

REPORT OF
CITY OF MONTGOMERY, MISSOURI
YEAR ENDED JUNE 30, 2014

CITY OF MONTGOMERY, MISSOURI

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CITY OF MONTGOMERY, MISSOURI

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Professional Corporation
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

PARTNERS

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note IV-K to the financial statements, in 2014, the City adopted new accounting guidelines, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 4 – 10 and 60 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2015, on our consideration of the City's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



February 9, 2015

Gerding, Korte & Chitwood, P.C.
Certified Public Accountants
Boonville, Missouri

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2014
(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, 2014. 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 \$8,433,175 (net position). Of this amount, \$1,785,818 (unrestricted net position) 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 position increased by \$166,034. Capital grants and contributions from developers increased the net position by \$27,562.
- As of the close of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of \$681,069. Of this amount \$71,124 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 \$143,843 or 8.1% of the total general fund expenditures.
- The City's revenue bonds payable decreased \$255,344 due to scheduled payments.
- The City's capital lease debt decreased \$1,145,000 due to scheduled payments.

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, 2014
(UNAUDITED)

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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 11-13 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, 2014
(UNAUDITED)

The City maintains five 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 which is considered to be a major fund. 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 14-18.

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, wastewater, 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 25-59.

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 60 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 61-62 of this report.

Government-Wide Financial Analysis

As noted earlier, net position 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 \$8,433,175 as of June 30, 2014.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The largest portion of the City's net position (57.4%) 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 POSITION

The following table provides a summary of the City's net position at June 30, 2014, with comparative figures for June 30, 2013:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 1,570,399	\$ 1,540,286	\$ 1,579,886	\$ 1,429,615	\$ 3,150,285	\$ 2,969,901
Restricted assets	29,557	25,419	1,663,150	2,989,952	1,692,707	3,015,371
Capital assets	2,067,446	2,083,939	7,235,453	7,514,863	9,302,899	9,598,802
Total Assets	<u>3,667,402</u>	<u>3,649,644</u>	<u>10,478,489</u>	<u>11,934,430</u>	<u>14,145,891</u>	<u>15,584,074</u>
Current liabilities	894,550	886,410	566,783	1,696,458	1,461,333	2,582,868
Long-term liabilities	431,045	445,952	3,820,338	4,288,113	4,251,383	4,734,065
Total Liabilities	<u>1,325,595</u>	<u>1,332,362</u>	<u>4,387,121</u>	<u>5,984,571</u>	<u>5,712,716</u>	<u>7,316,933</u>
Net Position						
Net investment in capital assets	1,802,584	1,766,117	3,034,773	2,944,790	4,837,357	4,710,907
Restricted	330,107	317,329	1,479,893	1,586,271	1,810,000	1,903,600
Unrestricted	209,116	233,836	1,576,702	1,418,798	1,785,818	1,652,634
Total Net Position	<u>\$ 2,341,807</u>	<u>\$ 2,317,282</u>	<u>\$ 6,091,368</u>	<u>\$ 5,949,859</u>	<u>\$ 8,433,175</u>	<u>\$ 8,267,141</u>

As of June 30, 2014, the City is able to report positive balances in all three categories of net position for the government as a whole.

Analysis of the City's Operations - Overall the City had an increase in net position of \$166,034.

Governmental Activities: Governmental activities increased the net position by \$24,525.

Business-type Activities: Net Position from business-type activities increased by \$141,509 or 2.37% from \$5,949,859 to \$6,091,368.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2014
(UNAUDITED)

CHANGES IN NET POSITION

The following table provides a summary of the City's operations for the year ended June 30, 2014, with comparative figures for the year ended June 30, 2013.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 530,964	\$ 538,996	\$ 1,982,278	\$ 1,788,526	\$ 2,513,242	\$ 2,327,522
Operating grants and contributions	33,475	32,326	-	-	33,475	32,326
Capital grants and contributions	27,562	164,514	-	-	27,562	164,514
General Revenues:						
Property taxes	347,849	348,082	-	-	347,849	348,082
Sales and use taxes	470,983	443,036	-	-	470,983	443,036
Motor vehicle and fuel taxes	104,131	101,914	-	-	104,131	101,914
Other taxes	296,775	287,649	-	-	296,775	287,649
Investment earnings	3,808	3,687	68,356	74,325	72,164	78,012
Transfers	192,790	197,260	(192,790)	(197,260)	-	-
Miscellaneous	20,993	21,378	-	-	20,993	21,378
Total Revenues	<u>2,029,330</u>	<u>2,138,842</u>	<u>1,857,844</u>	<u>1,665,591</u>	<u>3,887,174</u>	<u>3,804,433</u>
Expenses:						
General government	395,375	391,185	-	-	395,375	391,185
Public safety	450,894	439,459	-	-	450,894	439,459
Public works	642,375	628,569	-	-	642,375	628,569
Cultural, parks and recreation	57,126	60,502	-	-	57,126	60,502
Solid waste	375,070	372,311	-	-	375,070	372,311
Water/sewer	-	-	928,198	927,805	928,198	927,805
Gas	-	-	802,686	623,098	802,686	623,098
Interest on long-term debt	26,577	26,880	-	-	26,577	26,880
Economic development	114,924	104,218	-	-	114,924	104,218
Total Expenses	<u>2,062,341</u>	<u>2,023,124</u>	<u>1,730,884</u>	<u>1,550,903</u>	<u>3,793,225</u>	<u>3,574,027</u>
Total other items	<u>22,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,226</u>	<u>-</u>
Change in net position	(10,785)	115,718	126,960	114,688	116,175	230,406
Net Position - Beginning of Year	2,317,282	2,201,564	5,949,859	5,835,171	8,267,141	8,036,735
Prior Period Adjustment	<u>35,310</u>	<u>-</u>	<u>14,549</u>	<u>-</u>	<u>49,859</u>	<u>-</u>
Net Position, Beginning Restated	<u>2,352,592</u>	<u>2,201,564</u>	<u>5,964,408</u>	<u>5,835,171</u>	<u>8,317,000</u>	<u>8,036,735</u>
Net Position - End of Year	<u>\$ 2,341,807</u>	<u>\$ 2,317,282</u>	<u>\$ 6,091,368</u>	<u>\$ 5,949,859</u>	<u>\$ 8,433,175</u>	<u>\$ 8,267,141</u>

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2014
(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 \$681,069. Of this amount \$71,124 constitutes unassigned fund balance.

In the general fund, the City originally budgeted for no change in the fund balance. Due to actual expenditures being more than budgeted, the actual fund balance decreased for fiscal year 2014 by \$29,687. 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 position of the respective proprietary funds are Gas - \$592,145, Water/Sewer - \$984,557. Funds which had a net position increase/(decrease) in 2014 were as follows: Gas - \$76,028 and Water/Sewer - \$65,481.

