

City of Littleton, Colorado

Audit Wrap Up

July 21, 2015



This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management and should not be used by anyone other than those specified parties.

Attendees: City Council
Randy L. Watkins, Partner
Tyra Litzau, Director


Anton Collins Mitchell LLP

July 21, 2015

To the Honorable Mayor and City Council
City of Littleton
2255 West Berry Avenue
Littleton, Colorado 80120

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On February 24, 2015, we provided an overview of our plan for the audit of the financial statements of the City of Littleton (the "City") as of and for the year ended December 31, 2014, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the City's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the City and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

DISCUSSION OUTLINE

Page

STATUS OF OUR AUDIT..... 3

RESULTS OF OUR AUDIT 4

INTERNAL CONTROL OVER FINANCIAL REPORTING 6

OTHER REQUIRED COMMUNICATIONS..... 8

INDEPENDENCE COMMUNICATION 9

AC'SENSE PROGRAM..... 10

ACM AND BDO RESOURCES 11

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STATUS OF OUR AUDIT

We have completed our audit of the financial statements of the City of Littleton (the "City") for the year ended December 31, 2014. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described in our earlier Audit Planning communication to you.
- We expect to issue an unqualified opinion on the financial statements of the City.
- Our responsibility for other information in documents containing the City's audited financial statements (e.g., budgetary comparison schedules) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the City and considered whether such information, or the manner of its presentation, was materially consistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Anton Collins Mitchell ("ACM") were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of City personnel throughout the course of our work.

RESULTS OF OUR AUDIT

ACCOUNTING PRACTICES, POLICES, ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the City's accounting practices, policies, and estimates:

The City's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- There were no changes in significant accounting policies and practices during 2014.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The City's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2014.

Primary Areas of Focus and Considerations and Findings

Revenue Recognition

The City's major source of revenues consists of property taxes, sales and building use tax, intergovernmental grants and contributions, and charges for services. The City records revenues when earned. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Accounts Receivable and Allowances

Accounts receivable represent amounts due from citizens and business for property and sales taxes, customers for utilities and emergency medical transportation services, and other governmental entities. The City determined approximately \$1,091,000 of receivables for the emergency medical transportation services was uncollectible and recorded an allowance for this amount.

Capital Assets and Depreciation

Capital assets of the City continue to be a significant area of the City's financial statements. Therefore, as part of the audit, we paid particular attention to the costs of newly acquired assets and depreciation expense of these assets.

Capital Lease Obligations

The City currently has three capital lease obligations in its governmental activities, including a premium, totaling approximately \$8.1 million. In addition, the City has an assignment certificate and revenue loan payable, including premium, in its business-type activities, totaling approximately \$33.5 million. Accordingly, we have applied certain procedures over balances, future maturities, and accrued interest associated with the applicable lease, along with compliance with the lease agreement. It appears that

RESULTS OF OUR AUDIT

the City is properly accounting for these obligations.

Evaluation of Going Concern

No going concern issues were noted during our audit.

Evaluation of Estimates

Estimates were determined to be reasonable, and free of bias.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements or adjusting journal entries.

Please refer to the schedule of uncorrected misstatements or proposed adjusting journal entries.

QUALITY OF THE CITY'S FINANCIAL REPORTING

A discussion was held regarding the quality of the City's financial reporting, which included the following:

- Qualitative aspects of significant accounting policies and practices
- Our conclusions regarding significant accounting estimates
- Significant unusual transactions
- Financial statement presentation
- New accounting pronouncements
- Alternative accounting treatments

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to the City Council all material weaknesses and significant deficiencies that have been identified in the City's internal controls over financial reporting. The definitions of material weakness, significant deficiencies and control deficiencies follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we did not identify any deficiencies in the City's internal controls over financial reporting that were considered to be material weaknesses.

