

REPORT OF
CITY OF MONTGOMERY, MISSOURI
YEAR ENDED JUNE 30, 2009

CITY OF MONTGOMERY, MISSOURI

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Professional Corporation
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of the City of Montgomery, Missouri (the "City"), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

PARTNERS

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

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable thereof and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress (on pages 3 - 10 and page 54) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual 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 and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Certified Public Accountants

January 19, 2010

**CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2009
(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, 2009. 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 \$7,866,781 (net assets). Of this amount, \$1,677,750 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$141,873 of which \$191,821 was capital grants and contributions from developers.
- As of the close of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of \$592,745. Of this amount \$564,612 is unreserved and available for use within the City's designation and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$440,744 or 28.3% of the total general fund expenditures.
- The City's revenue bonds payable decreased \$232,788 due to scheduled payments.
- The City's capital lease debt decreased \$73,673 due to scheduled payments of \$73,673.

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, 2009
(UNAUDITED)**

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, transportation, cultural, parks and recreation and community development. The business-type activities of the City include Electric, Water, Sewer, Airport and Water and Light Special 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, 2009
(UNAUDITED)**

The City maintains eight 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 and wastewater, sewer, airport, and gas operations.

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

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

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-53.

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 54 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 55-56 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Montgomery, assets exceeded liabilities by \$7,866,781 as of June 30, 2009.

**CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

The largest portion of the City's net assets (51.2%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

NET ASSETS

The following table provides a summary of the City's net assets at June 30, 2009, with comparative figures for June 30, 2008:

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current assets	\$ 937,143	\$ 932,273	\$ 1,393,717	\$ 1,401,511	\$ 2,330,860	\$ 2,333,784
Restricted assets	10,769	6,658	2,337,320	2,448,719	2,348,089	2,455,377
Capital assets	1,891,789	1,870,257	8,489,918	8,766,957	10,381,707	10,637,214
Total Assets	<u>2,839,701</u>	<u>2,809,188</u>	<u>12,220,955</u>	<u>12,617,187</u>	<u>15,060,656</u>	<u>15,426,375</u>
Current liabilities	328,762	377,564	627,405	644,258	956,167	1,021,822
Long-term liabilities	505,031	526,204	5,732,677	6,153,441	6,237,708	6,679,645
Total Liabilities	<u>833,793</u>	<u>903,768</u>	<u>6,360,082</u>	<u>6,797,699</u>	<u>7,193,875</u>	<u>7,701,467</u>
Net assets						
Invested in capital assets, net of related debt	1,681,121	1,565,824	2,347,310	2,210,785	4,028,431	3,776,609
Restricted	28,133	24,629	2,132,467	2,273,818	2,160,600	2,298,447
Unrestricted	296,654	314,967	1,381,096	1,334,885	1,677,750	1,649,852
Total Net Assets	<u>\$ 2,005,908</u>	<u>\$ 1,905,420</u>	<u>\$ 5,860,873</u>	<u>\$ 5,819,488</u>	<u>\$ 7,866,781</u>	<u>\$ 7,724,908</u>

As of June 30, 2009, the City is able to report positive balances in all three categories of net assets for the government as a whole.

Analysis of the City's Operations - Overall the City had an increase in net assets of \$141,873.

Governmental Activities: Governmental activities increased the net assets by \$100,488.

Business-type Activities: Net Assets from business-type activities increased by \$41,385 or 0.7% from \$5,819,488 to \$5,860,873.

**CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

CHANGES IN NET ASSETS

The following table provides a summary of the City's operations for the year ended June 30, 2009, with comparative figures for the year ended June 30, 2008.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 480,064	\$ 498,439	\$ 1,775,169	\$ 2,182,876	\$ 2,255,233	\$ 2,681,315
Operating grants and contributions	14,517	25,095	-	-	14,517	25,095
Capital grants and contributions	182,329	249,168	9,492	588,940	191,821	838,108
General Revenues:						
Property taxes	291,451	274,600	-	-	291,451	274,600
Sales and use taxes	425,750	446,853	-	-	425,750	446,853
Motor vehicle and fuel taxes	91,059	97,206	-	-	91,059	97,206
Other taxes	228,621	255,146	-	-	228,621	255,146
Investment earnings	17,746	29,789	114,472	134,585	132,218	164,374
Transfers	162,920	145,900	(162,920)	(145,900)	-	-
Miscellaneous	28,613	13,070	-	-	28,613	13,070
Total Revenues	<u>1,923,070</u>	<u>2,035,266</u>	<u>1,736,213</u>	<u>2,760,501</u>	<u>3,659,283</u>	<u>4,795,767</u>
Expenses:						
General government	328,125	323,806	-	-	328,125	323,806
Public safety	418,856	421,288	-	-	418,856	421,288
Public works	548,381	496,466	-	-	548,381	496,466
Cultural, parks and recreation	60,536	60,401	-	-	60,536	60,401
Solid waste	325,072	307,338	-	-	325,072	307,338
Water/sewer	-	-	913,874	912,276	913,874	912,276
Gas	-	-	780,954	1,110,499	780,954	1,110,499
Interest on long-term debt	12,375	-	-	-	12,375	-
Economic development	135,315	110,152	-	-	135,315	110,152
Total Expenses	<u>1,828,660</u>	<u>1,719,451</u>	<u>1,694,828</u>	<u>2,022,775</u>	<u>3,523,488</u>	<u>3,742,226</u>
Total other items	<u>6,078</u>	<u>63,428</u>	<u>-</u>	<u>-</u>	<u>6,078</u>	<u>63,428</u>
Change in net assets	<u>100,488</u>	<u>379,243</u>	<u>41,385</u>	<u>737,726</u>	<u>141,873</u>	<u>1,116,969</u>
Net Assets - Beginning of Year	<u>1,905,420</u>	<u>1,526,177</u>	<u>5,819,488</u>	<u>5,081,762</u>	<u>7,724,908</u>	<u>6,607,939</u>
Net Assets - End of Year	<u>\$ 2,005,908</u>	<u>\$ 1,905,420</u>	<u>\$ 5,860,873</u>	<u>\$ 5,819,488</u>	<u>\$ 7,866,781</u>	<u>\$ 7,724,908</u>

**CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2009
(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, unreserved 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 \$592,745. Of this amount \$564,612 constitutes unreserved fund balance.

In the general fund, the City budgeted for no change in the fund balance. Due to actual revenues being more than budgeted the actual fund balance increased for fiscal year 2009 by \$45,044.

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

Unrestricted net assets of the respective proprietary funds are Gas - \$576,067, Water/Sewer - \$805,029. Funds which had a net assets increase/(decrease) in 2009 were as follows: Gas - (\$9,977) and Water/Sewer - \$51,362.

Capital Assets

The City of Montgomery's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounts to \$10,381,707 (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, 2009, with comparative figures for June 30, 2008:

	Capital Assets At Year-End Net of Accumulated Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment:						
Land, land rights and land improvements/construction in progress	\$ 229,566	\$ 134,408	\$ 42,960	\$ 343,520	\$ 272,526	\$ 477,928
Buildings and improvements	709,088	733,084	37,678	39,569	746,766	772,653
Infrastructure	614,627	635,378	-	-	614,627	635,378
Distribution & collection systems	-	-	8,331,421	8,284,638	8,331,421	8,284,638
Machinery & equipment	338,508	367,387	77,859	99,230	416,367	466,617
Net Capital Assets	<u>\$ 1,891,789</u>	<u>\$ 1,870,257</u>	<u>\$ 8,489,918</u>	<u>\$ 8,766,957</u>	<u>\$ 10,381,707</u>	<u>\$ 10,637,214</u>

**CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Additional information on the City of Montgomery's capital assets can be found in Note III-D on pages 38 and 39 of this report.