Capital Assets

The City of Montgomery's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to \$9,302,899 (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, 2014, with comparative figures for June 30, 2013:

	Capital Assets At Year-End Net of Accumulated Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment:						
Land, land rights and land improvements/construction in progress	\$ 94,500	\$ 268,166	\$ 42,960	\$ 42,960	\$ 137,460	\$ 311,126
Buildings and improvements	613,415	649,522	53,478	56,845	666,893	706,367
Infrastructure	1,141,055	983,311	-	-	1,141,055	983,311
Distribution & collection systems	-	-	7,040,172	7,294,909	7,040,172	7,294,909
Machinery & equipment	218,476	182,940	98,843	120,149	317,319	303,089
Net Capital Assets	<u>\$ 2,067,446</u>	<u>\$ 2,083,939</u>	<u>\$ 7,235,453</u>	<u>\$ 7,514,863</u>	<u>\$ 9,302,899</u>	<u>\$ 9,598,802</u>

Additional information on the City of Montgomery's capital assets can be found in Note III-D on pages 43 and 44 of this report.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2014
(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 \$5,352,706. Of this amount, \$1,790,000 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, 2014, with comparative figures for June 30, 2013:

	Debt At Year-End Net of Accumulated Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Capital lease obligations	\$ -	\$ -	\$ 1,100,000	\$ 2,245,000	\$ 1,100,000	\$ 2,245,000
Notes payable	1,100,281	1,093,726	-	41,041	1,100,281	1,134,767
Bonds payable	-	-	1,790,000	2,045,344	1,790,000	2,045,344
DNR loan payable	-	-	1,310,680	1,445,563	1,310,680	1,445,563
Accrued compensated absences	43,899	41,400	7,846	7,089	51,745	48,489
Net Capital Assets	<u>\$ 1,144,180</u>	<u>\$ 1,135,126</u>	<u>\$ 4,208,526</u>	<u>\$ 5,784,037</u>	<u>\$ 5,352,706</u>	<u>\$ 6,919,163</u>

During the fiscal year, the City's total debt increased by \$1,566,457 or 23%. 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-Gon pages 44-51 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 POSITION
JUNE 30, 2014

ASSETS	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 294,611	\$ 758,453	\$ 1,053,064
Investments	59,082	677,399	736,481
Taxes receivable	208,720	-	208,720
Accounts receivable, net	21,475	59,799	81,274
Intergovernmental receivables	8,234	-	8,234
Inventories	-	70,723	70,723
Prepaid insurance	23,692	13,512	37,204
Other assets-real estate for resale	954,585	-	954,585
Total Current Assets	1,570,399	1,579,886	3,150,285
Non Current Assets:			
Restricted Assets:			
Cash and cash equivalents	29,557	150,947	180,504
Investments	-	1,512,203	1,512,203
Total Restricted Assets	29,557	1,663,150	1,692,707
Capital assets:			
Land	94,500	42,960	137,460
Other capital assets, net of accumulated depreciation	1,972,946	7,192,493	9,165,439
Net Capital Assets	2,067,446	7,235,453	9,302,899
Total Noncurrent Assets	2,097,003	8,898,603	10,995,606
Total Assets	3,667,402	10,478,489	14,145,891
LIABILITIES			
Current Liabilities:			
Notes payable	841,834	-	841,834
Accounts payable	33,602	27,125	60,727
Accrued liabilities	10,794	2,613	13,407
Payable From Segregated Funds:			
Interest payable	-	60,565	60,565
Bonded debt due within one year	-	180,000	180,000
Refundable deposits	8,320	88,292	96,612
Certificates of participation due within one year	-	70,000	70,000
DNR loan fund due within one year	-	138,188	138,188
Total Current Liabilities	894,550	566,783	1,461,333
Noncurrent Liabilities:			
Obligation for solid waste landfill	128,700	-	128,700
Certificates of participation	-	1,030,000	1,030,000
Notes payable	258,447	-	258,447
Bonds payable	-	1,610,000	1,610,000
DNR loan fund	-	1,172,492	1,172,492
Compensated absences	43,898	7,846	51,744
Total Noncurrent Liabilities	431,045	3,820,338	4,251,383
Total Liabilities	1,325,595	4,387,121	5,712,716
NET POSITION			
Net investment in capital assets	1,802,584	3,034,773	4,837,357
Restricted but expendable for (except as noted):			
Debt service	21,237	1,479,893	1,501,130
Other purposes	308,870	-	308,870
Unrestricted	209,116	1,576,702	1,785,818
Total Net Position	\$ 2,341,807	\$ 6,091,368	\$ 8,433,175

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 395,375	\$ 50,350	\$ -	\$ 25,629	\$ (319,396)	\$ -	\$ (319,396)
Public works	642,375	12,466	4,588	1,933	(623,388)	-	(623,388)
Public safety	450,894	56,756	28,887	-	(365,251)	-	(365,251)
Solid waste	375,070	411,392	-	-	36,322	-	36,322
Parks	57,126	-	-	-	(57,126)	-	(57,126)
Community planning/economic development	114,924	-	-	-	(114,924)	-	(114,924)
Interest on long -term debt	26,577	-	-	-	(26,577)	-	(26,577)
Total Governmental Activities	2,062,341	530,964	33,475	27,562	(1,470,340)	-	(1,470,340)
Business-Type Activities:							
Water and waste water	928,198	1,006,280	-	-	-	78,082	78,082
Gas	802,686	975,998	-	-	-	173,312	173,312
Total Business-Type Activities	1,730,884	1,982,278	-	-	-	251,394	251,394
Total Primary Government	\$ 3,793,225	\$ 2,513,242	\$ 33,475	\$ 27,562	\$ (1,470,340)	\$ 251,394	\$ (1,218,946)

CITY OF MONTGOMERY, MISSOURI
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Cont'd)
 YEAR ENDED JUNE 30, 2014

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
General Revenues:			
Taxes:			
Property taxes, levied for general purpose	\$ 196,846	\$ -	\$ 196,846
Property taxes, levied for library	151,003	-	151,003
Sales tax	321,540	-	321,540
Sales tax, restricted for street	149,443	-	149,443
Vehicle sales taxes	104,131	-	104,131
Other taxes	296,775	-	296,775
Interest income	3,808	68,356	72,164
Miscellaneous	20,993	-	20,993
Transfers	192,790	(192,790)	-
Total general revenues and transfers	<u>1,437,329</u>	<u>(124,434)</u>	<u>1,312,895</u>
Other items:			
Gain on sale of assets	22,226	-	22,226
Total Other Items	<u>22,226</u>	<u>-</u>	<u>22,226</u>
Change in net position	<u>(10,785)</u>	<u>126,960</u>	<u>116,175</u>
Net position - beginning	2,317,282	5,949,859	8,267,141
Prior period adjustment (Note IV-K)	35,310	14,549	49,859
Net position-beginning restated	<u>2,352,592</u>	<u>5,964,408</u>	<u>8,317,000</u>
Net position - ending	<u>\$ 2,341,807</u>	<u>\$ 6,091,368</u>	<u>\$ 8,433,175</u>

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 233,646	\$ 60,965	\$ 294,611
Investments	-	59,082	59,082
Taxes receivable	155,756	52,964	208,720
Accounts receivable, net	21,475	-	21,475
Intergovernmental receivable-grants	7,561	673	8,234
Prepaid insurance	21,793	1,899	23,692
Other assets-real estate for resale	954,585	-	954,585
Restricted assets:			
Cash and cash equivalents	8,320	21,237	29,557
Total Assets	\$ 1,403,136	\$ 196,820	\$ 1,599,956
LIABILITIES			
Notes payable	\$ 835,154	\$ -	\$ 835,154
Accounts payable	32,312	1,290	33,602
Accrued expenses	9,935	859	10,794
Customer deposits	8,320	-	8,320
Total Liabilities	885,721	2,149	887,870
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues-property taxes	21,233	9,784	31,017
Total Deferred Inflows of Resources	21,233	9,784	31,017
FUND BALANCES			
Nonspendable			
Real estate for resale	268,064	-	268,064
Prepaid expenses	21,793	1,899	23,692
Assigned to public safety	2,490	-	2,490
Assigned to public works	59,992	-	59,992
Assigned to library	-	132,669	132,669
Assigned to cemetery	-	101,361	101,361
Assigned to library corporation	-	21,677	21,677
Unassigned	143,843	(72,719)	71,124
Total Fund Balances	496,182	184,887	681,069
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,403,136	\$ 196,820	\$ 1,599,956