OTHER REQUIRED COMMUNICATIONS

Following is a summary of those required items along with specific discussion points as they pertain to the City:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the City's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Disagreements with management	There were no disagreements with management on financial accounting and/or reporting matters and auditing procedures that, if not satisfactorily resolved, would cause a modification of our auditors' reports.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Representations requested from management	Please refer to the management representation letter.

INDEPENDENCE COMMUNICATION

Our engagement letter dated December 11, 2014, describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the City with respect to independence as agreed to by the City. Please refer to that letter for further information.

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Significant Accounting and Reporting Matters

In June 2012, the Governmental Accounting Standards Board ("GASB") issued a new standard that fundamentally changes how state and local governments account for the cost of pension benefits in their financial statements. GASB Standard No. 68, "Accounting and Financial Reporting for Pensions" will be effective for the City for fiscal year ended December 31, 2015. The effect of the new standard is limited to employers offering defined benefit plans. The City has a defined benefit plan relating to the City's volunteer fire department and old hire pension; these plans are administered by the Colorado Fire and Police Pension Association ("FPPA"). The FPPA plan is a cost-sharing, multiple-employer defined benefit plan. The following provides a brief overview of a summary of the employer provisions relating to this standard:

- Net pension liability (asset), pension expense, and pension deferred outflows of resources and deferred inflows of resources will be required to be determined as of the measurement date. The measurement date can be no earlier than the end of the employer's prior fiscal year. The net pension liability (asset) and pension deferred outflows of resources and deferred inflows of resources will be reported on the Statement of Net Position and the pension expense will be reported on the Statement of Activities.
- Employers participating in cost-sharing, multiple-employer plans will report their proportionate share of the collective amounts for the plan as a whole.
- Changes in net pension liability will be recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of change.
- The methods and assumptions that are used to determine the actuarial information for GAAP reporting purposes will change.
- Disclosures in the footnotes and required supplementary information in the financial statements will be expanded.

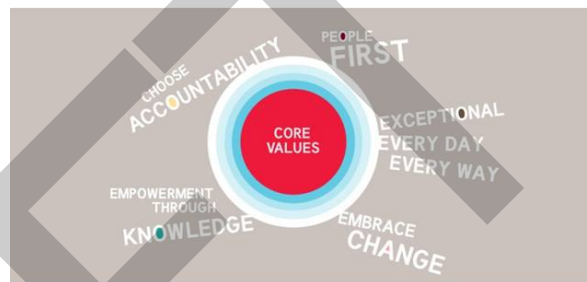
We plan to develop templates and tools to provide to our clients in order to assist with some of the requirements of the new standards. We are available to discuss in greater detail the specifics of the above items and will continue to share information as it becomes available.

Get to Know ACM and BDO

ACM is an independent member of the BDO Alliance USA, which provides us access to some of the best resources available on a national level, including technical resources, software, training, and publications.

BDO USA, LLP is a national professional services firm providing assurance, tax, financial advisory, and consulting services to a wide range of publicly traded and privately held companies. We are guided by our core values: put people first; be exceptional: every day, every way; embrace change; empowerment through knowledge; and choose accountability.

Our culture and core values reflect how we manage our work, our relationships and ourselves.



For more than 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

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BDO commits significant resources to keep our professionals and our clients up to date on current and evolving technical, governance, industry, and reporting developments. Our thought leadership consists of quarterly email updates, publications, surveys, practice aids, and tools that span a broad spectrum of topics that impact financial reporting, as well as corporate governance. Our focus is not simply to announce changes in technical guidance, regulations or emerging business trends, but rather expound on how such changes may impact our clients' businesses. Through our various webinar series, we reach a broad audience and provide brief, engaging, just-in-time training that we make available in a variety of ways to meet the needs of your busy schedule. The following provides a sample of our offerings.

AC'SENSESM WEBINARS

An educational series designed to assist those charged with governance (e.g., Audit Committees) and financial executives in keeping up to date on the latest corporate governance, risk management and financial reporting developments. The program is multi-faceted and consists of complimentary CPE webinars, podcasts and archived self-study courses, covering both broad and specific topics of interest, publications and links to various BDO and external resources. Visit www.bdo.com/acsense.

