



**Item:** Audit Report, FY 2011-2012

**From:** Fiscal Services Department

**Initiated By:** Cheryl Lucas, Staff Accountant

**Presented By:** Melissa Kinzler, Fiscal Services Director

**Action Requested:** Accept Comprehensive Annual Financial Report with Independent Auditor's Report

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**Suggested Motion:**

1. Commissioner moves:

"I move that the City Commission (accept/reject) the FY 2011-2012 Comprehensive Annual Financial Report (CAFR), responses to the Required Client Communication Letter recommendations as presented, and authorize staff to submit the related reports to other government agencies and financial institutions as necessary."

2. Mayor calls for a second, discussion, public comment, and calls the vote.

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**Staff Recommendation:** Staff recommends the City Commission accept the FY 2011-2012 Comprehensive Annual Financial Report (CAFR), responses to the Required Client Communication Letter recommendations as presented, and authorize staff to submit the related reports to other government agencies and financial institutions as necessary.

**Background:** The City's Audit Committee received a copy of the FY 2011-2012 CAFR, the Independent Auditor's report, a brief summary of the FY 2011-2012 audit, Required Client Communication Letter, and City's responses to Required Client Communication Letter. The Audit Committee met December 5, 2012 and recommends the City Commission accept the CAFR, the annual Independent Auditor's report, Required Client Communication Letter, and the City's responses to Required Client Communication Letter.

Along with the FY 2011-2012 Audit Report, the City's auditors (Junkermier, Clark, Campanella, Stevens, P.C., Certified Public Accountants) issued a separate Required Client Communication Letter. The letter comments on any internal control recommendations related to the operations of the City that **could** adversely affect the City's ability to record, process, summarize, and report financial data. The attached document notes that the auditors' have one recommendation for FY

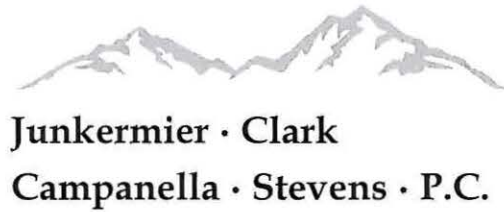
2011-2012 and three prior year comments and their current status. One prior year comment has been met and two prior year comments are still recommended.

The FY 2011-2012 CAFR will be submitted to the Government Finance Officers Association's (GFOA) Certificate of Achievement Program for review. The prior year's CAFR was submitted and subsequently awarded the Certificate of Achievement for Excellence in Financial Reporting. The City has received this certification every year since FY 1993-1994. It is anticipated the FY 2011-2012 CAFR will meet requirements to receive the certification as well, since all comments and recommendations made by GFOA for improvement of presentation were implemented in the FY 2011-2012 CAFR.

**Concurrences:** The City's Audit Committee, comprised of one City Commissioner, the Mayor, one citizen, the City Manager, and the Fiscal Services Director recommend approval of the FY 2011-2012 CAFR, responses to the Required Client Communication Letter recommendations as presented, and authorize staff to submit the report to other governmental and financial agencies as required.

**Fiscal Impact:** The City is required under state statute (MCA 2-7-503) to have an annual financial audit and file a fiscal year end annual report within 6 months of the end of the reporting period. The City's bond ratings, the ability of the City to issue new debt, and City eligibility for Federal Grants are all affected by the CAFR and related reports.

**Attachments/Exhibits:** City of Great Falls 2011-2012 CAFR, Required Client Communication Letter and response to Independent Auditors' Required Client Communication Letter.



**Junkermier • Clark  
Campanella • Stevens • P.C.**

Certified Public Accountants and Business Advisors

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December 13, 2012

To the Audit Committee  
City of Great Falls, Montana

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Great Falls, Montana for the year ended June 30, 2012. The discretely presented component units were audited by other auditors whose reports thereon have been furnished to us. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 6, 2012. Professional standards also require that we communicate to you the following information related to our audit.

***Significant Audit Findings***

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Great Falls, Montana are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimates of the lives of depreciable assets and timetables for replacements of assets as set forth in the Equipment Revolving Schedule (ERS). Estimated replacement reserves as calculated in the ERS affects the restricted cash in many funds. We evaluated the key factors and assumptions used to develop the estimated lives of depreciable assets and calculations of the estimated replacement reserves in determining that they are reasonable in relation to the financial statements as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures regarding the Electric enterprise fund are deemed sensitive due to the publicity received with regard to this fund. The disclosures in the notes to the financial statements that address this fund include Note 2 (page 47), Note 4 (page 49), Note 8 (page 56 and page 63), Note 13 (pages 68-69), Note 14 (page 70), Note 17 (pages 72-73), and Note 18 (page 73). These notes provide added details to the users of the financial statements regarding the restricted cash, interfund payables, long-term debt, prepaid fixed water charges, the assignment and assumption agreement with Electric City Power, the security agreement with Electric City Power, lawsuit filed against Southern by the City, bankruptcy filing by Southern, and the deficit net assets of the Electric enterprise fund.

#### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated December 13, 2012.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Great Falls, Montana's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Current Year Comments*

**Year End Reclassification of Fund Cash Deficits**

Historically the City has reclassified individual fund cash deficits at year end to Due to Other City Funds from which the cash was borrowed. Since the adoption of GASB 34 in the fiscal year ending June 30, 2003, these due to/from accounts have been classified as current assets/liabilities in the entity wide financial statements.

**Recommendation**

We recommend the City consider a policy which assesses the presentation of the lending and borrowing as either short-term (expected to be repaid within one year) or long-term (expected to be repaid after one year).