Debt Administration

At the end of the current fiscal year, the City of Montgomery had a total bonded debt and capital leases payable and contracts payable of \$6,682,561. Of this amount, \$4,829,495 comprises revenue bonded debt backed by the revenues of the Gas, Water and Sewer departments. \$740 represents capital lease obligations that are expected to be paid by the ¼ cent park sales tax and as the City appropriates funds for payment.

**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, 2009, with comparative figures for June 30, 2008:

	Capital Assets At Year-End Net of Accumulated Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Capital lease obligations	\$ 1,542	\$ 11,091	\$ 1,313,112	\$ 1,377,236	\$ 1,314,654	\$ 1,388,327
Notes payable	294,759	300,000	-	-	294,759	300,000
Bonds payable	-	-	2,896,032	3,128,820	2,896,032	3,128,820
DNR loan payable	-	-	1,933,463	2,050,116	1,933,463	2,050,116
Accrued compensated absences	33,404	36,860	6,580	8,049	39,984	44,909
Net Capital Assets	<u>\$ 329,705</u>	<u>\$ 347,951</u>	<u>\$ 6,149,187</u>	<u>\$ 6,564,221</u>	<u>\$ 6,478,892</u>	<u>\$ 6,912,172</u>

During the fiscal year, the City's total debt decreased by \$469,499 or 6.6%. The decrease was due to scheduled payments.

Additional information on the City of Montgomery's long term-debt can be found in Note III-G and H on pages 44-48 of this report.

**CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Request for Information

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

CITY OF MONTGOMERY, MISSOURI
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 JUNE 30, 2009

ASSETS	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 418,202	\$ 1,084,753	\$ 1,502,955
Investments	46,146	184,580	230,726
Taxes receivable	145,682	-	145,682
Accounts receivable, net	9,320	35,969	45,289
Inventories	-	88,415	88,415
Investment - property	317,793	-	317,793
Total Current Assets	<u>937,143</u>	<u>1,393,717</u>	<u>2,330,860</u>
Non Current Assets:			
Restricted cash	10,769	137,186	147,955
Restricted investments	-	2,200,134	2,200,134
Capital assets:			
Land	94,500	42,960	137,460
Construction in progress	135,066	-	135,066
Other capital assets, net of accumulated depreciation	1,662,223	8,446,958	10,109,181
Total Noncurrent Assets	<u>1,902,558</u>	<u>10,827,238</u>	<u>12,729,796</u>
Total Assets	<u>2,839,701</u>	<u>12,220,955</u>	<u>15,060,656</u>
LIABILITIES			
Current Liabilities:			
Notes payable	209,126	-	209,126
Accounts payable	85,231	40,741	125,972
Accrued liabilities	25,618	-	25,618
Payable From Segregated Funds:			
Interest payable	-	95,972	95,972
Bonded debt due within one year	-	235,000	235,000
Refundable deposits	7,245	74,181	81,426
Leases payable due within one year	1,542	63,003	64,545
DNR loan fund due within one year	-	118,508	118,508
Total Current Liabilities	<u>328,762</u>	<u>627,405</u>	<u>956,167</u>
Noncurrent Liabilities:			
Obligation for solid waste landfill	182,325	-	182,325
Leases payable	-	1,250,110	1,250,110
Notes payable	289,302	-	289,302
Bonds payable	-	2,661,032	2,661,032
DNR loan fund	-	1,814,955	1,814,955
Compensated absences	33,404	6,580	39,984
Total Noncurrent Liabilities	<u>505,031</u>	<u>5,732,677</u>	<u>6,237,708</u>
Total Liabilities	<u>833,793</u>	<u>6,360,082</u>	<u>7,193,875</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,681,121	2,347,310	4,028,431
Restricted but expendable for (except as noted):			
Debt service	-	2,132,467	2,132,467
Other purposes	28,133	-	28,133
Unrestricted	296,654	1,381,096	1,677,750
Total Net Assets	<u>\$ 2,005,908</u>	<u>\$ 5,860,873</u>	<u>\$ 7,866,781</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 328,125	\$ 58,499	\$ 13,831	\$ 179,626	\$ (76,169)	\$ -	\$ (76,169)
Public works	548,381	10,606	686	2,703	(534,386)	-	(534,386)
Public safety	418,856	37,471	-	-	(381,385)	-	(381,385)
Solid waste	325,072	373,488	-	-	48,416	-	48,416
Parks	60,536	-	-	-	(60,536)	-	(60,536)
Community planning/economic development	135,315	-	-	-	(135,315)	-	(135,315)
Interest on long-term debt	12,375	-	-	-	(12,375)	-	(12,375)
Total Governmental Activities	1,828,660	480,064	14,517	182,329	(1,151,750)	-	(1,151,750)
Business-Type Activities:							
Water and waste water	913,874	941,804	-	9,492	-	37,422	37,422
Gas	780,954	833,365	-	-	-	52,411	52,411
Total Business-Type Activities	1,694,828	1,775,169	-	9,492	-	89,833	89,833
Total Primary Government	\$ 3,523,488	\$ 2,255,233	\$ 14,517	\$ 191,821	\$ (1,151,750)	\$ 89,833	\$ (1,061,917)

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Cont'd)
 YEAR ENDED JUNE 30, 2009

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Primary Government Business-type Activities	Total
General Revenues:			
Taxes:			
Property taxes, levied for general purpose	\$ 165,722	\$ -	\$ 165,722
Property taxes, levied for library	125,729	-	125,729
Sales tax	289,357	-	289,357
Sales tax, restricted for street	136,393	-	136,393
Vehicle sales taxes	91,059	-	91,059
Other taxes	228,621	-	228,621
Interest income	17,746	114,472	132,218
Miscellaneous	28,613	-	28,613
Transfers	162,920	(162,920)	-
Total general revenues and transfers	<u>1,246,160</u>	<u>(48,448)</u>	<u>1,197,712</u>
Other Items:			
Asset sales	6,078	-	6,078
Change in net assets	100,488	41,385	141,873
Net assets - beginning	1,905,420	5,819,488	7,724,908
Net assets - ending	<u>\$ 2,005,908</u>	<u>\$ 5,860,873</u>	<u>\$ 7,866,781</u>

