

**Electric Fund as Extracted
from the Audited
Comprehensive Annual Financial Report
City of Great Falls, Montana
For the Fiscal Year Ended June 30, 2009**



**Prepared by the
City of Great Falls Fiscal Services Department
Coleen Balzarini, Fiscal Services Director**



This information does not replace the Fiscal Year 2009 Comprehensive Annual Financial Report (CAFR); it is meant to provide extracted information of the City's electric utility fund. For a complete review of the City's financial position for FY 2009, consult the CAFR, available on the City's website or from the City. The following notes are related to the City's electric utility fund activities as reflected in the FY 2009 CAFR. The number preceding the heading indicates the CAFR note section where the comment is located.

1. Summary of Significant Accounting Policies

c. Investment in Joint Venture

During fiscal year 2004, the City entered into a joint venture with Southern Montana Electric Generation and Transmission Cooperative, Inc (Southern). The joint venture was organized by five electric cooperatives and the City of Great Falls to provide electric services to its members and to construct Highwood Generating Station (HGS), which is an electric generating facility, intended to serve the energy needs of its six members. The City has an 8.66 percent equity interest in the joint venture with Southern. A joint venture is an organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or an ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. This joint venture does not meet the criteria for inclusion in the City's financial report as a component unit since the City does not exercise administrative control. The City does report its equity interest in the joint venture using the equity method. An equity interest in a joint venture is manifest in the government having an explicit, measurable right to the net present or future resources of the joint venture. The investment in joint venture in the statement of net assets (page 26) is included in the unrestricted portion of the total net assets. The corporate office of Southern is located at the following address: 3521 Gable Road, Suite 5, Billings, Montana 59102.

See FY 2009 CAFR page #37

e. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a set of self-balancing accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Electric Fund

The Electric Fund accounts for all aspects of the City electric system operations: providing electricity for City operations, other government agencies, and retail customers. The costs of preliminary design and engineering of the HGS facility is included in this fund.

See FY 2009 CAFR page #38

2. Cash, Cash Equivalents and Investments

Restricted Cash and Investments

Security reserves	\$100,000
Cash on deposit with others	<u>334,954</u>
Subtotal Electric	\$434,954

See FY 2009 CAFR page #45

4. Interfund Receivables, Payables, and Transfers

The due to other City funds balances reported in the fund financial statements represent credit cash balances in the individual funds at year-end with an offsetting due from other City funds in the corresponding funds.

Due to/from other City funds at June 30, 2009, consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Electric	1,368,236

The interfund loans represent the current portion due from the advances from other funds which represent the long term portion. The advance from the general fund reported in the electric fund resulted from the establishment of a financial assurance reserve required by the Montana Public Service Commission. The advances to the electric fund reported in the general fund, street fund, lighting districts fund, library fund, natural resources fund, water fund, sewer fund, sanitation fund, golf fund, safety services fund, parking fund, swim pools fund, recreation fund, public works admin fund, and facility services fund resulted from an interfund liability. Advances to all funds are being repaid to the respective funds in annual installments including interest.

Advances to/from other funds at June 30, 2009, consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Electric	\$ 100,000
General		59,696
Street		16,507
Nonmajor governmental funds		
Lighting Districts	\$ 577,514	
Library	19,382	
Natural Resources	155	
Subtotal nonmajor governmental funds		597,051
Water		300,477
Sewer		278,802
Sanitation		3,219
Golf		39,915
Nonmajor enterprise funds		
Safety Services	3,483	
Parking	20,581	
Swim Pools	21,054	
Recreation	10,770	
Subtotal nonmajor enterprise funds		55,888
Internal service funds		
Public Works Admin	17,645	
Facility Services	30,800	
Subtotal internal service funds		48,445
Total		\$ 1,500,000

See FY 2009 CAFR pages #47 and 48

6. Capital Assets

Primary Government

During the year the City recognized a \$1,144,504 impairment loss on the value of the Highwood Generation Station due to the change from a coal fired to a gas-fired generating station. At the same time there was a reclassification of the remaining \$629,393 from construction in progress to investment in joint venture. With this change certain costs incurred in past years will no longer have earnings value in generating revenues in future years.