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2014

Total fund balance - total governmental funds	\$ 681,069
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities of \$3,981,848, net of accumulated depreciation of \$1,914,402 are not financial resources and, therefore, are not reported in the funds.	2,067,446
Long-term liabilities of \$265,127 (including Library Corporation short-term portion of long-term debt of \$6,680) are not due and payable in the current period and are not reported in the funds.	(265,127)
Unavailable revenue accounts are used by management to report revenues collected within 60 days of the fiscal year-end as deferred inflows of resources of the individual funds. Such amounts are considered revenues of the government-wide statements when earned.	31,017
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Solid waste landfill obligation	(128,700)
Accrued compensated absences	(43,898)
Net Position of Governmental Activities	<u>\$ 2,341,807</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Other Governmental Funds	Total
REVENUES			
Property taxes	\$ 192,853	\$ 149,165	\$ 342,018
Sales tax	321,540	149,443	470,983
Railroad, utility and intangible taxes	270,854	12,775	283,629
Cigarette tax	13,146	-	13,146
Motor fuel and vehicle taxes	104,131	-	104,131
Intergovernmental	51,191	3,350	54,541
Charges for services	445,124	10,871	455,995
Fines and forfeits	46,761	-	46,761
Licenses, permits and fees	27,488	720	28,208
Interest	2,943	865	3,808
Donations	3,325	3,171	6,496
Miscellaneous	3,154	21,140	24,294
Total Revenues	<u>1,482,510</u>	<u>351,500</u>	<u>1,834,010</u>
EXPENDITURES			
Current			
General government	383,088	-	383,088
Public works	329,060	230,177	559,237
Public safety	435,364	-	435,364
Solid waste	386,042	-	386,042
Parks	46,552	-	46,552
Community planning/economic development	76,213	-	76,213
Debt service	15,376	17,616	32,992
Capital outlay	101,726	39,276	141,002
Total Expenditures	<u>1,773,421</u>	<u>287,069</u>	<u>2,060,490</u>
Excess (Deficit) of Revenues over Expenditures and Other Sources (Uses)	<u>(290,911)</u>	<u>64,431</u>	<u>(226,480)</u>
OTHER FINANCING SOURCES AND USES			
Sale of property	16,550	2,375	18,925
Transfers in	244,674	-	244,674
Transfers out	-	(51,884)	(51,884)
Net Other Financing Sources and Uses	<u>261,224</u>	<u>(49,509)</u>	<u>211,715</u>
Net Change in Fund Balances	<u>(29,687)</u>	<u>14,922</u>	<u>(14,765)</u>
Fund Balance, beginning of year	467,994	176,316	644,310
Prior period adjustment (Note IV-K)	<u>57,875</u>	<u>(6,351)</u>	<u>51,524</u>
Fund Balance, beginning of year restated	<u>525,869</u>	<u>169,965</u>	<u>695,834</u>
Fund Balance, end of year	<u>\$ 496,182</u>	<u>\$ 184,887</u>	<u>\$ 681,069</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, 2014

Net change in fund balances - total governmental funds \$ (14,765)

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	141,002	
Depreciation expense	(157,495)	
Excess of capital outlay over depreciation expense		(16,493)

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 Position:

Library corporation loan principal payments		6,415
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Deferred inflows of resources changes		5,831
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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
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Accrued compensated absences		(2,498)

		\$ (10,785)
Change in Net Position of Governmental Activities		

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 201,000	\$ 192,853	\$ 192,853	\$ -
Sales tax	315,000	321,540	321,540	-
Railroad, utility and intangible taxes	265,500	270,854	270,854	-
Cigarette tax	16,000	13,146	13,146	-
Motor fuel and vehicle taxes	101,500	104,131	104,131	-
Intergovernmental	14,000	51,191	51,191	-
Charges for services	433,600	445,124	445,124	-
Fines and forfeits	54,000	46,761	46,761	-
Licenses, permits and fees	30,200	27,488	27,488	-
Interest	-	2,943	2,943	-
Donations	1,000	3,325	3,325	-
Miscellaneous	100	3,154	3,154	-
Total Revenues	<u>1,431,900</u>	<u>1,482,510</u>	<u>1,482,510</u>	<u>-</u>
EXPENDITURES				
Current				
General government	377,190	383,088	383,088	-
Public works	323,600	329,060	329,060	-
Public safety	432,500	435,364	435,364	-
Solid waste	347,500	386,042	386,042	-
Parks	42,650	46,552	46,552	-
Community planning/ economic development	114,900	76,213	76,213	-
Debt service	11,350	15,376	15,376	-
Capital Outlay	2,000	101,726	101,726	-
Total Expenditures	<u>1,651,690</u>	<u>1,773,421</u>	<u>1,773,421</u>	<u>-</u>
Excess (Deficit) of Revenues over Expenditures	<u>(219,790)</u>	<u>(290,911)</u>	<u>(290,911)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	23,000	16,550	16,550	-
Transfers in	196,790	244,674	244,674	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>219,790</u>	<u>261,224</u>	<u>261,224</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>(29,687)</u>	<u>(29,687)</u>	<u>\$ -</u>
Fund Balance - beginning of year	467,994	467,994	467,994	
Prior period adjustment (Note IV-K)	57,875	57,875	57,875	
Fund Balance-beginning of year restated	<u>525,869</u>	<u>525,869</u>	<u>525,869</u>	
Fund Balance - end of year	<u>\$ 525,869</u>	<u>\$ 496,182</u>	<u>\$ 496,182</u>	