CITY OF MONTGOMERY, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 348,465	\$ 69,737	\$ 418,202
Investments	-	46,146	46,146
Taxes receivable	104,168	41,514	145,682
Accounts receivable, net	9,320	-	9,320
Investment property	317,793	-	317,793
Restricted assets:			
Cash - customer deposits	7,245	3,524	10,769
Total Assets	<u>\$ 786,991</u>	<u>\$ 160,921</u>	<u>\$ 947,912</u>
LIABILITIES			
Notes payable	\$ 203,669	\$ -	\$ 203,669
Accounts payable	79,562	5,669	85,231
Customer deposits	7,245	-	7,245
Accrued liabilities	23,240	2,378	25,618
Compensated absences	32,531	873	33,404
Total Liabilities	<u>346,247</u>	<u>8,920</u>	<u>355,167</u>
FUND BALANCES			
Reserved for special purpose	-	28,133	28,133
Unreserved	440,744	-	440,744
Unreserved, reported in nonmajor special revenue funds	-	123,868	123,868
Total Fund Balances	<u>440,744</u>	<u>152,001</u>	<u>592,745</u>
Total Liabilities and Fund Balances	<u>\$ 786,991</u>	<u>\$ 160,921</u>	<u>\$ 947,912</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total fund balance - total governmental funds	\$	592,745
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities of \$3,147,554. net of accumulated depreciation of \$1,255,765, are not financial resources and, therefore, are not reported in the funds.		1,891,789
Long-term liabilities of \$296,301 are not due and payable in the current period and are not reported in the funds.		(296,301)
Long-term obligation for the solid waste landfill of \$182,325 is not due and payable in the current period and is not reported in the funds.		<u>(182,325)</u>
Net Assets of Governmental Activities	\$	<u><u>2,005,908</u></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, 2009

	General Fund	Other Governmental Funds	Total
REVENUES			
Property taxes	\$ 165,722	\$ 125,729	\$ 291,451
Sales tax	289,357	136,393	425,750
Railroad, utility and intangible taxes	199,983	13,333	213,316
Cigarette tax	15,305	-	15,305
Motor fuel and vehicle taxes	91,059	-	91,059
Intergovernmental	193,457	3,389	196,846
Charges for services	394,114	9,266	403,380
Fines and forfeits	37,471	-	37,471
Licenses, permits and fees	37,873	1,340	39,213
Interest	11,640	6,106	17,746
Miscellaneous	20	28,593	28,613
Total Revenues	1,436,001	324,149	1,760,150
EXPENDITURES			
Current			
General government	317,720	-	317,720
Public works	230,634	252,473	483,107
Public safety	413,384	-	413,384
Solid waste	335,797	-	335,797
Parks	47,230	-	47,230
Community planning/economic development	105,627	-	105,627
Debt service	-	17,616	17,616
Capital outlay	108,063	47,163	155,226
Total Expenditures	1,558,455	317,252	1,875,707
Excess (Deficit) of Revenues over Expenditures and Other Sources (Uses)	(122,454)	6,897	(115,557)
OTHER FINANCING SOURCES AND USES			
Sale of property	3,078	3,000	6,078
Transfers in	164,420	930	165,350
Transfers out	-	(2,430)	(2,430)
Net Other Financing Sources and Uses	167,498	1,500	168,998
Net Change in Fund Balances	45,044	8,397	53,441
Fund Balance, beginning of year	395,700	143,604	539,304
Fund Balance, end of year	\$ 440,744	\$ 152,001	\$ 592,745

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, 2009

Net change in fund balances - total governmental funds \$ 53,441

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	155,226	
Depreciation expense	<u>(133,694)</u>	
Excess of capital outlay over depreciation expense		21,532

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

Proceeds from sale of capital assets		6,078
Gain on sale of capital assets		<u>(6,078)</u>

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. In the current year, these amounts consist of:

Capital lease payments		9,549
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The repayment of the principal of long-term debt consumes the current financial resources of governmental funds and is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

Library corporation loan principal payments		5,241
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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

Change in Net Assets of Governmental Activities	<u>\$ 100,488</u>
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See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 156,000	\$ 165,722	\$ 165,722	\$ -
Sales tax	325,000	289,357	289,357	-
Railroad, utility and intangible taxes	184,600	199,983	199,983	-
Cigarette tax	17,000	15,305	15,305	-
Motor fuel and vehicle taxes	98,000	91,059	91,059	-
Intergovernmental	69,100	134,265	134,265	-
Charges for services	455,100	453,306	453,306	-
Fines and forfeits	57,000	37,471	37,471	-
Licenses, permits and fees	33,500	37,873	37,873	-
Interest	1,800	11,640	11,640	-
Miscellaneous	-	20	20	-
Total Revenues	<u>1,397,100</u>	<u>1,436,001</u>	<u>1,436,001</u>	<u>-</u>
EXPENDITURES				
Current				
General government	360,105	317,720	317,720	-
Public works	285,345	230,634	230,634	-
Public safety	395,200	413,384	413,384	-
Solid waste	294,880	335,797	335,797	-
Parks	18,550	47,230	47,230	-
Community planning/ economic development	126,950	105,627	105,627	-
Capital Outlay	<u>75,890</u>	<u>108,063</u>	<u>108,063</u>	<u>-</u>
Total Expenditures	<u>1,556,920</u>	<u>1,558,455</u>	<u>1,558,455</u>	<u>-</u>
Excess (Deficit) of Revenues over Expenditures	<u>(159,820)</u>	<u>(122,454)</u>	<u>(122,454)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	40,000	3,078	3,078	-
Transfers in	119,820	164,420	164,420	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>159,820</u>	<u>167,498</u>	<u>167,498</u>	<u>-</u>
Net Change in Fund Balances	-	45,044	45,044	<u>\$ -</u>
Fund Balance - beginning of year	<u>395,700</u>	<u>395,700</u>	<u>395,700</u>	
Fund Balance - end of year	<u>\$ 395,700</u>	<u>\$ 440,744</u>	<u>\$ 440,744</u>	