See FY 2009 CAFR page #51

8. Long -Term Debt

Notes Payable

The City Commission adopted Resolution No. 9534 on December 6, 2005, authorizing the borrowing of \$1,500,000 from First Interstate Bank in the form of a taxable non-voted general obligation note by the electric fund for the purpose of preliminary design, engineering, feasibility and environmental review costs related to the construction of HGS. The term of the note is twenty (20) years with a maximum interest rate of 7.21%.

This rate is adjusted on each fifth year anniversary date of the closing of the note. The interest rate varies equal to the constant rate of the Five Year US Treasury Index as reported in the Wall Street Journal on the adjustment date. It is intended the debt will be repaid from operating funds of the electric utility. A pledge from the General fund provides backup security for the debt obligation.

	<u>Start Date</u>	<u>Interest Rate</u>	<u>Term (Years)</u>	<u>Maturity Date</u>	<u>Loan Issued</u>	<u>Balance June 30, 2009</u>
Electric Improvements	12-15-2005	6.79%	20	01-01-2026	1,500,000	\$ 1,431,490

Annual

debt service is as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 49,247	\$ 96,423	\$ 145,670
2011	52,648	93,022	145,670
2012	56,041	89,629	145,670
2013	60,153	85,517	145,670
2014	64,307	81,363	145,670
2015-2019	394,366	333,985	728,351
2020-2024	550,690	177,662	728,351
2025-2026	204,037	14,075	218,112
Totals	<u>\$ 1,431,490</u>	<u>\$ 971,675</u>	<u>\$ 2,403,165</u>

See FY 2009 CAFR page #55

8. Long-Term Debt – continued

Other Liabilities

Other liabilities in the Electric Fund result from prepaid water charges from Southern in the amount of \$1,186,062. This liability occurs in conjunction with the intentional effort to mitigate unknown expenses incurred in this startup enterprise. The liability has ceased to increase and will begin decreasing when a generating facility comes online and begins to consume process water, purchased from the City necessary to operate the plant.

Projected Year Ending June 30	Business-Type Activities		
	Additions	Deductions	Total
2009	\$ 102,148	\$ -	\$ (1,186,062)
2010	-	-	(1,186,062)
2011	-	-	(1,186,062)
2012	-	187,639	(998,423)
2013	-	187,639	(810,784)
2014-2018	-	810,784	-
Totals	\$ 102,148	\$ 1,186,062	\$ -

The City became a member of Southern in fiscal year 2004. In fiscal year 2005, the City began supplying electricity to customers within the City. The first customer group included City, Housing Authority, School District, Airport Authority, Montana Air National Guard, and FedEx. Southern secured a five megawatt per hour block of power for the City at a cost of \$41.70 per megawatt hour. The 5 megawatt per hour block of power was the average energy demand of the customer base. Through December 31, 2008, payment for this block of power was comprised of a cash component of \$36 per megawatt hour, and credit towards future water purchases necessary for the operation of the HGS in the amount of \$5.70 per megawatt hour. Any surplus or shortage of energy consumed related to this block of power is sold or purchased on the energy imbalance market and is also recorded as a prepaid water credit.

In the beginning, the City’s energy customers and their previous electricity suppliers were able to provide only a very limited amount of information on actual energy demand at the hourly/daily/monthly/seasonal periods. In addition, the City and Southern were aware of the price volatility in the imbalance market that occurs throughout the year. Therefore, an agreement was reached between the City and Southern, in which a portion of the energy supply from the first block of power would be paid for at a future date when the HGS comes online and begins using raw water, supplied by the City, to generate electricity on behalf of all Southern members, including the City, Great Falls Public Schools, and Great Falls International Airport.

See FY 2009 CAFR pages #62 and 63

13. Contracted Services

Electric City Power

Electric City Power (ECP) is licensed through the Public Service Commission to supply electricity. On November 1, 2005, the City created and organized a nonprofit corporation under Ordinance 2925, to own, operate and take all other actions necessary or desirable in connection with the municipal electric utility of the City, including the provision of electricity supply services to consumers and others located within or outside of the City. The City has contracted with Southern Montana Electric Generation and Transmission Cooperative, Inc (Southern) for its energy supply contracts necessary to serve the City's electric utility customers.