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Water & Waste Water Fund	Gas Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 473,402	\$ 285,051	\$ 758,453
Investments	385,229	292,170	677,399
Accounts receivable, net	45,935	13,864	59,799
Inventories	51,741	18,982	70,723
Prepaid insurance	10,374	3,138	13,512
Total Current Assets	<u>966,681</u>	<u>613,205</u>	<u>1,579,886</u>
Restricted Assets:			
Restricted cash	110,056	40,891	150,947
Restricted investments	1,512,203	-	1,512,203
Total Restricted Assets	<u>1,622,259</u>	<u>40,891</u>	<u>1,663,150</u>
Fixed Assets:			
Non-Depreciable Assets:			
Land	34,149	8,811	42,960
Depreciable Assets:			
Buildings and improvements	61,143	50,484	111,627
Machinery and equipment	468,007	150,279	618,286
Distribution and collection systems	10,341,058	664,850	11,005,908
Less: Accumulated depreciation	<u>(3,901,578)</u>	<u>(641,750)</u>	<u>(4,543,328)</u>
Net Fixed Assets	<u>7,002,779</u>	<u>232,674</u>	<u>7,235,453</u>
Total Assets	<u>\$ 9,591,719</u>	<u>\$ 886,770</u>	<u>\$ 10,478,489</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 10,324	\$ 16,801	\$ 27,125
Accrued expenses	1,659	954	2,613
Current Liabilities Payable From Restricted Cash:			
Customer deposits	47,401	40,891	88,292
Interest payable	60,565	-	60,565
Revenue bonds due within one year	180,000	-	180,000
Certificates of participation due within one year	70,000	-	70,000
DNR loan fund payable within one year	138,188	-	138,188
Total Current Liabilities	<u>508,137</u>	<u>58,646</u>	<u>566,783</u>
Non-Current Liabilities:			
Certificates of participation	1,030,000	-	1,030,000
Bonds payable	1,610,000	-	1,610,000
DNR loan fund	1,172,492	-	1,172,492
Compensated absences	4,541	3,305	7,846
Total Non-Current Liabilities	<u>3,817,033</u>	<u>3,305</u>	<u>3,820,338</u>
Total Liabilities	<u>4,325,170</u>	<u>61,951</u>	<u>4,387,121</u>
NET POSITION			
Net investment in capital assets	2,802,099	232,674	3,034,773
Restricted but expendable for debt service	1,479,893	-	1,479,893
Unrestricted	984,557	592,145	1,576,702
Total Net Position	<u>\$ 5,266,549</u>	<u>\$ 824,819</u>	<u>\$ 6,091,368</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Water & Waste Water Fund	Gas Fund	Total
Operating Revenues:			
Charges for services	\$ 995,798	\$ 960,391	\$ 1,956,189
Other	10,482	15,607	26,089
Total operating revenues	<u>1,006,280</u>	<u>975,998</u>	<u>1,982,278</u>
Operating Expenses:			
Personnel services	174,760	97,023	271,783
Contractual services	43,202	641,309	684,511
Repairs and maintenance	64,325	3,088	67,413
Insurance	23,403	-	23,403
Sales tax	12,009	22,926	34,935
Utilities	100,608	11,402	112,010
Other supplies and expenses	75,522	9,419	84,941
Depreciation and amortization	262,039	17,371	279,410
Total operating expenses	<u>755,868</u>	<u>802,538</u>	<u>1,558,406</u>
Operating Income	<u>250,412</u>	<u>173,460</u>	<u>423,872</u>
Nonoperating Revenue (Expenses):			
Interest revenue	67,850	506	68,356
Interest expense	(172,330)	(148)	(172,478)
Total nonoperating revenue (expense)	<u>(104,480)</u>	<u>358</u>	<u>(104,122)</u>
Net Income Before Transfers	<u>145,932</u>	<u>173,818</u>	<u>319,750</u>
Transfers			
Transfer out	(95,000)	(97,790)	(192,790)
Total Transfers	<u>(95,000)</u>	<u>(97,790)</u>	<u>(192,790)</u>
Change in Net Position	<u>50,932</u>	<u>76,028</u>	<u>126,960</u>
Net position - beginning of year	5,201,068	748,791	5,949,859
Prior period adjustment (Note IV-K)	14,549	-	14,549
Net position, beginning of year restated	<u>5,215,617</u>	<u>748,791</u>	<u>5,964,408</u>
Net position - end of year	<u>\$ 5,266,549</u>	<u>\$ 824,819</u>	<u>\$ 6,091,368</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Water & Waste Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,015,451	\$ 976,080	\$ 1,991,531
Payments to suppliers and contractors	(323,193)	(688,914)	(1,012,107)
Payments to and on behalf of employees	(173,562)	(96,518)	(270,080)
Receipts (payments) of customer deposits (net)	1,205	1,434	2,639
Net cash provided (used) by operating activities	<u>519,901</u>	<u>192,082</u>	<u>711,983</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(95,000)	(97,790)	(192,790)
Net cash provided (used) by noncapital financing activities	<u>(95,000)</u>	<u>(97,790)</u>	<u>(192,790)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt	(1,484,572)	(11,352)	(1,495,924)
Interest paid on capital debt	(199,868)	(148)	(200,016)
Net cash provided (used) by capital and related financing activities	<u>(1,684,440)</u>	<u>(11,500)</u>	<u>(1,695,940)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment assets	1,713,138	213,273	1,926,411
Purchase of investments	(531,547)	(292,170)	(823,717)
Interest	67,850	506	68,356
Net cash provided (used) by investing activities	<u>1,249,441</u>	<u>(78,391)</u>	<u>1,171,050</u>
Net increase (decrease) in cash and cash equivalents	(10,098)	4,401	(5,697)
Balances - beginning of year	<u>593,556</u>	<u>321,541</u>	<u>915,097</u>
Balances - end of year	<u>\$ 583,458</u>	<u>\$ 325,942</u>	<u>\$ 909,400</u>
DISPLAYED AS:			
Cash and cash equivalents	\$ 473,402	\$ 285,051	\$ 758,453
Restricted cash	110,056	4,891	114,947
	<u>\$ 583,458</u>	<u>\$ 289,942</u>	<u>\$ 873,400</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS (CONT'D)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	<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)	\$ 250,412	\$ 173,460	\$ 423,872
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	262,039	17,371	279,410
Change in assets and liabilities:			
Receivables, net	9,171	82	9,253
Inventories	(903)	(682)	(1,585)
Prepaid insurance	(3,845)	(1,478)	(5,323)
Accounts and other payables	624	1,390	2,014
Accrued expenses	598	348	946
Compensated absences payable	600	157	757
Customer deposits	1,205	1,434	2,639
Total adjustments	<u>269,489</u>	<u>18,622</u>	<u>288,111</u>
Net cash provided by operating activities	<u>\$ 519,901</u>	<u>\$ 192,082</u>	<u>\$ 711,983</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Employee Deferred Compensation Fund</u>
ASSETS	
Investments, at fair value	
Mutual stock funds	\$ 54,024
Total Assets	<u>\$ 54,024</u>
Net Position Held in Trust for Future Compensation	<u>\$ 54,024</u>

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2014

	Employee Deferred Compensation Fund
ADDITIONS	
Contributions	
Employer/employee	\$ 270
Total contributions	270
Investment earnings	
Net increase (decrease) in fair value of investments	4,453
Net investment earnings	4,453
Total Additions	4,723
DEDUCTIONS	
Total Deductions	-
Change in net position	4,723
Net position, beginning of year	49,301
Net position, end of year	\$ 54,024

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Montgomery, Missouri (the “City”) is a municipal corporation governed by an elected mayor and board of aldermen. The City receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the City is not included in any other governmental “reporting entity” as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

B. Financial Reporting Entity

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, as amended by GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”, and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus”, and includes all component units of which the City appointed a voting majority of the units’ board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists. Based on this criteria, the Montgomery City Library Corporation is considered a component unit.

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. Complete financial statements for the component unit may be obtained at the City’s administrative office.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City complies with Generally Accepted Accounting Principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

The City's basic financial statements include the accounts of all City operations.

C. Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The City's net position is reported in three parts –net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, utilities, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, utilities, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund: The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund: The special revenue funds account for revenue sources that are legally restricted to expenditures for specified purposes. The Street, Library, Cemetery, and Library Corporation Funds are special revenue funds of the City.

Proprietary Funds

Enterprise Funds: Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Water and Waste Water Fund and the Gas Fund.

Fiduciary Funds

Fiduciary funds financial statements include the statement of net position and statement of changes in net position. The statement of net position includes information about the assets held in an agency capacity. The reporting entity includes the Employee Deferred Compensation Fund.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting

Governmental Funds

The City reports the following major governmental fund:

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.

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.

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.

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, 2014

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.

E. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurement made, regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position. The City applies all applicable FASB pronouncements that do not conflict with or contradict GASB pronouncements.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Investments

Cash of all funds are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund’s pooled Cash and Cash Investments are available upon demand and are considered to be “cash equivalents” when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered to be “cash equivalents”.

For the purpose of the Statement of Net Position, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note III-A.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note III-H for details of interfund transactions.

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. 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. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of receivables.

Prepaid Items

Certain payments to vendors (for insurance) reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

Inventory

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Prior to October 1, 2003, the governmental funds' infrastructure assets were not capitalized.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$5,000 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

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to revenue bond trustee accounts and utility meter deposits.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of certificates of participation, notes payable, revenue bonds payable and capital leases payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items that qualify for reporting in this category at June 30, 2014.

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The City of Montgomery provides paid sick leave to all regular, full-time employees for periods of temporary absence due to illness or injury. All regular, full-time employees accrue sick leave benefits at the rate of 8 hours per month. Employees may accumulate a maximum of 1,000 hours of sick leave. Upon retirement, any unused sick leave will be paid at a 20% ratio of unused sick leave remaining at regular pay rates. Upon termination of employment (other than retirement), any unused sick leave will be paid at a 10% ratio of unused sick leave remaining at regular pay rates. Accumulated, but unused sick pay is not material and is accordingly, charged to operations when paid.