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	Water & Waste Water Fund	Gas Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 518,084	\$ 566,669	\$ 1,084,753
Investments	184,580	-	184,580
Accounts receivable, net	29,313	6,656	35,969
Inventories	67,386	21,029	88,415
Total Current Assets	<u>799,363</u>	<u>594,354</u>	<u>1,393,717</u>
Noncurrent Assets:			
Restricted cash	101,890	35,296	137,186
Restricted investments	2,200,134	-	2,200,134
Capital Assets:			
Land	34,149	8,811	42,960
Buildings and improvements	31,623	50,484	82,107
Machinery and equipment	389,165	168,964	558,129
Distribution and collection systems	10,977,318	664,850	11,642,168
Less: Accumulated depreciation	<u>(3,231,765)</u>	<u>(603,681)</u>	<u>(3,835,446)</u>
Total Noncurrent Assets	<u>10,502,514</u>	<u>324,724</u>	<u>10,827,238</u>
Total Assets	<u>\$ 11,301,877</u>	<u>\$ 919,078</u>	<u>\$ 12,220,955</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 25,244	\$ 15,497	\$ 40,741
Current Liabilities Payable From Restricted Cash:			
Customer deposits	38,885	35,296	74,181
Interest payable	95,972	-	95,972
Revenue bonds due within one year	235,000	-	235,000
Lease payable due within one year	55,642	7,361	63,003
DNR loan fund payable within one year	118,508	-	118,508
Total Current Liabilities	<u>569,251</u>	<u>58,154</u>	<u>627,405</u>
Non-Current Liabilities:			
Leases payable	1,240,662	9,448	1,250,110
Bonds payable	2,661,032	-	2,661,032
DNR loan fund	1,814,955	-	1,814,955
Compensated absences	3,790	2,790	6,580
Total Non-Current Liabilities	<u>5,720,439</u>	<u>12,238</u>	<u>5,732,677</u>
Total Liabilities	<u>6,289,690</u>	<u>70,392</u>	<u>6,360,082</u>
NET ASSETS			
Investment in capital assets, net of related debt	2,074,691	272,619	2,347,310
Restricted for debt service	2,132,467	-	2,132,467
Unrestricted	<u>805,029</u>	<u>576,067</u>	<u>1,381,096</u>
Total Net Assets	<u>\$ 5,012,187</u>	<u>\$ 848,686</u>	<u>\$ 5,860,873</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF OPERATING REVENUES, OPERATING EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	<u>Water & Waste Water Fund</u>	<u>Gas Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ 920,542	\$ 819,077	\$ 1,739,619
Other	21,262	14,288	35,550
Total operating revenues	<u>941,804</u>	<u>833,365</u>	<u>1,775,169</u>
Operating Expenses:			
Personnel services	140,021	109,761	249,782
Contractual services	33,895	584,892	618,787
Repairs and maintenance	79,774	18,797	98,571
Insurance	12,547	-	12,547
Sales tax	9,728	19,829	29,557
Utilities	77,530	14,972	92,502
Other supplies and expenses	65,464	12,522	77,986
Amortization	1,795	-	1,795
Depreciation	266,350	20,181	286,531
Total operating expenses	<u>687,104</u>	<u>780,954</u>	<u>1,468,058</u>
Operating Income	<u>254,700</u>	<u>52,411</u>	<u>307,111</u>
Nonoperating Revenue (Expenses):			
Interest revenue	110,620	3,852	114,472
Interest expense	(226,770)	-	(226,770)
Total nonoperating revenue (expense)	<u>(116,150)</u>	<u>3,852</u>	<u>(112,298)</u>
Net Income Before Contributions and Transfers	<u>138,550</u>	<u>56,263</u>	<u>194,813</u>
Contributions and Transfers			
Capital contributions	9,492	-	9,492
Transfer out	(96,680)	(66,240)	(162,920)
Total Contributions and Transfers	<u>(87,188)</u>	<u>(66,240)</u>	<u>(153,428)</u>
Change in Net Assets	51,362	(9,977)	41,385
Net assets - beginning of year	<u>4,960,825</u>	<u>858,663</u>	<u>5,819,488</u>
Net assets - end of year	<u>\$ 5,012,187</u>	<u>\$ 848,686</u>	<u>\$ 5,860,873</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Water & Waste Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 948,826	\$ 849,562	\$ 1,798,388
Payments to suppliers and contractors	(292,719)	(672,471)	(965,190)
Payments to and on behalf of employees	(140,335)	(110,916)	(251,251)
Receipts(payments) of customer deposits (net)	(506)	(2,023)	(2,529)
Net cash provided (used) by operating activities	515,266	64,152	579,418
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(96,680)	(66,240)	(162,920)
Net cash provided (used) by noncapital financing activities	(96,680)	(66,240)	(162,920)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	9,492	-	9,492
Purchases of capital assets (net)	(9,491)	-	(9,491)
Principal paid on capital debt	(407,346)	(8,014)	(415,360)
Interest paid on capital debt	(228,989)	-	(228,989)
Net cash provided (used) by capital and related financing activities	(636,334)	(8,014)	(644,348)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment assets	44,379	608,215	652,594
Purchase of investment assets	-	-	-
Interest	110,620	3,852	114,472
Net cash provided (used) by investing activities	154,999	612,067	767,066
Net increase (decrease) in cash and cash equivalents	(62,749)	601,965	539,216
Balances - beginning of year	682,723	-	682,723
Balances - end of year	\$ 619,974	\$ 601,965	\$ 1,221,939

See notes to financial statement

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS (CONT'D)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Water & Waste Water Fund	Gas Fund	Total
DISPLAYED AS:			
Cash and cash equivalents	\$ 518,084	\$ 566,669	\$ 1,084,753
Restricted cash	<u>101,890</u>	<u>35,296</u>	<u>137,186</u>
	<u>\$ 619,974</u>	<u>\$ 601,965</u>	<u>\$ 1,221,939</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	<u>\$ 254,700</u>	<u>\$ 52,411</u>	<u>\$ 307,111</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	266,350	20,181	286,531
Amortization expense	1,795	-	1,795
Change in assets and liabilities:			
Receivables, net	7,022	16,197	23,219
Inventories	(14,602)	(2,802)	(17,404)
Accounts and other payables	821	(18,657)	(17,836)
Compensated absences payable	(314)	(1,155)	(1,469)
Customer deposits	<u>(506)</u>	<u>(2,023)</u>	<u>(2,529)</u>
Total adjustments	<u>260,566</u>	<u>11,741</u>	<u>272,307</u>
Net cash provided by operating activities	<u>\$ 515,266</u>	<u>\$ 64,152</u>	<u>\$ 579,418</u>

See notes to financial statement

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2009

	Employee Deferred Compensation Fund
ASSETS	
Investment	\$ 29,583
Total Assets	<u>\$ 29,583</u>
LIABILITIES	
Deferred compensation benefits	\$ 29,583
Total Liabilities	<u>\$ 29,583</u>

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2009

	Employee Deferred Compensation Fund
ADDITIONS	
Contributions	
Employer/employee	\$ 2,600
Total contributions	2,600
Investment earnings	
Investment income	647
Net increase (decrease) in fair value of investments	(6,641)
Net investment earnings	(5,994)
Total Additions	(3,394)
DEDUCTIONS	
Total Deductions	-
Change in net assets	(3,394)
Net assets, beginning of year	32,977
Net assets, end of year	\$ 29,583

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Montgomery, Missouri, have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City has not elected, under Paragraph 7 of GASB Statement No. 20, for its proprietary funds to follow Financial Accounting Standards Board (FASB) statements and interpretations. The more significant of the City's accounting policies are described below.

A. The Reporting Entity

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

Blended Component Unit

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

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

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

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

C. Fund Accounting

Governmental Funds

The City reports the following major governmental funds:

General Fund

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

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds

The City reports the following major enterprise funds:

Water and Waste Water Fund

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

Gas Fund

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

Other Funds

The City also reports the following governmental fund types:

Street Fund

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

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

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

Gouldman Cemetery Fund

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

Library Corporation (Component Unit)

The Library Corporation 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, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City also reports the following fiduciary fund type:

Employee Deferred Compensation Fund

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

D. Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

The City has not elected, under Paragraph 7 of GASB Statement No. 20, for its governmental and business-type activities and enterprise funds to follow FASB statements and interpretations.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deposits and Investments

The City's investments include money market accounts, certificates of deposits, and real estate. Accordingly, the City's money market accounts and certificates of deposits at June 30, 2009, carry no market risk; however, the real estate is subject to market fluctuations.

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

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

F. Cash and Cash Equivalents

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

G. Receivables

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

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

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property Tax Calendar

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

I. Inventories

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

J. Capital Assets

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

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

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

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Long-Term Debt and Bond Discounts/Premiums

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

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

L. Net Assets and Fund Balance

Government-Wide Statements

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

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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.

