City of Benson
City Council Communication

Regular Meeting **April 22, 2013**

To: Mayor and Council Agenda Item # 2

From: Megan Moreno, Finance Director

Subject:

Presentation of Certified Audit Report for the City of Benson for the fiscal year ended June 30, 2012

Discussion:

Attached are the audited financial statements for the fiscal year ended June 30, 2012.

Mr. Jim Usevitch from Colby and Powell, PLC, Certified Public Accountants, will present them to Council for approval and will be available to answer Council's questions.

Staff Recommendation:

Presentation only

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2012

The management of the City of Benson is pleased to offer to the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- The City's total net assets decreased $.7 million to $33.4 million. Net assets from governmental activities decreased $.6 million to $6.4 million due principally to a decrease in unrestricted cash. Net assets from business-type activities decreased $.2 million to $26.9 million, due principally to depreciation of capital assets.

- The City's revenues from governmental activities decreased $.8 million to $5.6 million principally due to decreased grant and sales tax revenues. Revenues from business-type activities decreased $9 million to $4.1 million, principally due to donation of the golf course to the City in the prior year. The donation was recognized as revenue in the year it was donated.

- Expenditures from governmental activities decreased $.7 million to $5.7 million. Expenses from business-type activities increased $0.1 million to $4.7 million, principally as a result of increased golf course operations.

- The City's unrestricted net assets decreased by $1.2 million to $(.8) million, principally due to a decrease in cash and cash equivalents.

- At June 30, 2012, the unassigned fund balance for the General Fund was $5.7 million, or 115% of the fund's expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the City's basic financial statements. The City of Benson's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The ***statement of net assets*** presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The ***statement of activities*** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in actual cash flow in future fiscal periods (e.g. uncollected taxes earned, accrued but unused vacation time).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities).* Governmental activities include public safety, streets, parks, library and administration. Business-type activities include the natural gas, water and wastewater utilities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be segregated into three categories: governmental funds, proprietary funds, and a fiduciary fund.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, the governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* and the *balances of spendable resources* available at the end of the fiscal year. This information can be useful in evaluating a government's near-term financing requirements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Highway Users (HURF) and Capital Projects Fund, all of which are considered to be major funds. Data from the other non-major governmental funds are combined into a single listing.

The City adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with the budget. The budgetary information can be found on pages 42-45 of this report.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary (enterprise) funds provide the same type of information as the government-wide financial statements, only in more detail. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City maintains six proprietary funds: Natural Gas, Water, Liquid Waste, Solid Waste, Golf Course and Airport. The basic proprietary fund financial statements can be found on pages 18-21 of this report.

Notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 24-39 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary statements for the General, Highway Users (HURF) and Capital Projects Funds, and the progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 41-46 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by $33.4 million at June 30, 2012. The largest portion of the City's assets (86%) reflects its investment in capital assets (e.g. land, buildings, utility infrastructure, streets, vehicles and equipment). The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

The following table presents a summary of the City's net assets at the two most recent fiscal year ends - June 30, 2012 and June 30, 2011.

Net Assets at June 30, 2012 and 2011

	Fiscal Year 2012			Fiscal Year 2011		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Cash and receivables	$ 5,227,101	$ (433,330)	$ 4,793,771	$ 6,573,377	$ (401,626)	$ 6,171,751
Other assets	307,124	115,928	423,052	307,159	115,928	423,087
Capital assets	6,701,340	27,637,037	34,338,377	6,266,235	27,792,643	34,058,878
Total assets	$ 12,235,565	$ 27,319,635	$ 39,555,200	$ 13,146,771	$ 27,506,945	$ 40,653,716
Current liabilities	$ 818,684	$ 369,623	$ 1,188,307	$ 874,410	$ 367,473	$ 1,241,883
Non-current liabilities	4,968,908	20,549	4,989,457	5,251,127	19,631	5,270,758
Total liabilities	$ 5,787,592	$ 390,172	$ 6,177,764	$ 6,125,537	$ 387,104	$ 6,512,641
Net assets:						
Invested in capital assets net of debt	$ 6,487,562	$ 27,637,037	$ 34,124,599	$ 5,987,741	$ 27,792,643	$ 33,780,384
Restricted	61,459		$ 61,459			-
Unrestricted	(101,048)	(707,574)	(808,622)	1,033,493	(672,802)	360,691
Total net assets	$ 6,447,973	$ 26,929,463	$ 33,377,436	$ 7,021,234	$ 27,119,841	$ 34,141,075

