000 |
| | | Personal & Advertising Injury Limit | 2,000,000 |
| | | Each Occurrence Limit | 2,000,000 |
| | | Damage to Premises Rented to You Limit - (Any One Premise) | 100,000 |
| | | Medical Expense Limit - (Any One Person) | 5,000 |
| | | Employment Practices Occurrence Limit | 2,000,000 |
| | | Employment Practices Aggregate Limit | 4,000,000 |
| | | Employment Practices Deductible: \$1,000 Per Claim | |
| | | Public Officials Liability Occurrence Limit | 2,000,000 |
| | | Public Officials Liability Aggregate Limit | 4,000,000 |
| | | Law Enforcement Liability Occurrence Limit | 2,000,000 |
| | | Law Enforcement Liability Aggregate Limit | 4,000,000 |
| Missouri Employers | 7/1/11 - 7/1/12 | WORKERS COMPENSATION: | |
| Mutal Insurance | | Bodily Injury - Accident | \$ 500,000 |
| | | Bodily Injury - Disease | 500,000 |
| | | Bodily Injury - Disease Each Occurrence | 500,000 |
| | | FIDELITY BONDS: | |
| CNA Surety | 3/21/12 - 3/21/13 | Linda Block, Deputy Clerk/Treasurer | \$ 50,000 |
| CNA Surety | 8/30/11 - 8/30/12 | Brandy Atterbury, Municipal Court Clerk | 25,000 |
| Allied Insurance | 7/26/11 - 7/26/12 | Jill Dunlap, City Collector | 25,000 |
| Allied Insurance | 1/27/12 - 1/27/13 | Steven Deves, City Administrator/Clerk | 50,000 |
| Scott Agency | 12/12/11-12/12/12 | Library dishonesty bond | 25,000 |

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

| <u>Insurance Agency</u> | <u>Date of Policies</u> | <u>Amount of Coverage</u> |
|-------------------------|-------------------------|---|
| Scott Agency | 10/1/11 - 10/1/12 | <p>ADDITIONAL BENEFITS COVERAGE:</p> <p>Premises Boundary Increase 1000 Feet</p> <p>Foundations, structures, below ground, Lesser of 15% Bulkheads, pilings, piers, wharves, docks, of property value Retaining walls, underground pipes, flues, drains or \$300,000</p> <p>Debris Removal \$ 50,000</p> <p>Fire Department Service Charge \$ 10,000</p> <p>Pollutant Clean Up and Removal \$ 25,000</p> <p>Arson, Theft, Vandalism Reward \$ 10,000</p> <p>Backup of Sewer, Drains, and Sumps \$50,000/option to increase</p> <p>Business Income \$30,000/option to increase</p> <p>Building Ordinance or Law \$250,000/option to increase</p> <p>Civil Authority 3 weeks</p> <p>Employee Dishonesty \$10,000/option to increase</p> <p>Errors and Omissions \$ 50,000</p> <p>Expediting Expense \$ 25,000</p> <p>Extra Expense \$50,000/option to increase</p> <p>Fire Protection Equipment Refill \$ 25,000</p> <p>Forgery and Alteration \$5,000/option to increase</p> <p>Loss Data Preparations Costs \$ 50,000</p> <p>Lost Key Consequential Loss \$ 5,000</p> <p>Utility Services \$ 10,000</p> <p>Newly Acquired or Constructed Property \$ 2,000,000</p> <p>Buildings and Business Personal Property</p> <p>Personal Effects and Property of Others \$ 25,000</p> <p>Valuable Papers and Records \$50,000/option to increase (Other Than Electronic Data)</p> <p>Property Off-Premises Including Transit \$ 50,000</p> <p>Outdoor Property \$ 50,000</p> <p>Accounts Receivable \$50,000/option to increase</p> <p>Commandeered Property \$ 500,000</p> <p>Computers, Software and Telephone Systems \$50,000/option to increase</p> <p>Fine Arts at Market Value \$ 50,000</p> <p>Money and Securities \$10,000/option to increase</p> <p>Outdoor Signs \$25,000/option to increase</p> |