On September 21, 2004, the City Commission approved a Wholesale Power Purchase Contract with Southern. The result of the contract was to allow the City to provide enough electricity to supply the City's needs, and the needs of ECP customers which are comprised of Great Falls Public Schools, Veolia Water North America, Great Falls Housing Authority, Montana Refining Company, Pilot Program, Barretts Minerals, Federal Express, Montana Air National Guard, Great Falls Airport Authority, Benefis Healthcare, Meadow Gold Dairies, General Mills, Pacific Steel and Recycling, Davidson Investment Partnership, D A Davidson and Company, McLaughlin Research Institute, Lumber Yard Supply Company, and Southern Foods Group. On October 2, 2007, the City Commission approved a revised Wholesale Power Purchase Contract with Southern. The revisions extended the expiration date to December 30, 2048 and provided language necessary to satisfy various agencies, and financial institutions regarding the relationship of Southern and the City.

On February 3, 2009 two rate riders were added to the October 2007 contract to specify methodology used to determine amounts due to Southern with the implementation of a blended/transition rate as well as reporting of wastewater treatment plant co-generation to Southern in compliance with the contract.

On March 15, 2005 the City Commission approved the water service agreement with Southern outlining the rates charged for water service through June 30, 2010 for raw water, and applicable fees. The agreement also outlines the responsibilities of the parties in regards to the reporting of data, the ownership of the meters and system, and the payment requirements, along with addressing the water rights transfer application necessary to utilize available municipal raw water.

On October 2, 2007 an assignment and assumption agreement between ECP and the City was approved by the City Commission. This agreement transfers and assigns all the City's rights, title and interest in the City's power supply contracts and customer contracts to the nonprofit utility, ECP. The agreement was created under the Interlocal Cooperation Act provided for under Montana Code and would allow ECP to assume all of the existing customer contracts.

On June 17, 2008 the City Commission approved a fire protection and emergency services agreement between the City and Southern related to City services to be provided to the Highwood Generating Station facility.

See FY 2009 CAFR page #68

14. Contingencies

On July 17, 2007 the City Commission approved a security agreement in the amount of \$1,400,000 on behalf of Electric City Power for Southern purchases of energy necessary to supply ECP customers. It is a standard industry practice to require some form of security equal to two months of energy supply costs. Certificates of deposit are held in the name of the City by a third party banking institution. The terms of the security agreement authorize the use of funds in the event payment is not made in accordance with the terms of the energy supply contracts entered into by Southern on behalf of ECP customers. The certificates of deposit are part of the City's pooled cash and investments. Interest earnings on the certificates of deposit accrue to the City. There has never been a draw exercised against these funds. All ECP customers are current in payments to ECP. ECP is current in payments to Southern. Southern is current in payments to the energy supplier.

See FY 2009 CAFR page #68

17. Deficit Fund Balances and Net Assets

The Electric enterprise fund has a net asset deficit of \$2,329,188. This is due, in part, to the account payable for electricity (prepaid water) from Southern in the amount of \$1,186,062. This occurs in conjunction with the intentional effort to mitigate unknown expenses incurred in the startup enterprise. In addition, there has been a \$1,144,504 impairment loss on the value of the Highwood Generating Station due to a change in construction efforts from a coal-fired generating facility to a gas-fired generating facility. The Electric enterprise fund has an unrestricted net asset deficit of \$2,764,142. This is due to the restriction of funds in the amount of \$100,00 required by the Public Service Commission and \$334,954 that is held by Southern in accordance with Southern policy to have one month's average billing on deposit to be used for the payment of expenses to its suppliers in advance of Southern's billings to its members. The account payable for electricity (prepaid water) increased through fiscal year 2009 and will begin decreasing when a generating plant comes online and begins utilizing raw water provided by the City to operate the plant.

Long term energy supply contracts were entered into prior to 2007 in anticipation of an expanding customer base. In 2007, Montana legislative actions placed limitations on ECP's ability to sign new customers resulting in energy supply obligations in excess of customer needs in the short term.

On February 3, 2009 the City Commission approved the wholesale power rate adjustment offer from Southern authorizing a transition rate through December 31, 2010 that will be charged for actual kwh's consumed by ECP customers instead of actual costs adjusted for net imbalance sales and purchases on the open market.

City of Great Falls Ordinance 2925, An Ordinance amending Title 5, Chapter 20, OCCGF, Authorizing and Approving the Creation of Electric City Power, Inc. Pursuant to the Montana Nonprofit Corporation Act in order to Secure and Provide reliable and economic supplies of Electricity for the City of Great Falls, its Residents and Other Consumers, was passed by the Commission November 1, 2005. Section 5.20.070 Rates. states "Such rates and charges 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." Future rate increases for electricity customers are provided in the customer service contracts. Increased rates paid by customers along with rate decreases occurring as a result of new rate structuring offered by Southern will cause the deficit balance to decline and be eliminated over time.