Vacation pay accumulates at varying rates based on length of employment. Employees are permitted to accumulate 10 days of vacation leave from one anniversary year to the next. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of employment.

Capital Leases

Property, plant and equipment financed by capital leases are reflected as assets and corresponding liabilities in the government-wide statements and the related depreciation expense is provided on the same basis as assets financed with other resources.

Equity Classifications

Government-wide Statements:

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

- a. Net investment in capital assets - 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 improvement of those assets.
- b. Restricted net position - Consists of net position 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.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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:

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **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. Management has determined there are nonspendable fund balances 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 directors, which is the City's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the board of directors 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 directors, 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.
- **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.

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.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

G. Revenues, Expenditures, and Expenses

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.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes 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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Function

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

H. Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

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, deposits at one institution were not fully insured or collateralized at June 30, 2014.

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.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 position, revenues, and expenditures/expenses.

A. Deposits and Investments

Deposits:

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Missouri or its agencies and instrumentalities that have a market value of not less than the principal amount of the uninsured deposits.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and invested cash." In addition, investments are separately held by several of the City's funds. Deposits and investments are stated at cost. Invested cash consists of certificates of deposit and U.S. Government securities.

Income from investment of pooled cash is allocated to the various funds based on the fund's balance in the pooled account.

At year-end, the carrying amount of the City's deposits (checking and savings accounts and certificates of deposit) was \$1,992,159 and the bank balance was \$1,941,460. Of the bank balance, \$737,085 was covered by federal depository insurance or by collateral held by the City's agent in the City's name \$1,109,118 was covered by collateral held in the pledging bank's trust department or by its agent in the City's name, and \$95,257 was uncollateralized.

Interest rate risk. As a means of limiting exposure to fair value losses arising from rising interest rates, the City's investment policy mandates structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby avoiding the need to sell securities on the open market prior to maturity. The investment policy also mandates investing operating funds primarily in U.S. Treasury securities.

Credit risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2014, the City's investments are U.S. Treasury securities.

CITY OF MONTGOMERY, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

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

Custodial credit risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To minimize custodial credit risk, it is the City’s policy that all securities purchased be perfected in the name of or for the account of the City’s and be held by a third-party custodian as evidenced by appropriate safekeeping receipts.

Concentration of credit risk. As a means of limiting its exposure to losses arising from concentration of investments, the City’s investment policy is to invest only in U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. Government.

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.

Investments are stated at market value and all investment activities are conducted through the depository bank and the City's financial advisor. Investments made by the City are summarized below.

	Carrying Amount	Market Value
U.S. Government Securities	\$ 1,490,093	\$ 1,490,093
	\$ 1,490,093	\$ 1,490,093

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

At June 30, 2014, deposits and investments held by the City are as follows:

	Maturity Date	Carrying Value
Deposits:		
Demand deposits and money market accounts		\$ 1,233,568
Time deposits	July 1, 2014	71,949
Time deposits	September 9, 2014	33,540
Time deposits	July 13, 2015	418,902
Time deposits	June 30, 2015	59,082
Time deposits	November 13, 2014	19,059
Time deposits	September 24, 2016	74,000
Time deposits	February 9, 2015	42,034
Time deposits	February 9, 2015	40,025
Total Time Deposits		758,591
Investments:		
U.S. federal obligations	June 30, 2023	1,490,093
Total Investments		1,490,093
Total deposits and investments		\$ 3,482,252
Investments - Mutual stock funds		\$ 54,024
Reconciliation of Statement of Net Position:		
Current:		
Cash and cash equivalents		\$ 1,053,064
Investments		736,481
Total Current		1,789,545
Restricted:		
Cash and cash equivalents		180,504
Investments		1,512,203
Total Noncurrent		1,692,707
Total		\$ 3,482,252

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

At June 30, 2014, cash of the Enterprise Funds was restricted for the purposes below. Amounts restricted for debt service, construction, and operations, maintenance and depreciation are in accordance with revenue bond ordinances.

	Water and Wastewater Fund	Gas Fund	Total
Debt service and reserve	\$ 1,540,458	\$ -	\$ 1,540,458
Renewal and replacement	34,400	-	34,400
Bond escrow and revenue	-	-	-
Refundable deposits	47,401	40,891	88,292
Total	<u>\$ 1,622,259</u>	<u>\$ 40,891</u>	<u>\$ 1,663,150</u>
	Water and Wastewater Fund	Gas Fund	Total
Cash and cash equivalents			
Unrestricted	\$ 473,402	\$ 285,051	\$ 758,453
Restricted	110,056	40,891	150,947
Total	<u>583,458</u>	<u>325,942</u>	<u>909,400</u>
Invested cash			
Unrestricted	385,229	292,170	677,399
Restricted	1,512,203	-	1,512,203
Total	<u>1,897,432</u>	<u>292,170</u>	<u>2,189,602</u>
Total	<u>\$ 2,480,890</u>	<u>\$ 618,112</u>	<u>\$ 3,099,002</u>
Total Cash and Invested Cash			
Unrestricted	\$ 858,631	\$ 577,221	\$ 1,435,852
Restricted	1,622,259	40,891	1,663,150
Total	<u>\$ 2,480,890</u>	<u>\$ 618,112</u>	<u>\$ 3,099,002</u>

The restricted assets of the governmental funds represent customer utility deposits and cash reserved by the Library Corporation for debt repayment and asset replacement and extension.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

The restricted assets can be used only for the following:

Customer deposits - Refunds of utility deposits to customers discontinuing solid waste service (General Fund)	\$ 8,320
Debt service account - Payment of principal and interest only on loans (Library Corporation Fund)	10,619
Replacement and extension account - Payments for replacement and/or extensions of Library Corporation Fund fixed assets	<u>10,618</u>
Total Governmental Funds and Activities Restricted Funds	<u><u>\$ 29,557</u></u>

Other Assets – Real Estate for Resale

The City has purchased property to be used for development within the City. The acquisition cost of the property at June 30, 2014, as recorded on the Government-Wide Statement of Net Position was \$954,585. Notes payable for which these properties are held as collateral total \$686,521.

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, 2014, 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	\$ 45,118	\$ 188,367	\$ 233,485
Less: Allowance for uncollectible accounts	<u>(23,643)</u>	<u>(128,568)</u>	<u>(152,211)</u>
Net accounts receivable	<u><u>\$ 21,475</u></u>	<u><u>\$ 59,799</u></u>	<u><u>\$ 81,274</u></u>

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, 2014 was as follows:

	Governmental Activities
Taxes receivable	\$ 208,720
Allowance for uncollectible accounts	<u>-</u>
Net accounts receivable	<u><u>\$ 208,720</u></u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

D. Capital Assets

Capital asset activity, for the fiscal year ended June 30, 2014, was as follows:

	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 94,500	\$ -	\$ -	\$ 94,500
Construction in progress	173,666	(173,666)	-	-
	<u>268,166</u>	<u>(173,666)</u>	<u>-</u>	<u>94,500</u>
Capital assets being depreciated:				
Buildings and improvements	930,184	-	(13,300)	916,884
Machinery, equipment and furniture	1,095,598	77,495	-	1,173,093
Infrastructure	1,560,198	237,173	-	1,797,371
	<u>3,585,980</u>	<u>314,668</u>	<u>(13,300)</u>	<u>3,887,348</u>
Total capital assets at historical costs	<u>3,854,146</u>	<u>141,002</u>	<u>(13,300)</u>	<u>3,981,848</u>
Less accumulated depreciation:				
Buildings and improvements	(280,662)	(22,807)	-	(303,469)
Machinery, equipment and furniture	(912,658)	(55,259)	13,300	(954,617)
Infrastructure	(576,887)	(79,429)	-	(656,316)
Total accumulated depreciation	<u>(1,770,207)</u>	<u>(157,495)</u>	<u>13,300</u>	<u>(1,914,402)</u>
Net capital assets being depreciated	<u>1,815,773</u>	<u>157,173</u>	<u>-</u>	<u>1,972,946</u>
Net capital assets	<u>\$ 2,083,939</u>	<u>\$ (16,493)</u>	<u>\$ -</u>	<u>\$ 2,067,446</u>
	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 42,960	\$ -	\$ -	\$ 42,960
Construction in progress	-	-	-	-
	<u>42,960</u>	<u>-</u>	<u>-</u>	<u>42,960</u>
Capital assets being depreciated:				
Buildings and improvements	111,627	-	-	111,627
Machinery, equipment and furniture	618,286	-	-	618,286
Distribution and collection systems	11,005,908	-	-	11,005,908
	<u>11,735,821</u>	<u>-</u>	<u>-</u>	<u>11,735,821</u>
Total capital assets at historical costs	<u>11,778,781</u>	<u>-</u>	<u>-</u>	<u>11,778,781</u>
Less accumulated depreciation:				
Buildings and improvements	(54,782)	(3,367)	-	(58,149)
Machinery, equipment and furniture	(498,137)	(21,306)	-	(519,443)
Distribution and collection systems	(3,710,999)	(254,737)	-	(3,965,736)
Total accumulated depreciation	<u>(4,263,918)</u>	<u>(279,410)</u>	<u>-</u>	<u>(4,543,328)</u>
Net capital assets being depreciated	<u>7,471,903</u>	<u>(279,410)</u>	<u>-</u>	<u>7,192,493</u>
Net capital assets	<u>\$ 7,514,863</u>	<u>\$ (279,410)</u>	<u>\$ -</u>	<u>\$ 7,235,453</u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

Governmental Activities:

General	\$ 9,766
Public works	82,914
Public safety	15,530
Parks	10,574
Community planning/economic development	38,711
Total depreciation expense for governmental activities	\$ 157,495

Business-Type Activities:

Water and waste water	\$ 262,039
Gas	17,371
Total depreciation expense for business-type activities	\$ 279,410

E. Accounts Payable

Payables in the governmental funds are composed of payables to vendors (76%) and accrued salaries and benefits (24%). Payables of Enterprise Funds are composed of payables to vendors (91%) and accrued salaries and benefits (9%).

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, 2014:

Type of Debt	Balance at June 30, 2013	Additions	Reduction	Balance at June 30, 2014
Governmental Activities - Notes payable	\$ 822,184	\$ 82,000	\$ 69,030	\$ 835,154
Business-Type Activities	\$ 41,041	\$ -	\$ 41,041	\$ -

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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 27, 2014, and will mature on June 27, 2015. The unpaid principal balance will bear interest at an annual rate equal to the prime rate announced by the bank. At June 30, 2014, the interest rate was 2.25%. Principal payments made during the fiscal year ended June 30, 2014 were \$19,383. At June 30, 2014, the note had a principal balance of \$109,815.

On June 27, 2014, the City borrowed \$415,124 secured by developed real estate land. The loan is due June 27, 2015 and the interest rate is 2.25%. The balance at June 30, 2014 is \$415,124.

On June 1, 2014, the City borrowed \$70,000 at 2.25%, with a maturity of June 1, 2015. Certificate of deposit number 34324 is held as collateral. The balance at June 30, 2014 is \$69,991.

On June 1, 2010, the City borrowed \$161,582 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, 2014 is \$161,582.

On February 19, 2014, the City borrowed \$40,000 at 2.25%, with a maturity of February 19, 2015 for operating purposes. The balance at June 30, 2014 is \$40,000.

On February 19, 2014, the City borrowed \$42,000 at 2.25% with a maturity of February 19, 2018. Certificate of deposit number 05218736 is held as collateral. The balance at June 30, 2014 is \$38,641.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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, 2014:

Type of Debt	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	\$ 271,542	\$ -	\$ 6,415	\$ 265,127	\$ 6,680
Accrued compensated absences	41,400	2,499	-	43,899	-
Total General Long-Term Debt	<u>\$ 312,942</u>	<u>\$ 2,499</u>	<u>\$ 6,415</u>	<u>\$ 309,026</u>	<u>\$ 6,680</u>
Business-Type Activities:					
Bonds Payable	\$ 2,045,344	\$ -	\$ 255,344	\$ 1,790,000	\$ 180,000
Certificates of Participation	2,245,000	-	1,145,000	1,100,000	1,030,000
DNR Loan Payable	1,445,563	-	134,883	1,310,680	138,188
Accrued Compensated Absences	7,089	757	-	7,846	-
Total Enterprise Fund Debt	<u>\$ 5,742,996</u>	<u>\$ 757</u>	<u>\$ 1,535,227</u>	<u>\$ 4,208,526</u>	<u>\$ 1,348,188</u>

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, 2014, for this issue:

	<u>Revenue Bonds</u> <u>Combined Waterworks and</u> <u>Sewerage System</u> <u>2001 Bond Issue</u>
Bonds payable at June 30, 2014	\$ 1,790,000
Less: Current portion due June 30, 2014	(180,000)
Long-term debt at June 30, 2014	<u>\$ 1,610,000</u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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	Total
2015	5.375%	\$ 180,000	\$ 88,188	\$ 268,188
2016	5.375%	180,000	78,512	258,512
2017	5.375%	185,000	68,703	253,703
2018	5.375%	195,000	58,491	253,491
2019	5.375%	200,000	47,875	247,875
2020-2023	5.375%/5.00%	850,000	86,250	936,250
Total		<u>\$ 1,790,000</u>	<u>\$ 428,019</u>	<u>\$ 2,218,019</u>

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, 2014, DNR made loan fund payments in the amount of \$0 to the City. The City repaid \$134,883 during the year ended June 30, 2014, leaving a balance of \$1,310,680. The balance in the Series 2001C Montgomery Revenue Account at June 30, 2014 is \$1,340,144 and is included in the restricted investments of the Water and Waste Water Fund restricted assets.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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, 2014, the debt service account balance was \$10,619 and the replacement and extension account balance was \$10,619.

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
2015	\$ 6,680	\$ 10,936	\$ 17,616
2016	6,955	10,661	17,616
2017	7,242	10,374	17,616
2018	7,541	10,075	17,616
2019	7,852	9,764	17,616
2020-2024	44,392	43,688	88,080
2025-2029	54,335	33,745	88,080
2030-2034	66,506	21,574	88,080
2035-2038	63,624	6,685	70,309
Total	<u>\$ 265,127</u>	<u>\$ 157,502</u>	<u>\$ 422,629</u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Certificates of Participation

The changes in obligations for the year ended June 30, 2014 are shown below:

	Balance 6/30/2013	Certificate Proceeds	Principal Paid	Balance 6/30/2014	Interest Paid
Business-Type Activities:					
Water & waste water	\$ 2,245,000	\$ -	\$ 1,145,000	\$ 1,100,000	\$ 88,431
	<u>\$ 2,245,000</u>	<u>\$ -</u>	<u>\$ 1,145,000</u>	<u>\$ 1,100,000</u>	<u>\$ 88,431</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	(224,105)
Total	<u>\$ 1,137,547</u>

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.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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.

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.