CITY OF MONTGOMERY, MISSOURI
WATER AND WASTE WATER UTILITY
REVENUE BONDS OUTSTANDING
JUNE 30, 2012

| | | <u>DATE PAYABLE</u> | <u>INTEREST RATE</u> | <u>PRINCIPAL AMOUNT</u> | <u>INTEREST</u> |
|-----------------|-----------------------------------|-------------------------|--------------------------|-----------------------------|-------------------|
| SERIAL BONDS | | | | | |
| Payable at: | UMB Bank Kansas City, Missouri | | | | |
| Dated: | November 1, 2001 | | | | |
| Original Issue: | \$3,500,000.00 | | | | |
| | | July 1, 2012 | 5.375% | \$ 170,000 | \$ 107,000 |
| | | July 1, 2013 | 5.375% | 175,000 | 97,728 |
| | | July 1, 2014 | 5.375% | 180,000 | 88,187 |
| | | July 1, 2015 | 5.375% | 180,000 | 78,512 |
| | | July 1, 2016 | 5.375% | 185,000 | 68,703 |
| | | July 1, 2017 | 5.375% | 195,000 | 58,491 |
| | | July 1, 2018 | 5.375% | 200,000 | 47,876 |
| | | July 1, 2019 | 5.000% | 205,000 | 37,375 |
| | | July 1, 2020 | 5.000% | 210,000 | 27,000 |
| | | July 1, 2021 | 5.000% | 215,000 | 16,375 |
| | | July 1, 2022 | 5.000% | <u>220,000</u> | <u>5,500</u> |
| | | | | <u>\$ 2,135,000</u> | <u>\$ 632,747</u> |

CITY OF MONTGOMERY, MISSOURI
CUSTOMERS IN SERVICE - WATER AND WASTE WATER
JUNE 30, 2012 AND 2011

WATER UTILITY

| | | | |
|-----------------------------------|---|---------------|------------------|
| Number of customers served | - | June 30, 2012 | 1,354 |
| Number of customers served | - | June 30, 2011 | <u>1,341</u> |
| INCREASE IN CUSTOMERS DURING YEAR | | | <u><u>13</u></u> |

WASTE WATER UTILITY

| | | | |
|-----------------------------------|---|---------------|------------------|
| Number of customers served | - | June 30, 2012 | 1,340 |
| Number of customers served | - | June 30, 2011 | <u>1,327</u> |
| INCREASE IN CUSTOMERS DURING YEAR | | | <u><u>13</u></u> |

COMPLIANCE AND INTERNAL CONTROL



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Professional Corporation

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members
of the Board of Aldermen
City of Montgomery, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Montgomery, Missouri (the 'City'), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

PARTNERS

Robert A. Gerding
Fred W. Korte, Jr.
Joseph E. Chitwood
James R. McGinnis
Travis W. Hundley
Jeffrey A. Chitwood

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (2012-1 and 2012-2). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated January 16, 2013.

The City's responses to the findings identified in our audit are described in the accompany schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Aldermen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



January 16, 2013

Certified Public Accountants

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

2012-1 Documentation of Internal Controls

Criteria: Current auditing standards require adequate documentation of components of internal controls. This is considered to be at least a significant deficiency and, possibly, a material weakness.

Condition: The City does not have written documentation of internal controls.

Context: During the audit, we requested to review the internal control documentation manual and were told no such manual exists.

Effect: City personnel do not have a manual to which to refer to determine how duties are to be performed to ensure that adequate internal controls are followed.

Cause: The City has developed internal controls over the years, however, they have not been developed in written form, most likely due to the time which would be involved to accurately record such controls.

Recommendation: The City should establish written internal control procedures which are made available to all personnel. The written controls should be periodically reviewed to ensure they are being followed and are adequate.

Views of Responsible Officials & Planned Corrective Actions:
We are currently planning to develop a written manual for our employees to follow. This is a time-consuming task that has been hard to implement due to our small number of personnel, but one that needs to be done to ensure adequate internal controls are in place and followed by City personnel.

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES (CONT'D)
YEAR ENDED JUNE 30, 2012

2012-2 Accounting Personnel

Criteria: Proper segregation of duties reduces the risk of errors and fraud and is an important internal control.

Condition: The City does not have enough accounting personnel to properly segregate duties.

Context: During our audit we reviewed City policies and procedures and determined adequate segregation of duties did not exist.

Effect: A small number of employees perform several accounting duties.

Cause: The City does not have the financial resources to hire enough personnel to segregate duties.

Recommendation: The City should segregate duties wherever possible and implement other controls to compensate for the lack of segregation of duties.

Views of Responsible Officials & Planned Corrective Actions:

The cost of hiring additional personnel is prohibitive and outweighs the potential benefits. We currently require two signatures on all checks and important documents, we have personnel coding the bills which are different than the personnel making the payments, we have board approval of all bills paid, and many other ways we attempt to mitigate potential risk due to our limited accounting personnel.