

CITY OF BENSON, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2013

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1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Benson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Benson, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Benson, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 11 and 42 to 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

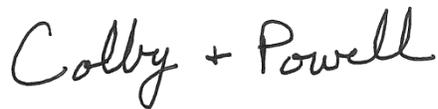
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Benson, Arizona's basic financial statements. The schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal

awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014, on our consideration of the City of Benson, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Benson, Arizona's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Colby + Powell".

February 13, 2014

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

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, 2013.

FINANCIAL HIGHLIGHTS

- The City's total net position decreased \$1.1 million to \$32.3 million. Net position from governmental activities decreased \$0.6 million to \$5.8 million due principally to a decrease in unrestricted cash. Net position from business-type activities decreased \$0.4 million to \$26.5 million, due principally to depreciation of capital assets.
- The City's revenues from governmental activities increased \$0.1 million to \$5.7 million principally due to increased intergovernmental and sales tax revenues. Revenues from business-type activities increased \$0.1 million to \$4.2 million, principally due to an increase in capital grants.
- Expenses from governmental activities increased \$0.5 million to \$6.2 million. Expenses from business-type activities increased \$0.1 million to \$4.8 million.
- The City's unrestricted net position decreased by \$0.8 million to \$(1.6) million, principally due to a decrease in cash and cash equivalents.
- At June 30, 2013, the unassigned fund balance for the General Fund was \$4.7 million, or 90% 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 required 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 position* presents information on all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

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.

Fiduciary funds are used to account for resources the City holds for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund financial statements can be found on pages 22 and 23 of this report.

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

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 42-45 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$32.3 million at June 30, 2013. The largest portion of the City's assets (90%) 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 position at the two most recent fiscal year ends - June 30, 2013 and June 30, 2012.

Net Position at June 30, 2013 and 2012

	Fiscal Year 2013			Fiscal Year 2012		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Cash and receivables	\$ 4,065,280	\$ (448,117)	\$ 3,617,163	\$ 5,227,101	\$ (433,330)	\$ 4,793,771
Other assets	305,810	140,435	446,245	307,124	115,928	423,052
Capital assets	7,012,030	27,333,706	34,345,736	6,701,340	27,637,037	34,338,377
Total assets	\$ 11,383,120	\$ 27,026,024	\$ 38,409,144	\$ 12,235,565	\$ 27,319,635	\$ 39,555,200
Current liabilities	\$ 809,781	\$ 516,583	\$ 1,326,364	\$ 818,684	\$ 369,623	\$ 1,188,307
Non-current liabilities	4,768,426	22,566	4,790,992	4,968,908	20,549	4,989,457
Total liabilities	\$ 5,578,207	\$ 539,149	\$ 6,117,356	\$ 5,787,592	\$ 390,172	\$ 6,177,764
Net position:						
Invested in capital assets						
net of debt	\$ 6,487,562	\$ 27,333,706	\$ 33,821,268	\$ 6,487,562	\$ 27,637,037	\$ 34,124,599
Restricted	63,536	-	63,536	61,459	-	61,459
Unrestricted	(746,185)	(846,831)	(1,593,016)	(101,048)	(707,574)	(808,622)
Total net position	\$ 5,804,913	\$ 26,486,875	\$ 32,291,788	\$ 6,447,973	\$ 26,929,463	\$ 33,377,436

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

The City's overall financial position decreased during the year as reflected in the decrease in net position to a total of \$32.3 million. The unrestricted net position of the combined governmental and business-type activities decreased by \$0.8 million during the year to a deficit balance of \$(1,593,017). This decrease is principally due to a decrease in cash reserves. In prior years, the focus of the City was to operate at a conservative level and build its unrestricted cash reserves. The City has relied on these cash reserves the past few years to sustain operations.

The majority of the City's net position is unrestricted and invested in capital assets. Restrictions are legal obligations on how the assets may be expended. The City has \$63,536 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 position. The City's total revenues for the fiscal year ended June 30, 2013, were \$9.9 million. The total cost of all programs and services was \$11.0 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2013, and June 30, 2012.