N. Operating Revenue and Expense

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

O. Internal and Interfund Balances and Activities

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

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deposits and Investment Laws and Regulations

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

B. Budget Basis of Accounting

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

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

A. Cash and Investments

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

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

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

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

The deposits and investments held at June 30, 2009 are shown below:

	Maturities	Carrying Value
Deposits:		
Demand deposits		\$ 1,696,685
		1,696,685
Investments:		
Time deposit	7/1/2009	6,330
Time deposit	9/9/2009	31,962
Time deposit	10/14/2009	24,121
Time deposit	12/7/2009	47,589
Time deposit	12/7/2009	47,675
Time deposit	12/31/2009	7,007
Time deposit	5/5/2010	6,229
Time deposit	6/11/2010	8,842
Time deposit	7/31/2010	3,064
Time deposits	9/9/2010	14,674
Time deposit	11/14/2010	18,116
Time deposit	3/24/2013	74,000
U.S. Treasury Obligations		2,095,475
		2,385,084
Total deposits and investments		\$ 4,081,769
Reconciliation of Statement of Net Assets:		
Current:		\$ 1,502,955
Cash and cash equivalents		230,726
Investments		1,733,681
Total Current		
Noncurrent:		
Restricted cash		147,954
Restricted investments		2,200,134
Total Noncurrent		2,348,088
Total		\$ 4,081,769

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

Custodial Credit Risk. Deposits in financial institutions, reported as components of cash and investments had a bank balance of \$2,049,153 at June 30, 2009. Balances at all banks were fully insured or secured with collateral held by the City's agent in its name. All investments are registered in the name of the City.

Investment interest rate risk. The City has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at June 30, 2009, are provided in the previous schedule.

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

Concentration of investment credit risk. The City places no limit on the amount it may invest in any one issuer. At June 30, 2009, the City had no concentration of credit risk.

Restricted Assets

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

Customer Deposits - Refunds of utility deposits to customers discontinuing utility usage.	\$ 81,425
Bond Reserve Account - Payment of principal and interest only when and to the extent other funds are not available for that purpose.	2,039,927
Bond Replacement and Extension Account - Payments for replacements or extensions to the system.	36,162
Bond Principal and Interest - Payment of bond principal and interest	<u>190,574</u>
Total Restricted Assets	<u>\$ 2,348,088</u>

CITY OF MONTGOMERY, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

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

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

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, 2009, is as follows:

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

	Governmental Activities	Business-Type Activities	Total
Total accounts receivable	\$ 24,376	\$ 120,563	\$ 144,939
Less: Allowance for uncollectible accounts	(15,056)	(84,594)	(99,650)
Net accounts receivable	\$ 9,320	\$ 35,969	\$ 45,289

C. Taxes Receivable

Taxes receivable of the governmental activities consist of property, sales, franchise, gas and motor vehicle tax receivable. Receivables detail at March 31, 2009 was as follows:

	Governmental Activities
Taxes receivable	\$ 145,682
Allowance for uncollectable accounts	—
Net taxes receivable	\$ 145,682

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

D. Capital Assets

Capital asset activity, for the fiscal year ended June 30, 2009 , was as follows:

	Balance at July 1, 2008	Additions	Disposals	Balance at June 30, 2009
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 94,500	\$ -	\$ -	\$ 94,500
Construction in progress	39,908	95,158	-	135,066
	<u>134,408</u>	<u>95,158</u>	<u>-</u>	<u>229,566</u>
Capital assets being depreciated:				
Buildings and improvements	930,184	-	-	930,184
Machinery, equipment and furniture	1,037,465	34,462	(15,545)	1,056,382
Infrastructure	905,816	25,606	-	931,422
	<u>2,873,465</u>	<u>60,068</u>	<u>(15,545)</u>	<u>2,917,988</u>
Total capital assets at historical costs	<u>3,007,873</u>	<u>155,226</u>	<u>(15,545)</u>	<u>3,147,554</u>
Less accumulated depreciation:				
Buildings and improvements	(197,100)	(23,996)	-	(221,096)
Machinery, equipment and furniture	(670,078)	(63,341)	15,545	(717,874)
Infrastructure	(270,438)	(46,357)	-	(316,795)
Total accumulated depreciation	<u>(1,137,616)</u>	<u>(133,694)</u>	<u>15,545</u>	<u>(1,255,765)</u>
Net capital assets being depreciated	<u>1,735,849</u>	<u>(73,626)</u>	<u>-</u>	<u>1,662,223</u>
Net capital assets	<u>\$ 1,870,257</u>	<u>\$ 21,532</u>	<u>\$ -</u>	<u>\$ 1,891,789</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 42,960	\$ -	\$ -	\$ 42,960
Construction in progress	300,560	(300,560)	-	-
	<u>343,520</u>	<u>(300,560)</u>	<u>-</u>	<u>42,960</u>
Capital assets being depreciated:				
Buildings and improvements	82,107	-	-	82,107
Machinery, equipment and furniture	558,129	-	-	558,129
Distribution and collection systems	11,332,116	310,052	-	11,642,168
	<u>11,972,352</u>	<u>310,052</u>	<u>-</u>	<u>12,282,404</u>
Total capital assets at historical costs	<u>12,315,872</u>	<u>9,492</u>	<u>-</u>	<u>12,325,364</u>
Less accumulated depreciation:				
Buildings and improvements	(42,538)	(1,891)	-	(44,429)
Machinery, equipment and furniture	(458,899)	(21,371)	-	(480,270)
Distribution and collection systems	(3,047,478)	(263,269)	-	(3,310,747)
Total accumulated depreciation	<u>(3,548,915)</u>	<u>(286,531)</u>	<u>-</u>	<u>(3,835,446)</u>
Net capital assets being depreciated	<u>8,423,437</u>	<u>23,521</u>	<u>-</u>	<u>8,446,958</u>
Net capital assets	<u>\$ 8,766,957</u>	<u>\$ (277,039)</u>	<u>\$ -</u>	<u>\$ 8,489,918</u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

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

Governmental Activities:			
General	\$	10,405	
Public works		70,955	
Public safety		5,472	
Parks		17,174	
Community planning/economic development		29,688	
Total depreciation expense for governmental activities	\$	<u>133,694</u>	
Business-Type Activities:			
Water and waste water	\$	266,350	
Gas		20,181	
Total depreciation expense for business-type activities	\$	<u>286,531</u>	

E. 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, 2009:

Type of Debt	Balance at July 1, 2008	Additions	Disposals	Balance at June 30, 2009
Governmental Activities:				
Notes payable	\$ 239,888	\$ -	\$ 36,219	\$ 203,669
Total General Long-Term Debt	<u>\$ 239,888</u>	<u>\$ -</u>	<u>\$ 36,219</u>	<u>\$ 203,669</u>

In June 1993 the City entered into two short-term notes to finance the purchase of the City Hall building. The notes were fully collateralized by deposits at the two financing institutions equal to the outstanding note principal and bore interest rates of 3.0% and 3.1%.

One note became due July 1, 1993, and was renewed for six months at the same rate of interest. The two notes were renewed in December 1993. Principal payments amounting to \$550 were made during the fiscal year. The remaining balance was outstanding at June 30, 1994. The notes were renewed on July 17, 1994, and July 18, 1994. Both notes were increased by \$22,724 each at the time of renewal. The notes were renewed on December 31, 1994. One note matured on September 30, 1995, and the other note matured on June 30, 1996. Both notes were renewed on June 30, 1996, and on that same date from 1997 through 2006. One note was paid off during 2008-2009.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

The other note was renewed on June 30, 2009, and matures on June 30, 2011. It has an interest rate of 5.25% on June 30, 2009. At June 30, 2009, the principal balance was \$14,832.

