

**Electric Fund as Extracted  
from the Audited  
Comprehensive Annual Financial Report  
City of Great Falls, Montana  
For the Fiscal Year Ended June 30, 2008**



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

**This information does not replace the Fiscal Year 2008 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 2008, 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 2008 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 a 10.31 percent equity interest in the joint venture construction project. 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 2008 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 2008 CAFR page #38**

**2. Cash, Cash Equivalents and Investments**

Restricted Cash and Investments

Security reserves \$100,000

**See FY 2008 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 general fund.

Due to/from other City funds at June 30, 2008, consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Electric	541,731

The advance from 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. In prior years, this liability had been recorded as an interfund utility deposit. The reclassification from long term interfund utility deposit to long term advances to/from other funds reflects the purpose and use of the advance. There is no effect from the reclassification since the original and reclassified accounting both reside in the long term liability category.

Advances to/from other funds at June 30, 2008, 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	
Sub total 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	
Sub total nonmajor enterprise funds		55,888
Internal service funds		
Public works admin	17,645	
Facility services	30,800	
Sub total internal service funds		48,445
Total		<u><u>\$ 1,500,000</u></u>

See FY 2008 CAFR pages #47 and 48

**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 a taxable non-voted general fund 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 either be repaid at the time construction financing is acquired, or from operating funds of the electric utility, with a pledge from the General fund as 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, 2008</u>
Electric Improvements	12-15-2005	6.79%	20	01-01-2026	\$ 1,500,000	\$ 1,477,818

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>
2009	\$ 46,065	\$ 99,351	\$ 145,416
2010	49,518	96,152	145,670
2011	52,938	92,733	145,670
2012	56,352	89,319	145,670
2013	60,484	85,186	145,670
2014-2018	370,924	357,427	728,351
2019-2023	518,003	210,348	728,351
2024-2026	323,534	32,616	356,151
Totals	<u>\$ 1,477,818</u>	<u>\$ 1,063,132</u>	<u>\$ 2,540,950</u>

See FY 2008 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 \$1,083,914. In prior years, this was reported as a current liability – account payable. The reclassification is to clarify the purpose of the original agreement. This liability occurs in conjunction with the intentional effort to mitigate unknown expenses incurred in this startup enterprise. It is anticipated that the liability will increase through fiscal year 2009 and will begin decreasing when HGS comes online and will be totally eliminated by fiscal year 2018.

Projected Year Ending June 30	Business-Type Activities		
	Additions	Deductions	Total
2008	\$ -	\$ -	\$ (1,083,914)
2009	205,000	-	(1,288,914)
2010	-	-	(1,288,914)
2011	-	-	(1,288,914)
2012	-	-	(1,288,914)
2013	-	245,323	(1,043,591)
2014-2018	-	1,226,615	183,024
Totals	<u>\$ 205,000</u>	<u>\$ 1,471,938</u>	<u>\$ 183,024</u>

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. Payment for this block of power is 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. The term of this block of power terminated June 30, 2008.

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 2008 CAFR pages #62 and 63**

### **13. Contracted Services**

The City has entered into agreements with the following entities for operation of certain facilities:

#### Electric City Power

Electric City Power (ECP) is licensed through the Public Service Commission to supply electricity. The City has contracted with 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 purpose 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.

**See FY 2008 CAFR page #67**

### **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 customers for Southern purchases of energy. It is a standard industry practice to require some form of security equal to two months of energy supply costs. Certificates of deposit will be 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 2008 CAFR page #68**

### **17. Deficit Fund Balances and Net Assets**

The Electric enterprise fund has a net asset deficit of \$1,099,622 and an unrestricted net asset deficit of \$1,495,701. This is due to the long-term liability for electricity (prepaid water) from Southern in the amount of \$1,083,914 and the direct expensing of financing costs incurred in anticipation of debt to be issued by the City to participate in construction of HGS. Prior to February 2008, ECP sought financing separate from the Rural Utility Service. In February of 2008, a decision was made by all members of Southern to pursue consolidated financing options for HGS within Southern. ECP is no longer seeking separate financing. Therefore, previously deferred financing costs incurred in pursuit of the separate financing are now expensed in the current period, \$356,257. This occurs in conjunction with the intentional effort to mitigate unknown expenses incurred in this startup enterprise. It is anticipated that the long-term liability will increase through fiscal year 2009 and will begin decreasing when the plant comes online and will be totally eliminated by fiscal year 2018.

