

**CITY OF BRANSON, MISSOURI**

**Required Communication and Management Letter**

**For the Year Ended December 31, 2011**

## City of Branson, Missouri

### Required Communications and Management Letter For the Year Ended December 31, 2011

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July 20, 2012

To the Honorable Mayor and Board of Aldermen  
City of Branson, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Branson, Missouri (the City) for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 16, 2011. 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 are described in Note 1 to the financial statements. For the year ended December 31, 2011 the City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement changed the fund balance classifications for the governmental funds. Other than the implementation of GASB Statement No. 54 there were no new accounting policies adopted and the application of existing policies was not changed during 2011. 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. Significant accounting estimates used by the City's management include estimated historical cost and related accumulated depreciation of infrastructure assets, lease contract receivable, the allowance for uncollectible accounts receivable and the estimated obligation relating to pension and other post employment benefits.

The financial statement disclosures are neutral, consistent and clear.

### *Difficulties Encountered in Performing the Audit*

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

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### *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. The following material misstatements detected as a result of audit procedures were corrected by management:

- Adjustment to correct principal and interest payments on refunded debt \$2,283,997
- Adjustment to correctly allocate portion of advance refunding issue to component unit \$3,324,964

### *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 July 20, 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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, 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 opinions 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 in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the City's internal controls described below under *Financial Reporting* and *Material Adjustments* to be material weaknesses.

As part of our annual audit, we try to identify opportunities for improving the management of financial resources and for improving the internal controls over financial reporting. We are submitting, for your consideration, our observations and recommendations with regard to these matters.

The City's responses to our comments are included with this report. We did not audit the City's responses and, accordingly, we express no opinion on them.

## **CURRENT YEAR COMMENTS**

### **Material Weaknesses in Internal Control over Financial Reporting**

#### Financial Reporting

Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with U.S. generally accepted accounting principles.

Under professional standards, we have to assess the City's controls over preparing the financial statements including assessing the skills and competencies necessary to prevent, detect, and correct a material misstatement. A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. Control deficiencies exist when the City does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements. As part of our audit, management requested us to prepare a draft of the City's financial statements and the related notes. Management reviewed, approved, and accepted responsibility for those statements prior to their issuance. The outsourcing of these services is not unusual for a City the size of Branson. However, we cannot be considered part of the City's internal control over financial reporting. Accordingly, we consider this deficiency in the City's internal controls over financial reporting to be a material weakness.

#### Material Adjustments

In addition, while performing our procedures, we determined that certain adjustments were required that were material to the financial statements. Accordingly, we consider these control deficiencies over financial reporting to be material weaknesses.

- Adjustment to correct principal and interest payments on refunded debt.
- Adjustment to correctly allocate portion of advance refunding issue to component unit.

We recommend that management review the existing policies, procedures, and controls over these areas to ensure that all information is recorded and reported properly. Due to the complexities of accounting for many of the City's transactions, we further recommend that management explore various alternatives to improve the controls over financial reporting including continuing professional education seminars and training courses, the use of governmental accounting standards reference guides and financial statement, completion and disclosure checklists provided by the Government Finance Officers Association, the American Institute of Certified Public Accountants, the Governmental Accounting Standards Board, and various other financial publications.

#### Management's Response

*Management continues to attend education courses on the preparation of the financials and the related notes in hopes of one day having the knowledge necessary to prepare all of the financial statements in-house; Several professional reference guides have been purchased (e.g. Governmental Accounting, Auditing, and Financial Reporting book, Comprehensive Implementation Guide, Original Pronouncements, Codification of Governmental Accounting and Financial Reporting Standards) and management will continue looking for other reference guides as new issues occur. However due to the size of the City of Branson and the complexity of the City of Branson's transactions, it has not been cost effective for the City to train one person to know all of the auditing and accounting rules and procedures in order to completely prepare all of the financials and related notes. While this comment is a material weakness, this is not an uncommon practice for most cities; the addition of the new accountant position and the restructuring of the department is intended to move the City toward this goal. However, as the auditors have stated, we do review, approve, and accept responsibility for these statements before they are issued.*

*In regards to the Material Adjustments, management will review and revise processes to help identify and eliminate any of these adjustments.*

#### Other Comments

##### Budgetary Approval Process

During the current year, the City issued \$35,810,000 City of Branson, Infrastructure Facilities Revenue Bonds, Series 2011A and \$2,115,000 City of Branson, Infrastructure Facilities Revenue Refunding Bonds, Series 2011B to advance refund the City's 2003A Special Limited Obligation Bonds. While the Board of Alderman approved the issuance of these bonds, the City's budget was not formally amended to include the financing sources and uses of the bonds. As a result, actual expenditures exceeded budgeted appropriations in the debt service fund by \$3,107,935. We recommend that the City review its processes and procedures for monitoring and amending the budget for these type of transactions.