On December 7, 2007, the City borrowed \$45,000 for the City Hall building roof, with an interest rate of 6.5%. The note has been renewed at 4.21% and is now due December 7, 2009. The balance at June 30, 2009 was \$31,753.

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 November 5, 2008, and will mature on October 5, 2009. The unpaid principal balance will bear interest at an annual rate equal to the prime rate announced by the bank. At June 30, 2009, the interest rate was 3.25%. The interest rate is adjusted each time the prime rate changes. There were no principal payments made during the fiscal year ended June 30, 2009. At June 30, 2009, the note had a principal balance of \$129,000.

On December 7, 2007, the City's transportation fund borrowed \$45,000 to finance the purchase of a dump truck. The loan was renewed on December 7, 2008 at 4.21% interest and is due December 7, 2009. The balance at June 30, 2009 was \$39,965. Interest paid during the fiscal year was \$1,381 and principal was \$5,034.

F. Capital Leases

The changes in capital lease obligations for the year ended June 30, 2009 are shown below:

	Balance 6/30/2008	Lease Proceeds	Principal Paid	Balance 6/30/2009	Interest Paid
Governmental Activities:					
Public works	\$ 4,993	\$ -	\$ 4,191	\$ 802	\$ 177
Parks	6,098	-	5,358	740	164
	<u>\$ 11,091</u>	<u>\$ -</u>	<u>\$ 9,549</u>	<u>\$ 1,542</u>	<u>\$ 341</u>
Business-Type Activities:					
Water & waste water	\$ 37,414	\$ -	\$ 11,111	\$ 26,303	\$ 1,897
Gas	24,822	-	8,013	16,809	1,258
	<u>\$ 62,236</u>	<u>\$ -</u>	<u>\$ 19,124</u>	<u>\$ 43,112</u>	<u>\$ 3,155</u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

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

	Governmental Activities	Business-Type Activities	Total
Leased property	\$ 29,664	\$ 35,588	\$ 65,252
Leased property accumulated depreciation	(13,905)	(11,373)	(25,278)
Total	<u>\$ 15,759</u>	<u>\$ 24,215</u>	<u>\$ 39,974</u>

The City has entered into several capital leases for the acquisition of an excavator and vehicles. The following is a schedule of the future minimum payments under these capital leases as of June 30, 2009.

	Year Ending June 30,	Governmental Activities	Business-Type Activities
	2010	\$ 1,554	\$ 19,954
	2011	-	17,824
	2012	-	8,521
Total lease payments		1,554	46,299
Less: Amount representing interest		(12)	(3,187)
Total obligation under capital leases		1,542	43,112
Less: Current portion		(1,542)	(18,003)
Total long-term obligation under capital leases		<u>\$ -</u>	<u>\$ 25,109</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.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

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

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

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

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

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

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

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.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

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

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

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

The Base Rental Payment and Option Price Schedule follow:

Lease proceeds at June 30, 2009	\$ 1,270,000
Fees paid during the year	\$ 1,200

Year Ending June 30,	Principal	Interest
2010	\$ 45,000	\$ 62,685
2011	50,000	60,660
2012	50,000	58,410
2013	50,000	56,160
2014	55,000	53,735
2015-2019	315,000	226,448
2020-2024	405,000	140,002
2025-2027	300,000	31,110
Total	<u>\$ 1,270,000</u>	<u>\$ 689,210</u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009:

Type of Debt	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Governmental Activities:					
Capital Lease Obligations	\$ 11,091	\$ -	\$ 9,549	\$ 1,542	\$ 1,542
Notes Payable	300,000	-	5,241	294,759	5,457
Accrued compensated absences	36,860	-	3,456	33,404	-
Total General Long-Term Debt	<u>\$ 347,951</u>	<u>\$ -</u>	<u>\$ 18,246</u>	<u>\$ 329,705</u>	<u>\$ 6,999</u>
Business-Type Activities:					
Bonds Payable	\$ 3,128,820	\$ -	\$ 232,788	\$ 2,896,032	\$ 235,000
Capital Lease Obligations	1,377,236	-	64,124	1,313,112	63,003
DNR Loan Payable	2,050,116	-	116,653	1,933,463	118,508
Accrued Compensated Absences	8,049	-	1,469	6,580	-
Total Enterprise Fund Debt	<u>\$ 6,564,221</u>	<u>\$ -</u>	<u>\$ 415,034</u>	<u>\$ 6,149,187</u>	<u>\$ 416,511</u>

Business-Type Activities

The City issued \$630,000 of Revenue Bonds on March 4, 2004. The Combined Waterworks and Sewerage System Revenue Refunding Bonds Series 2004 were used to redeem and retire the 1991, 1993, and 1995 Bond Issues. The following is a summary of bond transactions of the City for the year ended June 30, 2009, for this issue:

	<u>Revenue Bonds</u> <u>Combined Waterworks and</u> <u>Sewerage System</u> <u>2004 Bond Issue</u>
Bonds payable at June 30, 2009	\$ 210,000
Less: Current portion due June 1, 2009	(80,000)
Long-term debt at June 30, 2009	<u>\$ 130,000</u>

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

The Revenue Bonds become due on June 1 in annual installments of \$60,000 to \$80,000 through June 1, 2010; and \$130,000 due June 1, 2011. Bonds bear interest ranging from 1.20% to 3.50%. Principal and interest payments required for each of the next seven years to maturity are as follows:

June 1	Annual Rate of Interest	Principal Amount	Interest
2010	3.20%	\$ 80,000	\$ 7,110
2011	3.50%	130,000	4,550
		\$ 210,000	\$ 11,660

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, 2009, for this issue:

	Revenue Bonds Combined Waterworks and Sewerage System 2001 Bond Issue
Bonds payable at June 30, 2009	\$ 2,615,000
Less: Current portion due June 1, 2009	(155,000)
Long-term debt at June 30, 2009	\$ 2,460,000

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

Year Ending June 30,	Annual Rate of Interest	Principal	Interest
2010	5.25%	\$ 155,000	\$ 130,638
2011	5.25%	160,000	122,369
2012	4.00%	165,000	114,869
2013	5.375%	170,000	107,000
2014	5.375%	175,000	97,728
2015-2019	5.375%	940,000	341,769
2020-2022	5.00%	850,000	86,250
Total		\$ 2,615,000	\$ 1,000,623

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

Total long-term debt for the two bond issuances is reported net of unamortized bond premium, discounts, and issuance costs of \$71,032. Bond premium, discounts, and issuance costs are amortized over the term of the bonds. A summary of net long-term debt at June 30, 2009, is as follows:

Total Long-Term Debt	\$	2,825,000
Add: Premium		115,995
Less: Discounts		(1,781)
Less: Issuance Costs		(43,182)
Net Long-Term Debt		<u>\$ 2,896,032</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, 2009, DNR made loan fund payments in the amount of \$0 to the City. The City repaid \$116,653 during the year ended June 30, 2009, leaving a balance of \$1,933,463.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009, the debt service account balance was \$1,762 and the replacement and extension account balance was \$1,762.