BDO KNOWLEDGE TAX WEBINAR SERIES

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BOARD REFLECTIONS

The **BDO Board Reflections** resource center includes BDO's proprietary studies, publications, practice aids, and educational programs to keep board members of both public and private companies up to date on emerging issues and trends to assist in fulfilling their corporate oversight responsibilities. The resource center contains customized information for the various committees of the board. For example, refer to our Effective Audit Committees in the Ever Changing Marketplace practical guide and related tools. Visit <http://www.bdo.com/library/boardreflections.aspx>.

SIGNIFICANT ACCOUNTING AND REPORTING MATTERS

A quarterly digest of final and proposed financial accounting standards designed to help audit committees, boards and financial executives keep up to date on the latest corporate governance and financial reporting developments.

CLIENT ADVISORIES

Concise documents that provide timely commentary, analysis and insights on events and trends of interest to management and boards of directors.

TAX NEWSLETTERS AND ALERTS

Updates with respect to federal, state, local, expatriate, and international developments, along with other specific tax planning and strategy considerations including specific practice areas such as compensation and benefits, private client and individual filer services, transfer pricing, Foreign Account Tax Compliance Act, etc.

TECHNICAL RESEARCH TOOLS

BDO uses Accounting Research Manager™ (ARM) as a primary source of insightful interpretations on GAAP, GAAS and Securities and Exchange Commission rules. ARM is updated daily and is considered to be one of the timeliest and most comprehensive online databases of analytical interpretations of accounting, auditing and SEC matters. Access to ARM, and a number of other research tools, provides each professional the technical research capability to respond immediately to client-specific technical issues.

BDO KNOWS FLASH REPORTS

Briefs about select technical and regulatory developments and emerging issues are made immediately available to BDO professionals and to clients.

BDO KNOWS FINANCIAL REPORTING LETTERS

Publications containing more in-depth discussions and practical guidance on technical guidance affecting both public and private entities.

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BDO's industry focus is part of who we are and how we serve our clients, and has been for over a century. We demonstrate our experience through knowledgeable professionals, relevant client work and participation in the industries we serve.

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Littleton, City of

Year End: December 31, 2014

Passed Adjusting Journal Entries

Date: 1/1/2014 To 12/31/2014

PAJE

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
PAJE 1	12/31/2014	Accounts Payable	41-171-3002 SU-41	CC.03			193,695.00		
PAJE 1	12/31/2014	Retainages	41-171-3010 SU-41	CC.03			10,194.00		
PAJE 1	12/31/2014	Repair/Maintenance Projects	41-311-7585 SU-41	CC.03		203,889.00			
To properly accrue for work performed and billed in 2014 that was not paid until 2015.									
PAJE 2	12/31/2014	A/R . Accruals	16-171-1423 G-16	C.03			23,693.00		
PAJE 2	12/31/2014	Other Deferred Revenues	16-171-3850 G-16	C.03		23,693.00			
Adjustment to reduce deferred revenue and related receivable balance for cash that was not received until 2015.									
PAJE 3	12/31/2014	LIFT Loan - Principal	01-171-1430 GF-01				50,000.00		
PAJE 3	12/31/2014	Other Charges	01-600-7700 GF-01			50,000.00			
To remove the long-term receivable balance from the general fund AR, as the amount will not be received within 60 days of year-emd.									
PAJE 4	12/31/2014	Prepaid Expenditures	01-171-1801 GF-01	LS-G			59,380.00		
PAJE 4	12/31/2014	Vouchers Payable	01-171-3001 GF-01	LS-G		59,380.00			
To reverse out prepaid expenses that were not paid until 2015.									
						336,962.00	336,962.00		
Net Income (Loss)			7,092,464.00						