CITY OF MONTGOMERY, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

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

Defeased Debt – 2013

On January 30, 2013, the City issued water and wastewater refunding certificates of participation (Series 2013) of \$1,170,000 (par value) with an interest rate of 1.25% to 4.000% to advance refund certificates of participation (Series 2007) with an interest rate of 4.85% to 5.10% and a par value of \$1,075,000. The Series 2007 certificates mature on July 1, 2022 and are callable on February 1, 2014. The Series 2013 certificates were issued at par and, after paying issuance costs of \$17,845 and an underwriter’s discount of \$22,502, the net proceeds were \$1,129,654.

The annual debt service requirements to maturity for the 2013 outstanding certificates of participation at June 30, 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 70,000	\$ 33,725	\$ 103,725
2016	75,000	32,850	107,850
2017	75,000	31,350	106,350
2018	75,000	29,850	104,850
2019	80,000	27,975	107,975
2020-2024	425,000	104,105	529,105
2025-2027	300,000	24,163	324,163
Total	<u>\$ 1,100,000</u>	<u>\$ 284,018</u>	<u>\$ 1,384,018</u>

CITY OF MONTGOMERY, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

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)	95,000
Gas (major)	General (major)	97,790
Street (nonmajor)	General (major)	46,884
Cemetery (nonmajor)	General (major)	1,000
Total		<u>\$ 244,674</u>

The above transfers are budgeted routine transfers.

I. Fund Equity

Restricted Net Position

The following table shows the net position restricted for debt service and for other purposes in the Governmental Activities as shown on the Statement of Net Position:

<u>Activity</u>	<u>Restricted by</u>	<u>Amount</u>
Public safety	Law	\$ 2,490
Public works	Law	62,486
Library	Contributors and law	142,475
Cemetery	Contributors and law	101,419
Total Other Purposes		<u>\$ 308,870</u>
Debt service-library		<u>\$ 21,237</u>

Fund Equity Deficits

Deficit fund balance existed at June 30, 2014 in the Street Fund.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

J. Fund Balance

Classifications of fund balances at June 30, 2014 are as follows:

Fund Balances:	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total</u>
General	\$ 289,857	\$ -	\$ -	\$ 62,482	\$ 143,843	\$ 496,182
Street	-	-	-	-	(72,719)	(72,719)
Library	1,841	-	-	132,669	-	134,510
Cemetery	58	-	-	101,361	-	101,419
Library Corporation	-	-	-	21,677	-	21,677
Total	<u>\$ 291,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,189</u>	<u>\$ 71,124</u>	<u>\$ 681,069</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 3.6% (General), and 3.5% (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, 2014

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	\$	30,536
Interest on net pension obligation		-
Adjustment to annual required contribution		-
Annual pension cost		30,536
Actual contributions		30,536
Increase (decrease) in NPO		-
NPO beginning of year		-
NPO end of year	\$	-

The annual required contribution (ARC) was determined as part of the February 29, 2012 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2014 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 29, 2012 was 14 years for the General division and 14 years for the Police division.

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 20,006	100%	\$ —
2013	28,847	100%	—
2014	30,536	100%	—

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 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, 2014, the City had requested \$197,896 of the grant funds.

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, 2014

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 \$139,425. This amount is subject to review and adjustments annually and has been reflected as a liability in the government-wide statement of net position.

On June 5, 2013, representatives of the Missouri Department of Natural Resources inspected the landfill and determined there were several violations which needed to be corrected. In addition, the representatives determined a penalty would need to be assessed. The penalty would be partially waived as long as the City completed certain corrective actions to return the landfill to compliance. The City estimates the cost to complete the corrective actions at \$30,000 to be paid during the 2014-15 fiscal year.

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, 2014, 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, 2014

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, 2013 and 2012 on which the fiscal 2013 and 2012 levies were based, were as follows:

	2013	2012
Real estate	\$ 33,534,705	\$ 33,590,174
Personal property	7,426,360	7,408,025
	\$ 40,961,065	\$ 40,998,199

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	2013	2012
General Revenue	\$ 0.5159	\$ 0.5110
Library	0.3921	0.3884
	\$ 0.9080	\$ 0.8994

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

IV. OTHER INFORMATION (continued)

J. Pledged Revenues

The Water and Wastewater Fund and the Library Corporation have pledged future water and wastewater and Library Corporation revenues, net of specified operating expenses, to repay water and wastewater revenue bonds, water and wastewater capital lease obligations and a Library Corporation note payable that were issued for the purpose of water and wastewater improvements and equipment, and the Library Corporation building. The bonds and leases are payable from water and wastewater fund net revenues and are payable through 2027. The note payable is payable from Library Corporation net revenues and is payable through 2038. Annual principal and interest payments in 2014 on the bonds, leases and Library Corporation loan required 273% of net revenues in the water and wastewater fund and 114% of net revenues of the Library Corporation. The total principal and interest remaining to be paid on bonds, leases and note are \$3,602,037 for the water and wastewater fund and \$422,629 for the Library Corporation. Principal and interest paid for the current year were \$1,586,503 for the water and wastewater fund and \$17,616 for the Library Corporation. Total water and wastewater and Library Corporation net revenues for the current year were \$580,301 and \$15,349, respectively.

K. Prior Period Adjustment/Adoption of New Accounting Pronouncement

The City adopted GASB Statement No. 65, "Items Previously Recorded as Assets and Liabilities" in fiscal year 2014. Due to the adoption of this statement, the City can no longer recognize bond issuance costs as an asset and amortize over the life of the bonds. Prior period adjustments were recorded on June 30, 2014 financial statements as follows to record the required GASB 65 adjustments for the treatment of unamortized bond issuance costs as of June 30, 2014 and to record unavailable revenues, property taxes, franchise tax receivables, and to record only the short-term liability portion of compensated absences as liabilities. The following table illustrates the prior period adjustments recorded on the June 30, 2014 financial statements.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

IV. OTHER INFORMATION (continued)

Governmental Funds				
Fund Equity Per Funds	General Fund	Library Fund	Other Funds	Total
Fund Balance, Beginning of Year	\$ 467,994	\$ 136,428	\$ 39,888	\$ 644,310
Prior Period Adjustments to Record:				
Unavailable revenues	(17,240)	(7,946)	-	(25,186)
Franchise taxes	35,310	-	-	35,310
Compensated absences	39,805	1,595	-	41,400
Bond issuance costs required by GASB 65	-	-	-	-
Total Prior Period Adjustments	57,875	(6,351)	-	51,524
Fund Balance, Beginning of Year, Restated	<u>\$ 525,869</u>	<u>\$ 130,077</u>	<u>\$ 39,888</u>	<u>\$ 695,834</u>
Enterprise Funds				
Net Position Per Funds	Water & Wastewater Fund	Gas Fund	Total	
Net Position, Beginning of Year	\$ 5,201,068	\$ 748,791	\$ 5,949,859	
Prior Period Adjustments to Record:				
Unavailable revenues	-	-	-	
Franchise taxes	-	-	-	
Compensated absences	-	-	-	
Bond issuance costs required by GASB 65	14,549	-	14,549	
Total Prior Period Adjustments	14,549	-	14,549	
Net Position, Beginning of Year, Restated	<u>\$ 5,215,617</u>	<u>\$ 748,791</u>	<u>\$ 5,964,408</u>	
Government-Wide Net Position	Governmental Activities	Business-Type Activities	Total	
Net Position, Beginning of Year	\$ 2,317,282	\$ 5,949,859	\$ 8,267,141	
Prior Period Adjustments to Record:				
Unavailable revenues	-	-	-	
Franchise taxes	35,310	-	35,310	
Compensated absences	-	-	-	
Bond issuance costs required by GASB 65	-	14,549	14,549	
Total Prior Period Adjustments	35,310	14,549	49,859	
Net Position, Beginning of Year, Restated	<u>\$ 2,352,592</u>	<u>\$ 5,964,408</u>	<u>\$ 8,317,000</u>	

L. Consideration of Subsequent Events

Subsequent events have been evaluated through February 9, 2015, 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, 2014

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
2/29/2012	\$ 1,246,050	\$ 1,070,377	\$ (175,673)	116%	\$ 833,904	NA
2/28/2013	1,400,346	1,187,823	(212,523)	118%	855,798	NA
2/28/2014	1,625,006	1,274,716	(350,290)	127%	869,022	NA

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.
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.
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.