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
2010	\$ 5,458	\$ 12,159	\$ 17,617
2011	5,682	11,934	17,616
2012	5,916	11,699	17,615
2013	6,161	11,455	17,616
2014	6,415	11,201	17,616
2015-2019	36,269	51,811	88,080
2020-2024	44,392	43,688	88,080
2025-2029	54,336	33,744	88,080
2030-2034	66,506	21,574	88,080
2035-2038	63,624	6,685	70,309
Total	<u>\$ 294,759</u>	<u>\$ 215,950</u>	<u>\$ 510,709</u>

CITY OF MONTGOMERY, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

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>
Cemetery (nonmajor)	General (major)	\$ 15,000
Water and wastewater (major)	General (major)	96,680
Gas (major)	General (major)	66,240
Gouldman cemetery (nonmajor)	Cemetery (major)	930
Total		<u>\$ 165,350</u>

The above transfers are budgeted routine transfers.

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.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

IV. OTHER INFORMATION (continued)

2. Funding Status

The City of Montgomery's full-time employees do not contribute to the pension plan. The political subdivision is required to contribute at an actuarially determined rate; the current rate is 0.3% (general), and 0.3% (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.

3. Annual Pension Cost

For 2009, the political subdivision's annual pension cost of \$2,427 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2007 and/or February 28, 2008 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 29, 2009 included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% 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 the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 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 at February 28, 2009 was 15 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2007	\$ 4,158	100%	—
6/30/2008	2,346	100%	—
6/30/2009	2,427	100%	—

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 received a Community Development Block Grant in the amount of \$500,000. The purpose of the grant was the construction of a new 59" diameter aeration basin, a new 45" diameter clarifier, the rehabilitation of the existing clarifier into a process clarifier, and the rehabilitation of two existing 50,000 gallon digester tanks. This is a matching grant whereby the City must match \$771,000 in cash and \$5,000 in kind. The cash contributions will consist of funds from the State's Revolving Fund and local reserves.

The City had requested and received \$500,000 of the grant funds as of June 30, 2009.

The City is involved in a Community Development Block grant that gives housing assistance to eligible individuals. \$85,000 of the \$200,000 grant is available for this purpose. These funds are considered a grant. In order to receive the funds, the individuals sign a note and deed of trust. The note has an interest rate of 0% and is only collected in the case of a transfer of the property within 10 years of closing.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

IV. OTHER INFORMATION (continued)

The City is involved in a community development block grant for road and sewer infrastructure improvements at the AFB International Facility. The total grant for this purpose is \$200,000. As of June 30, 2009 the City had requested \$128,664 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.

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 twenty-one (21) years for post-closure costs and maintenance of the closed facility is approximately \$10,725, which totals \$193,050. This amount is subject to review and adjustments annually and has been reflected as a liability in the government-wide statement of net assets.

F. Commitments and Contingencies

1. Grants

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2009, 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.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

IV. OTHER INFORMATION (continued)

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.

G. Litigation

The City currently has lawsuits pending, the outcomes of which are not known at this time. 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. Fund Equity

Restricted Net Assets

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

<u>Activity</u>	<u>Restricted by</u>	<u>Amount</u>
Library	Contributors and law	\$ 4,014
Cemetery	Law	<u>24,119</u>
Total Restricted Net Assets for Other Purposes		<u>\$ 28,133</u>

Fund Equity Deficits

Deficit fund balance existed at June 30, 2009 in the Street Fund.

CITY OF MONTGOMERY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

IV. OTHER INFORMATION (continued)

J. 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, 2008 and 2007 on which the fiscal 2008 and 2007 levies were based, were as follows:

	2008	2007
Real estate	\$ 27,952,529	\$ 27,623,700
Personal property	6,913,231	6,471,227
	\$ 34,865,760	\$ 34,094,927

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:

<u>Fund</u>	2008	2007
General Revenue	\$ 0.4796	\$ 0.4776
Library	0.3811	0.3811
	\$ 0.8607	\$ 0.8587

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTGOMERY, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 YEAR ENDED JUNE 30, 2009

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

REQUIRED SUPPLEMENTARY INFORMATION
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
02/28/2007	\$ 1,205,175	\$ 782,871	\$ (422,304)	154%	\$ 698,514	
02/29/2008	1,341,326	831,200	(510,126)	161%	772,417	
02/28/2009	946,490	739,912	(206,578)	128%	782,338	

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, 2006 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	Accounts for the revenue and expenditures of the library.
Cemetery Fund	Accounts for the operation and maintenance of the City-owned cemetery. Financing is provided primarily through fees and interest earned.
Gouldman Cemetery Fund	Accounts for the assets that are held for the cemetery fund. Only interest earned on principal can be used by the cemetery.
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, 2009

ASSETS	Special Revenue Funds			Library Corporation	Permanent Fund Gouldman Cemetery Fund	Total Nonmajor Governmental Funds
	Street	Library	Cemetery			
Cash and cash equivalents	\$ (77,580)	\$ 85,021	\$ 37,687	\$ 490	\$ 24,119	\$ 69,737
Certificates of deposit	-	-	46,146	-	-	46,146
Taxes receivable	35,402	6,112	-	-	-	41,514
Cash-restricted	-	-	-	3,524	-	3,524
Total Assets	\$ (42,178)	\$ 91,133	\$ 83,833	\$ 4,014	\$ 24,119	\$ 160,921
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 5,005	\$ 664	\$ -	\$ -	\$ -	\$ 5,669
Accrued liabilities	-	2,378	-	-	-	2,378
Compensated absences	-	873	-	-	-	873
Total Liabilities	5,005	3,915	-	-	-	8,920
FUND BALANCES:						
Reserved	-	-	-	4,014	24,119	28,133
Unreserved (deficit)	(47,183)	87,218	83,833	-	-	123,868
Total Fund Balances	(47,183)	87,218	83,833	4,014	24,119	152,001
Total Liabilities and Fund Balances	\$ (42,178)	\$ 91,133	\$ 83,833	\$ 4,014	\$ 24,119	\$ 160,921

CITY OF MONTGOMERY, MISSOURI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue Funds		Library Corporation	Permanent Fund Gouldman Cemetery Fund	Total Nonmajor Governmental Funds
	Street	Library Cemetery			
REVENUES					
Property taxes	\$ -	\$ 125,729	\$ -	\$ -	\$ 125,729
Sales tax	136,393	-	-	-	136,393
Railroad, utility and intangible taxes	-	13,333	-	-	13,333
Intergovernmental	-	3,389	-	-	3,389
Charges for services	-	9,266	-	-	9,266
Licenses, permits and fees	-	-	1,340	-	1,340
Interest	1,818	326	3,032	930	6,106
Miscellaneous	-	7,453	-	-	28,593
Total Revenues	<u>138,211</u>	<u>159,496</u>	<u>21,140</u>	<u>930</u>	<u>324,149</u>
EXPENDITURES					
Current:					
Public works	104,739	146,899	815	-	252,473
Debt service:					
Principal	-	-	5,241	-	5,241
Interest	-	-	12,375	-	12,375
Capital outlay	47,163	-	-	-	47,163
Total Expenditures	<u>151,902</u>	<u>146,899</u>	<u>17,636</u>	<u>-</u>	<u>317,252</u>
Excess (Deficit) Revenues Over Expenditures	<u>(13,691)</u>	<u>12,597</u>	<u>3,504</u>	<u>930</u>	<u>6,897</u>
OTHER FINANCING SOURCES (USES)					
Sale of property	-	3,000	-	-	3,000
Transfers in	-	930	-	-	930
Transfers out	-	(1,500)	-	(930)	(2,430)
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,430</u>	<u>-</u>	<u>(930)</u>	<u>1,500</u>
Net Change in Fund Balances	(13,691)	12,597	5,987	3,504	8,397
Fund Balances - beginning of year	(33,492)	74,621	77,846	24,119	143,604
Fund Balances - end of year	<u>\$ (47,183)</u>	<u>\$ 87,218</u>	<u>\$ 83,833</u>	<u>\$ 24,119</u>	<u>\$ 152,001</u>