The City's overall financial position decreased during the year as reflected in the decrease in net assets to a total of $33.4 million. The unrestricted net assets of the combined governmental and business-type activities decreased by $1.2 million during the year to a deficit balance of $(808,922). This decrease is principally due to a decrease in cash reserves. In prior years, the focus of the City has been to operate at a conservative level and build its unrestricted cash reserves. City has operated at a near break-even level during these prior years, despite the effects of a severe recession. This is the first year the City has had to use these cash reserves.

The majority of the City's net assets are unrestricted. Restrictions are legal obligations on how the assets may be expended. The City has $61,459 of Anti-Racketeering Influenced and Corrupt Organization (RICO) funds held by Cochise County that are restricted for public safety use. RICO monies are seized currency and proceeds from the sale of seized assets forfeited in the prosecution of racketeering crimes. RICO monies are restricted for use by Arizona Revised Statutes.

Changes in net assets. The City's total revenues for the fiscal year ended June 30, 2012, were $9.7 million. The total cost of all programs and services was $10.4 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2012, and June 30, 2011.

Governmental and Business-type Activities
For the fiscal year ending June 30, 2012 and 2011

	Fiscal Year 2012		Fiscal Year 2011	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Revenue				
Program Revenue				
Charges for services & misc.	$ 250,291	$ 3,583,974	$ 345,175	$ 3,590,975
Grants and contributions	999,623	489,611	1,437,325	9,535,243
Total Program Revenue	1,249,914	4,073,585	1,782,500	13,126,218
General Revenue				
Taxes	3,262,259	-	3,488,790	-
Intergovernmental	1,056,255	-	1,037,310	-
Interest	11,441	-	23,754	-
Other	22,587	-	25,371	-
Total general revenue	4,352,542	-	4,575,225	-
Total revenue	5,602,456	4,073,585	6,357,725	13,126,218
Expenses				
General government	1,429,695	-	1,993,117	-
Culture,recreation & welfare	1,121,172	-	1,055,209	-
Public safety	2,198,146	-	2,307,254	-
Highways and streets	597,181	-	706,141	-
Public Works	132,671	-	143,680	-
Interest on long-term debt	204,098	-	214,420	-
Gas, water, sewer and garbage	-	3,295,637	-	3,553,751
Golf Course	-	1,171,304	-	789,925
Airport	-	289,776	-	285,864
Total expenses	5,682,963	4,756,717	6,419,821	4,629,540
Change in net assets	(80,507)	(683,132)	(62,096)	8,496,678
Beginning net assets	7,021,234	27,119,841	9,633,593	12,882,822
Transfers	(492,754)	492,754	(2,550,263)	5,740,341
Ending net assets	$ 6,447,973	$ 26,929,463	$ 7,021,234	$ 27,119,841

Government activities. The City's governmental functions include general government, culture and recreation, welfare, highways and streets, public safety, and public works. Each function's net cost, (total cost less revenues generated by the activities) is presented below. This table reflects the extent to which the City's general taxes support each of the Governmental functions.

Governmental Activities June 30, 2012 and 2011

	Fiscal Year 2012		Fiscal Year 2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	$ 1,429,695	$ 1,175,294	$ 1,993,117	$ 1,628,036
Culture and recreation	874,491	832,820	873,769	843,123
Welfare	246,681	90,360	171,440	(304,443)
Highways and Streets	597,181	180,459	706,141	243,303
Public Safety	2,198,146	1,829,754	2,317,254	1,901,700
Public Works	132,671	120,264	143,680	111,182
Interest on long-term debt	204,098	204,098	214,420	214,420
Total	$ 5,682,963	$ 4,433,049	$ 6,419,821	$ 4,637,321

Business-type activities. The cost of providing all business-type activities for fiscal 2011-2012 was $4.8 million, up from $4.6 million last year. The increase is principally due to having a full year of golf course operations in this fiscal year and a partial year of operations in the prior fiscal year.