*Status of Prior Year Comments*

**Cash**

In the prior audit, we noted the City had reconciling items on the bank reconciliation that are not entered in the books for the period in which they occurred. These were entered in the City's records, but were one month behind. In addition, we noted a reconciling item for payroll taken out of the cash balance at the end of the month when it does not actually get paid until the 5th of the following month. For accrual purposes, all bank reconciling items should be posted in the month they occur and the payroll should be recorded as a payable at month end rather than a reconciling item in cash. We recommended the City record all bank reconciling items when they occur and record the month-end payroll as a payable.

**Current Status**

The City has implemented new practices for reconciling bank accounts, including the recommendations made in the prior year. In the current year, we noted a few minor bank reconciling items not recorded in the month they occurred. We continue to recommend all reconciling items be recorded in the month they occur. The month-end payroll was recorded as a payable rather than a reconciling item in cash as recommended.

**Debt**

During the current fiscal year, the City did not meet the rate covenant provision for the Golf Course revenue bonds. The percent of bond coverage was less than the required 140%. The bond covenants require the City to prepare a schedule of altered rates, charges and rentals. We recommended the City review this covenant provision and make necessary adjustments for meeting the provision.

**Current Status**

The City is in compliance with this covenant in the current year.

**Compliance with Ordinance 2925**

Section 5.20.070 of Ordinance 2925 states the rates and charges of Electric City Power (included in the Electric Utility Fund) "shall be designed to enable the Corporation to operate on a self-sufficient and self-sustaining basis and to produce revenues at all times sufficient to pay all operating, maintenance, debt service, repair and replacement costs of the Corporation and to provide reserves necessary or desirable for working capital, capital improvements and replacements and rate stabilization purposes." The City was not in compliance with this section of the Ordinance. We recommended the City review this Ordinance and the operations of Electric City Power to be in compliance with this Ordinance.

**Current Status**

The City is not in compliance with this Ordinance in the current year. We continue to make the above recommendation.

**To the Audit Committee  
City of Great Falls, Montana  
December 13, 2012  
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This information is intended solely for the use of the Audit Committee of the City of Great Falls, Montana and management of the City of Great Falls, Montana and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully submitted,

***Junkermier, Clark, Campanella, Stevens, P.C.***  
Great Falls, Montana



**CITY OF GREAT FALLS, MONTANA**  
Financial and Compliance Audit  
For the Year Ended June 30, 2012

**RESPONSE TO INDEPENDENT AUDITORS' REQUIRED CLIENT COMMUNICATION LETTER:**

**CURRENT COMMENTS AND RECOMMENDATIONS**

**Year End Reclassification of Fund Cash Deficits**

Historically, the City has reclassified individual fund cash deficits at year end to Due to Other City Funds from which the cash was borrowed. Since the adoption of GASB 34 in the fiscal year ending June 30, 2003, these due to/from accounts have been classified as current assets/liabilities in the entity wide financial statements.

**Recommendation**

We recommend the City consider a policy which assesses the presentation of the lending and borrowing as either short-term (expected to be repaid within one year) or long-term (expected to be repaid after one year).

**City's Response**

The City will consider adopting a policy which assesses the presentation of the lending and borrowing as either short-term term (expected to be repaid within one year) or long-term (expected to be repaid after one year).

**PRIOR YEAR COMMENTS AND THEIR CURRENT STATUS**

**Cash**

In the prior audit, we noted the City had reconciling items on the bank reconciliation that are not entered in the books for the period in which they occurred. These were entered in the City's records, but were one month behind. In addition, we noted a reconciling item for payroll taken out of the cash balance at the end of the month when it does not actually get paid until the 5<sup>th</sup> of the following month. For accrual purposes, all bank reconciling items should be posted in the month they occur and the payroll should be recorded as a payable at month end rather than a reconciling item in cash. We recommended the City record all bank reconciling items when they occur and record the month-end payroll as a payable.

**Current Status**

The City has implemented new practices for reconciling bank accounts, including the recommendations made in the prior year. In the current year, we noted a few minor bank reconciling items not recorded in the month they occurred. We continue to recommend all reconciling items be recorded in the month they occur. The month-end payroll was recorded as a payable rather than a reconciling item in cash as recommended.

**City's Response**

The City continues to take this recommendation seriously and continues to make strides to record reconciling items in the month they occur.

**Debt**

During the current fiscal year, the City did not meet the rate covenant provision for the Golf Course revenue bonds. The percent of bond coverage was less than the required 140%. The bond covenants require the City to prepare a schedule of altered rates, charges and rentals. We recommended the City review this covenant provision and make necessary adjustments for meeting the provision.

**Current Status**

The City is in compliance with this covenant in the current year.

**Compliance with Ordinance 2925**

Section 5.20.070 of Ordinance 2925 states the rates and charges of Electric City Power (included in the Electric Utility Fund) "shall be designed to enable the Corporation to operate on a self-sufficient and self-sustaining basis and to produce revenues at all times sufficient to pay all operating, maintenance, debt service, repair and replacement costs of the Corporation and to provide reserves necessary or desirable for working capital, capital improvements and replacements and rate stabilization purposes." The City was not in compliance with this section of the Ordinance. We recommended the City review this Ordinance and the operations of Electric City Power to be in compliance with this Ordinance.

**Current Status**

The City is not in compliance with this Ordinance in the current year. We continue to make this recommendation.

**City's Response**

Currently, the City and ECP are in litigation with their supplier. Effective July 1, 2011 ECP adopted a pass through rate. In addition to the pass-through rate, there is an administrative and general charge and a debt recovery component charge (which is not charged to all customers).