STATISTICAL DATA
(UNAUDITED)

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2009

<u>Insurance Agency</u>	<u>Date of Policies</u>		<u>Amount of Coverage</u>		
Scott Agency	10/1/08 - 10/1/09	Scheduled Equipment	\$ 610,609		
		Business Real Estate and Personal Property	12,286,750		
		Miscellaneous Unscheduled Equipment	15,000		
		General Total Limit	4,000,000		
		Products and Completed Work Total Limit	4,000,000		
		Personal Injury Each Person Limit	2,418,992		
		Advertising Injury Each Person Limit	2,418,992		
		Failure to Supply Limit	1,000,000		
		Premises Damage/Sewer Back-up Limit	1,000,000		
		Vehicle Liability Each Occurrence	2,418,992		
		Uninsured Motorist	50,000		
		Expediting Expenses	250,000		
		Pollution Cleanup and Removal	250,000		
		Spoilage	250,000		
		Earthquake/Catastrophe/Additional Perils	5,000,000		
		Missouri Employers Mutal Insurance	7/1/08 - 7/1/09	WORKERS COMPENSATION:	
				Bodily Injury - Accident	\$ 500,000
Bodily Injury - Disease	500,000				
Bodily Injury - Disease Each Occurrence	500,000				
Scott Agency	10/1/08 - 10/1/09	PUBLIC ENTITY MANAGEMENT:			
		Each Wrongful Act Limit	\$ 2,000,000		
		Wrongful Act Total Limit	4,000,000		
		Deductible	5,000		
		PUBLIC ENTITY EMPLOYMENT PRACTICES:			
		Each Wrongful Act Limit	\$ 2,418,992		
		Wrongful Act Total Limit	4,000,000		
		Deductible	15,000		
		LAW ENFORCEMENT:			
		Each Wrongful Act Limit	\$ 2,418,992		
Wrongful Act Total Limit	4,000,000				
Deductible	5,000				

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2009

<u>Insurance Agency</u>	<u>Date of Policies</u>		<u>Amount of Coverage</u>
		EMPLOYEE BENEFIT PLANS ADMINISTRATION:	
		Each Wrongful Act Limit	\$ 2,000,000
		Wrongful Act Total Limit	6,000,000
		Deductible	1,000
		FIDELITY BONDS:	
		Linda Block, Deputy Clerk/Treasurer	\$ 50,000
CNA Surety	3/21/09 - 3/21/10	Brandy Atterbury, Municipal Court Clerk	25,000
CNA Surety	8/30/08 - 8/30/09	Jill Dunlap, City Collector	25,000
Allied Insurance	7/26/08 - 7/26/09	Steven Deves, City Administrator/Clerk	50,000
Allied Insurance	1/27/09-1/27/10	Library dishonesty bond	25,000
Scott Agency	12/12/08-12/12/09		
		ADDITIONAL BENEFITS COVERAGE:	
		Accounts Receivable	\$ 100,000
		Blanket Earnings	100,000
		Communication Equipment	50,000
		Computers	50,000
		Demolition/Increased Cost of Construction	100,000
		Extra Expense	25,000
		Fine Arts	50,000
		Fire Department Service Charge	25,000
		Inventory and Appraisals	10,000
		Money and Securities:	
		Inside Limit	10,000
		Outside Limit	5,000
		Newly Acquired Property:	
		Building Limit	1,000,000
		Business Personal Property Limit	500,000
		Outdoor Property	50,000
		Other People's Property	25,000
		Personal Belongings	50,000
		Pollution Cleanup and Removal	25,000
		Property in Transit	50,000
		Random Attack/Hacking/Computer Virus	10,000
		Sewer Backup	50,000
		Temporary Location	50,000
		Valuable Records Research	100,000
Scott Agency	10/1/08 - 10/1/09		

CITY OF MONTGOMERY, MISSOURI
WATER AND WASTE WATER UTILITY
REVENUE BONDS OUTSTANDING
JUNE 30, 2009

		<u>DATE PAYABLE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST</u>
SERIAL BONDS					
Payable at:	UMB Bank Kansas Ctiy, Missouri				
Dated:	March 4, 2004				
Original Issue:	\$630,000.00	June 1, 2010	3.200%	80,000	7,110
		June 1, 2011	3.500%	<u>130,000</u>	<u>4,550</u>
				<u>210,000</u>	<u>11,660</u>
SERIAL BONDS					
Payable at:	UMB Bank Kansas City, Missouri				
Dated:	November 1, 2001				
Original Issue:	\$3,500,000.00	July 1, 2009	5.250%	155,000	130,638
		July 1, 2010	5.250%	160,000	122,369
		July 1, 2011	4.000%	165,000	114,869
		July 1, 2012	5.375%	170,000	107,000
		July 1, 2013	5.375%	175,000	97,728
		July 1, 2014	5.375%	180,000	88,187
		July 1, 2015	5.375%	180,000	78,512
		July 1, 2016	5.375%	185,000	68,703
		July 1, 2017	5.375%	195,000	58,491
		July 1, 2018	5.375%	200,000	47,876
		July 1, 2019	5.000%	205,000	37,375
		July 1, 2020	5.000%	210,000	27,000
		July 1, 2021	5.000%	215,000	16,375
		July 1, 2022	5.000%	<u>220,000</u>	<u>5,500</u>
				<u>2,615,000</u>	<u>1,000,622</u>

CITY OF MONTGOMERY, MISSOURI
CUSTOMERS IN SERVICE - WATER AND WASTE WATER
JUNE 30, 2009 AND 2008

WATER UTILITY

Number of customers served	-	June 30, 2009	1,346
Number of customers served	-	June 30, 2008	<u>1,333</u>
INCREASE IN CUSTOMERS DURING YEAR			<u><u>13</u></u>

WASTE WATER UTILITY

Number of customers served	-	June 30, 2009	1,332
Number of customers served	-	June 30, 2008	<u>1,322</u>
INCREASE IN CUSTOMERS DURING YEAR			<u><u>10</u></u>

COMPLIANCE AND INTERNAL CONTROL



Professional Corporation

Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Montgomery, Missouri (the 'City'), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

PARTNERS

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies on internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompany schedule of findings and responses (2009-1 and 2009-2) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated January 19, 2010.

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

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



Certified Public Accountants

January 19, 2010

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

2009-1 Documentation of Internal Controls

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

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.

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.

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.

Auditee Response: 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 in place and followed by City personnel.

2009-2 Accounting Personnel

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

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.

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

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

Auditee Response: 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.