The City's business-type activities include gas, water, wastewater, sanitation, golf course and airport. The activities' net cost (total cost less revenues generated by the activities) is presented below. The net cost reflects the extent to which general business-type revenues support each of the business type programs.

Business-type Activities for the fiscal years ended June 30, 2012 and 2011

	Fiscal Year 2012		Fiscal Year 2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Gas	$ 934,174	$ 34,919	$ 1,123,342	$ 171,970
Water	755,301	29,746	756,495	(2,130)
Liquid waste	949,435	230,756	1,010,137	140,434
Solid waste	656,727	25,075	663,777	(8,527)
Airport	289,776	91,426	285,864	(109,533)
Golf Course	1,171,304	271,210	789,925	(8,688,892)
Total	$ 4,756,717	$ 683,132	$ 4,629,540	$ (8,496,678)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012 the City had invested $34.3 million in capital assets (net of accumulated depreciation) as reflected in the following table. Of the total, $1.8 million represents current year additions.

The following table the changes in capital assets for the fiscal years ended June 30, 2012, and June 30, 2011.

Change in Capital Assets for the fiscal years ended June 30, 2012 and 2011

	Fiscal Year 2012				Fiscal Year 2011			
	Governmental Activities	Business Type Activities	Component Unit	Total	Governmental Activities	Business Type Activities	Component Unit	Total
Beginning Balance	$ 6,266,235	$ 27,792,643		$ 34,058,878	$ 6,146,759	$ 13,705,003	$ 5,440,277	$ 25,292,039
Additions	1,053,148	705,198		1,758,346	716,876	16,275,475		16,992,351
Deductions				-	(31,436)	(1,355,177)	(5,440,277)	(6,826,890)
Depreciation	(618,043)	(860,804)		(1,478,847)	(565,964)	(832,658)		(1,398,622)
Ending Balance	$ 6,701,340	$ 27,637,037	$ -	$ 34,338,377	$ 6,266,235	$ 27,792,643	$ -	$ 34,058,878

Additional information of the City of Benson's capital assets can be found in the notes to the financial statements.

Debt Administration

As of June 30, 2012, the City had $5.8 million in total debt outstanding, compared to $3.5 million as of June 30, 2011.

Outstanding Debt at June 30, 2012 and 2011

	2012	2011
Governmental:		
Compensated absences	$ 181,018	$ 216,040
Capital lease	194,042	253,534
Bond Payable	5,035,000	5,240,000
Bond discount	(40,859)	(43,262)
Notes payable	19,735	24,961
Total governmental	5,388,936	5,691,273
Business-type:		
Compensated absences	102,750	98,157
Bond payable	-	-
Notes payable	-	-
Total business-type	102,750	98,157
Total	$ 5,491,686	$ 5,789,430

Additional information on the City of Benson's long-term debt can be found in the notes to the financial statements.

Economic Factors

The City of Benson, along with most cities in Arizona and across the nation, experienced its fourth consecutive year of negative growth in revenues as a result of the recession. City Council and Staff have continued to operate conservatively by eliminating all but essential capital spending and tightening the controls over all spending categories. Although the City had to dip into its cash reserves for the first time during the recession, the City has still managed to avoid taking draconian measures such as layoffs and furloughs in order to keep its budget balanced.

The City relies heavily on state shared revenues and local sales tax revenues to support General Fund activities. During the fiscal year 2011-2012, 82% of the general fund revenues were derived from state shared revenues and local sales tax. Given the current and projected economic trends and general economic uncertainties, the City anticipates a further contraction of revenues during the 2012-2013 fiscal year. The fiscal 2012-2013 budget anticipates a further 5% reduction in state shared revenues and local sales tax collections.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about the report or need additional financial information, please contact the City's Finance Director at 120 W. Sixth St., Benson, AZ 85602.