##### Management's Response

*Management is currently working on updating the procedures for Refinancing or Issuing of Bonds to include the Budget Amendments in the process. In addition we have started reviewing monthly budget reports to monitor the actual versus budgeted expenditures.*

##### Deficit Fund Equity Balance

The Debt Service Fund had a deficit fund balance of \$898,756 as of December 31, 2011. The fund incurred debt service expenditures that were in excess of available funds due to the advance refunding of the 2003A bonds and shortage of transfers into this fund during the City's change in fiscal year. We recommend that City official's take the necessary action to eliminate this deficit fund equity balance.

##### Management's Response

*Management will present a proposal to the board to revise the transfers to eliminate this deficit.*

### Future Accounting Pronouncements

The City successfully implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011.

The Governmental Accounting Standards Board (GASB) has recently issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB Statement 57 – *OPEB Measurements by Agent Employers and Agent-Multiple Employer Plans*, effective for the fiscal year beginning January 1, 2012.
- GASB Statement 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the fiscal year beginning January 1, 2012.
- GASB Statement 61 – *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, effective for the fiscal year beginning January 1, 2013.
- GASB Statement 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the fiscal year beginning January 1, 2012.
- GASB Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the fiscal year beginning January 1, 2012.
- GASB Statement 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53*, effective for the fiscal year beginning January 1, 2012.
- GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective for the fiscal year beginning January 1, 2013.
- GASB Statement No. 66 - *an amendment of GASB Statements No. 10 and No. 62*, effective for the fiscal year beginning January 1, 2013.

We recommend management review these standards to determine the impact they may have on the City's financial reporting.

### Management's Response

*Management is aware of the above GASB statements and is currently reviewing the impact on the City's financial reporting requirements of each statement. Because GASB is always issuing new statements, Future Accounting Pronouncements will always be a repeat comment.*

**Prior Comments**

In the prior year, we issued certain comments and recommendations in regard to City accounting, internal control and financial reporting issues. The following table summarizes the nature of these comments, the significance of the comments as described in the prior year's reports and our determination of the status of those comments.

Financial Reporting	Material adjustments were required to be made to the financial statements. The Auditor cannot be considered part of the City's internal controls over financial reporting.	Repeated as a current year comment.
Future Accounting Pronouncements	We recommended that management review upcoming standards to determine what impact they may have on the City's financial reporting.	Recommendation repeated. See current year comment for additional standards that apply in the future.
Accounts Payable and Purchasing Card Reconciliation	We recommended that the City evaluate and revise its monthly general ledger reconciliation processes related to accounts payable and purchase card payable amounts.	Recommendation implemented.
Budgetary approval process	We recommended that the City review its process and procedure for monitoring and amending the budget.	Repeated as a current year comment.

**Conclusion**

We hope the above comments are beneficial. We would welcome the opportunity to provide additional information or assistance regarding internal controls or enhancement of operational efficiency or to assist in the implementation of suggestions or recommendations made during our audit.

Our audit procedures required us to obtain an understanding of controls over primary systems affecting the financial statement amounts. The City may be able to benefit from additional, in-depth reviews of internal controls in other areas. We look forward to discussing opportunities to continue to assist the City.

This information is intended solely for the use of the Mayor, Board of Alderman, management of the City, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

July 20, 2012

*Cochran Head V. de Ho; P. C.*



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COMPLIANCE REPORT

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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

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Honorable Mayor and Board of Aldermen City of Branson, 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 Branson, Missouri, as of and for the year ended December 31, 2011, which collectively comprise the City of Branson, Missouri's basic financial statements and have issued our report thereon dated July 20, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Branson, Missouri'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 of Branson, Missouri's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Branson, Missouri'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described under Financial Reporting and Material Adjustments in the accompanying Required Communication and Management Letter, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described under Financial Reporting and Material Adjustments in the accompanying Required Communication and Management Letter to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Branson, Missouri'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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of City, in a separate letter dated July 20, 2012.

The City of Branson's response to the finding identified in our audit is described in the accompanying Required Communications and Management Letter. We did not audit the City's response and, accordingly, we express no opinion on it.

This information is intended solely for the use of the Mayor, Board of Alderman, management of the City, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

July 20, 2012

*Cochran Head V. Ch. Ho, B. C.*