See FY 2009 CAFR pages #71 and 72

City of Great Falls, Montana
Statement of Net Assets
Electric Utility
June 30, 2009

ASSETS

Current assets	
Receivables	
Accounts	\$ 1,426,044
Prepaid Items	1,142,768
Total current assets	<u>2,568,812</u>
Long-term assets	
Restricted cash and investments	434,954
Investment in joint venture	1,144,390
Total long-term assets	<u>1,579,344</u>
Total assets	<u>4,148,156</u>

LIABILITIES

Current liabilities	
Account Payable	991,556
Due to other City funds	1,368,236
Notes payable	49,247
Total current liabilities	<u>2,409,039</u>
Long-term liabilities	
Advances from other funds	1,500,000
Notes Payable	1,382,243
Other Long Term Liabilities	1,186,062
Total long-term liabilities	<u>4,068,305</u>
Total liabilities	<u>6,477,344</u>

NET ASSETS

Restricted for:	
Financial assurance reserve	100,000
Deposits with others	334,954
Unrestricted	<u>(2,764,142)</u>
Total net assets	<u>\$ (2,329,188)</u>

The accompanying notes are an integral part of these financial statements.

See FY 2009 CAFR page 26

City of Great Falls, Montana
Statement of Revenues, Expenses and Changes in Net Assets
Electric Utility Fund
Year Ended June 30, 2009

OPERATING REVENUES

Charges for services	\$ 9,500,725
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OPERATING EXPENSES

Purchased services	9,458,653
Internal services	21,726
Asset impairment	1,144,504

Total operating expenses	10,624,883
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Operating income (loss)	(1,124,158)
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NONOPERATING REVENUES (EXPENSES)

Investment income	(6,066)
Interest expense	(99,342)

Total nonoperating revenues (expenses)	(105,408)
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Change in net assets before transfers	(1,229,566)
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Changes in net assets	(1,229,566)
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Net assets, beginning of year	(1,099,622)
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Net assets, end of year	\$ (2,329,188)
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The accompanying notes are an integral part of these financial statements.

See **FY 2009 CAFR page 28**

City of Great Falls, Montana
Statement of Cash Flows
Electric Utility Fund
Year Ended June 30, 2009

**CASH FLOW FROM
OPERATING ACTIVITIES**

Receipts from customers and users	\$ 9,027,329
Interfund cash flow loans	826,505
Payments to suppliers	(9,346,214)
Payments for interfund services used	<u>(21,726)</u>
Net cash provided (used) by operating activities	<u>485,894</u>

**CASH FLOWS FROM NONCAPITAL
FINANCIAL ACTIVITIES**

Net cash provided (used) by noncapital financing activities	<u>-</u>
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**CASH FLOWS FROM CAPITAL AND
RELATED FINANCIAL ACTIVITIES**

Principal payments - revenue bonds	(46,328)
Interest paid	<u>(99,342)</u>
Net cash provided (used) by capital and related financing activities	<u>(145,670)</u>

**CASH FLOWS FROM
INVESTING ACTIVITIES**

Interest and dividends on investments	<u>(6,066)</u>
Net cash provided (used) by investing activities	<u>(6,066)</u>
Net increase (decrease) in cash	334,158

Cash, beginning of year	<u>100,796</u>
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Cash, end of year (a)	<u><u>\$ 434,954</u></u>
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(a) Shown on the statement of net assets as:	
Cash and cash equivalents	\$ -
Restricted cash and investments	<u>434,954</u>
	<u><u>\$ 434,954</u></u>

The accompanying notes are an integral part of these financial statements.

See FY 2009 CAFR page 30

City of Great Falls, Montana
Statement of Cash Flows
Electric Utility Fund
Year Ended June 30, 2009

	Electric
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (1,124,158)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Asset impairment	1,144,504
Cash provided (used) by changes in	
Accounts receivable	(473,396)
Prepaid expense	159,676
Accounts payable	(47,237)
Due to other city funds	826,505
Other nonoperating revenue	-
Total adjustments	\$ 1,610,052
Net cash provided (used) by operating activities	\$ 485,894

The accompanying notes are an integral part of these financial statements.

See FY 2009 CAFR page 32