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

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 proposed rate decreases offered by Southern, pending commission approval, will cause the deficit balance to decline and be eliminated over time.

**See FY 2008 CAFR page #70**

**City of Great Falls, Montana**  
**Statement of Net Assets**  
**Electric Utility**  
**June 30, 2008**  
**(unaudited)**

**ASSETS**

Current assets	
Cash and cash investments	\$ 796
Receivables	
Accounts	952,648
Prepaid Items	
Energy Imbalances	1,145,162
Debt Issuance	<u>157,282</u>
Total current assets	<u>2,255,888</u>
Long-term assets	
Restricted cash and investments	100,000
Investment in joint venture	514,997
Capital assets	
Non-depreciable capital assets	1,773,897
Depreciable capital assets, net	<u>-</u>
Net capital assets	<u>1,773,897</u>
Total long-term assets	<u>2,388,894</u>
Total assets	<u>4,644,782</u>

**LIABILITIES**

Current liabilities	
Account Payable	1,140,941
Due to other City funds	541,731
Notes payable	<u>46,066</u>
Total current liabilities	<u>1,728,738</u>
Long-term liabilities	
Advances from other funds	1,500,000
Notes Payable	1,431,752
Long Term Account Payable - Water Credit	<u>1,083,914</u>
Total long-term liabilities	<u>4,015,666</u>
Total liabilities	<u>5,744,404</u>

**NET ASSETS**

Invested in capital assets, net of related debt	296,079
Restricted for:	
Financial assurance reserve	100,000
Unrestricted	<u>(1,495,700)</u>
Total net assets	<u>\$ (1,099,622)</u>
Total Liabilities and Fund Equity	<u>\$ 4,644,782</u>

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

See FY 2008 CAFR page 26

**City of Great Falls, Montana**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Electric Utility Fund**  
**Year Ended June 30, 2008**  
**(unaudited)**

**OPERATING REVENUES**

Charges for services	<u>\$ 8,867,623</u>
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**OPERATING EXPENSES**

Supplies and materials	179
Purchased services	9,063,724
Internal services	<u>21,515</u>

Total operating expenses	<u>9,085,418</u>
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Operating income (loss)	<u>(217,795)</u>
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**NONOPERATING REVENUES (EXPENSES)**

Investment income	(36,219)
Interest expense	(11,181)
Other - Debt Issuance	<u>(345,076)</u>

Total nonoperating revenues (expenses)	<u>(392,476)</u>
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Changes in net assets	(610,271)
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<b>Net assets, beginning of year</b>	<u>(489,351)</u>
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<b>Net assets, end of year</b>	<u><u>\$ (1,099,622)</u></u>
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The accompanying notes are an integral part of these financial statements.

**See FY 2008 CAFR page 28**

**City of Great Falls, Montana**  
**Statement of Cash Flows**  
**Electric Utility Fund**  
**Year Ended June 30, 2008**  
**(unaudited)**

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 9,035,056
Interfund cash flow loans	515,511
Receipts from other governments	48,009
Payments to suppliers	<u>(9,082,892)</u>
Net cash provided (used) by operating activities	<u>515,684</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES</b>	
Net cash provided (used) by noncapital financing activities	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES</b>	
Principal payments - revenue bonds	(22,181)
Interest paid	(356,257)
Acquisition/construction of capital assets	<u>(101,595)</u>
Net cash provided (used) by capital and related financing activities	<u>(480,033)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends on investments	<u>(36,219)</u>
Net cash provided (used) by investing activities	<u>(36,219)</u>
Net increase (decrease) in cash	(568)
<b>Cash, beginning of year</b>	<u>101,364</u>
<b>Cash, end of year (a)</b>	<u><u>\$ 100,796</u></u>
(a) Shown on the statement of net assets as:	
Cash and cash equivalents	\$ 796
Restricted cash and investments	<u>100,000</u>
	<u><u>\$ 100,796</u></u>

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

See FY 2008 CAFR page 30

**City of Great Falls, Montana**  
**Statement of Cash Flows**  
**Electric Utility Fund**  
**Year Ended June 30, 2008**  
**(unaudited)**

	<u>Electric</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (217,795)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Cash provided (used) by changes in	
Accounts receivable	167,433
Due from other governments	48,009
Prepaid expense	(292,963)
Accounts payable	295,489
Due to other city funds	515,511
Other nonoperating revenue	-
Total adjustments	\$ 733,479
Net cash provided (used) by operating activities	\$ 515,684

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

**See FY 2008 CAFR page 32**