CITY OF MONTGOMERY, MISSOURI
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street	Library	Cemetery	Library Corporation	
ASSETS					
Cash and cash equivalents	\$ (115,006)	\$ 133,252	\$ 42,279	\$ 440	\$ 60,965
Certificates of deposit	-	-	59,082	-	59,082
Taxes receivable	42,633	10,331	-	-	52,964
Intergovernmental receivable-grants	-	673	-	-	673
Prepaid insurance	-	1,841	58	-	1,899
Cash-restricted	-	-	-	21,237	21,237
Total Assets	\$ (72,373)	\$ 146,097	\$ 101,419	\$ 21,677	\$ 196,820
LIABILITIES					
Accounts payable	\$ 346	\$ 944	\$ -	\$ -	\$ 1,290
Accrued expenses	-	859	-	-	859
Total Liabilities	346	1,803	-	-	2,149
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues-property taxes	-	9,784	-	-	9,784
Total Deferred Inflows of Resources	-	9,784	-	-	9,784
FUND BALANCES					
Nonspendable-prepaid expenses	-	1,841	58	-	1,899
Assigned to library	-	132,669	-	-	132,669
Assigned to cemetery	-	-	101,361	-	101,361
Assigned to library corporation	-	-	-	21,677	21,677
Unassigned (deficit)	(72,719)	-	-	-	(72,719)
Total Fund Balances	(72,719)	134,510	101,419	21,677	184,887
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ (72,373)	\$ 146,097	\$ 101,419	\$ 21,677	\$ 196,820

CITY OF MONTGOMERY, MISSOURI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street	Library	Cemetery	Library Corporation	
REVENUES					
Property taxes	\$ -	149,165	\$ -	\$ -	\$ 149,165
Sales tax	149,443	-	-	-	149,443
Railroad, utility and intangible taxes	-	12,775	-	-	12,775
Intergovernmental	-	3,350	-	-	3,350
Charges for services	-	10,871	-	-	10,871
Licenses, permits and fees	-	-	720	-	720
Interest	253	51	542	19	865
Donations	-	3,171	-	-	3,171
Miscellaneous	-	-	-	21,140	21,140
Total Revenues	149,696	179,383	1,262	21,159	351,500
EXPENDITURES					
Current:					
Public works	58,852	170,950	365	10	230,177
Debt service:					
Principal	-	-	-	6,415	6,415
Interest	-	-	-	11,201	11,201
Capital outlay	39,276	-	-	-	39,276
Total Expenditures	98,128	170,950	365	17,626	287,069
Excess (Deficit) Revenues					
Over Expenditures	51,568	8,433	897	3,533	64,431
OTHER FINANCING SOURCES (USES)					
Sale of property	-	-	2,375	-	2,375
Transfers out	(46,884)	(4,000)	(1,000)	-	(51,884)
Total Other Financing Sources (Uses)	(46,884)	(4,000)	1,375	-	(49,509)
Net Change in Fund Balances	4,684	4,433	2,272	3,533	14,922
Fund Balance - beginning of year	(77,403)	136,428	99,147	18,144	176,316
Prior Period Adjustment (Note IV-K)	-	(6,351)	-	-	(6,351)
Fund Balance, beginning of year restated	(77,403)	130,077	99,147	18,144	169,965
Fund Balance - end of year	\$ (72,719)	\$ 134,510	\$ 101,419	\$ 21,677	\$ 184,887

STATISTICAL DATA
(UNAUDITED)

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2014

<u>Insurance Agency</u>	<u>Date of Policies</u>		<u>Amount of Coverage</u>
Scott Agency	10/1/13 -10/1/14	Scheduled Equipment	\$ 712,665
		Business Real Estate and Personal Property	14,961,191
		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	2,000,000
		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 Mutal Insurance	7/1/13 - 7/1/14	WORKERS COMPENSATION:	
		Bodily Injury - Accident	\$ 500,000
		Bodily Injury - Disease	500,000
		Bodily Injury - Disease Each Occurrence	500,000
CNA Surety CNA Surety Allied Insurance Allied Insurance Scott Agency	3/21/14 - 3/21/15 8/30/13 - 8/30/14 7/26/13 - 7/26/14 1/27/14 - 1/27/15 12/12/13-12/12/14	FIDELITY BONDS:	
		Deputy Clerk/Treasurer	\$ 50,000
		Municipal Court Clerk	25,000
		City Collector	25,000
		City Administrator/Clerk	50,000
		Library dishonesty bond	25,000

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2014

<u>Insurance Agency</u>	<u>Date of Policies</u>	<u>Amount of Coverage</u>
Scott Agency	10/1/13 - 10/1/14	ADDITIONAL BENEFITS COVERAGE:
		Foundations, structures, below ground, Bulkheads, pilings, piers, wharves, docks, Retaining walls, underground pipes, flues, drains
		Lesser of 15% of property value or \$300,000
		Debris Removal \$ 50,000
		Fire Department Service Charge 10,000
		Pollutant Clean Up and Removal 50,000
		Arson, Theft, Vandalism Reward 10,000
		Backup of Sewer, Drains, and Sumps 50,000
		Business Income 30,000
		Building Ordinance or Law 250,000
		Civil Authority 3 weeks
		Employee Dishonesty \$ 25,000
		Errors and Omissions 50,000
		Expediting Expense 25,000
		Extra Expense 100,000
		Fire Protection Equipment Refill 25,000
		Forgery and Alteration 10,000
		Loss Data Preparations Costs 50,000
		Lost Key Consequential Loss 5,000
		Utility Services 10,000
		Newly Acquired or Constructed Property 2,000,000
		Buildings and Business Personal Property
		Personal Effects and Property of Others \$ 25,000
		Valuable Papers and Records 50,000
		(Other Than Electronic Data)
		Property Off-Premises Including Transit \$ 50,000
		Outdoor Property 50,000
		Accounts Receivable 50,000
		Commandeered Property 500,000
		Computers, Software and Telephone Systems 100,000
		Fine Arts at Market Value 50,000
		Money and Securities 10,000
		Outdoor Signs 25,000

CITY OF MONTGOMERY, MISSOURI
CUSTOMERS IN SERVICE - WATER AND WASTE WATER
JUNE 30, 2014 AND 2013

WATER UTILITY

Number of customers served	-	June 30, 2014	1,355
Number of customers served	-	June 30, 2013	<u>1,356</u>
INCREASE/(DECREASE) IN CUSTOMERS DURING YEAR			<u><u>(1)</u></u>

WASTE WATER UTILITY

Number of customers served	-	June 30, 2014	1,344
Number of customers served	-	June 30, 2013	<u>1,340</u>
INCREASE IN CUSTOMERS DURING YEAR			<u><u>4</u></u>

COMPLIANCE AND INTERNAL CONTROL



Professional Corporation
Certified Public Accountants

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**INDEPENDENT AUDITOR'S 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, 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 9, 2015.

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

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

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 that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2014-1 and 2014-2).

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*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



February 9, 2015

Gerding, Korte & Chitwood, P.C.
Certified Public Accountants
Boonville, Missouri

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

2014-1 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, 2014

2014-2 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.