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

Governmental and Business-type Activities
For the fiscal year ending June 30, 2013 and 2012

	Fiscal Year 2013		Fiscal Year 2012	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Revenue				
Program Revenue				
Charges for services & misc.	\$ 178,105	\$ 3,632,332	\$ 250,291	\$ 3,583,974
Grants and contributions	955,249	561,843	999,623	489,611
Total Program Revenue	1,133,354	4,194,175	1,249,914	4,073,585
General Revenue				
Taxes	3,372,779	-	3,262,259	-
Intergovernmental	1,161,765	-	1,056,255	-
Interest	8,420	-	11,441	-
Other	24,587	-	22,587	-
Total general revenue	4,567,551	-	4,352,542	-
Total revenue	5,700,905	4,194,175	5,602,456	4,073,585
Expenses				
General government	1,761,807	-	1,429,695	-
Culture, recreation & welfare	1,181,535	-	1,121,172	-
Public safety	2,368,001	-	2,198,146	-
Highways and streets	566,092	-	597,181	-
Public Works	102,894	-	132,671	-
Interest on long-term debt	199,662	-	204,098	-
Gas, water, sewer and garbage	-	3,247,699	-	3,295,637
Golf Course	-	1,237,055	-	1,171,304
Airport	-	315,983	-	289,776
Total expenses	6,179,991	4,800,737	5,682,963	4,756,717
Change in net position	(479,086)	(606,562)	(80,507)	(683,132)
Beginning net position	6,447,973	26,929,463	7,021,234	27,119,841
Transfers	(163,974)	163,974	(492,754)	492,754
Ending net position	\$ 5,804,913	\$ 26,486,875	\$ 6,447,973	\$ 26,929,463

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.

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

Governmental Activities June 30, 2013 and 2012

	Fiscal Year 2013		Fiscal Year 2012	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$ 1,761,807	\$ 1,621,301	\$ 1,429,695	\$ 1,175,294
Culture and recreation	940,405	887,340	874,491	832,820
Welfare	241,130	68,746	246,681	90,360
Highways and Streets	566,092	35,555	597,181	180,459
Public Safety	2,368,001	2,134,204	2,198,146	1,829,754
Public Works	102,894	99,829	132,671	120,264
Interest on long-term debt	199,662	199,662	204,098	204,098
Total	\$ 6,179,991	\$ 5,046,637	\$ 5,682,963	\$ 4,433,049

Business-type activities. The cost of providing all business-type activities for fiscal 2012-2013 was \$4.8 million, up slightly from \$4.76 million last year. Minor decreases in utility costs were offset by increased costs for the golf course and airport.

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, 2013 and 2012

	Fiscal Year 2013		Fiscal Year 2012	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Gas	\$ 937,118	\$ 69,305	\$ 934,174	\$ 34,919
Water	777,152	54,605	755,301	29,746
Liquid waste	946,421	286,233	949,435	230,756
Solid waste	587,008	(20,094)	656,727	25,075
Airport	315,983	46,795	289,776	91,426
Golf Course	1,237,055	169,718	1,171,304	271,210
Total	\$ 4,800,737	\$ 606,562	\$ 4,756,717	\$ 683,132

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2013 the City had \$34.4 million in capital assets (net of accumulated depreciation) as reflected in the following table. Of the total, \$1.6 million represents current year additions.

The following table presents the changes in capital assets for the fiscal years ended June 30, 2013, and June 30, 2012.

Change in Capital Assets for the fiscal years ended June 30, 2013 and 2012

	Fiscal Year 2013			Fiscal Year 2012		
	Governmental	Business Type	Total	Governmental	Business Type	Total
	Activities	Activities		Activities	Activities	
Beginning Balance	\$ 6,701,340	\$ 27,637,037	\$ 34,338,377	\$ 6,266,235	\$ 27,792,643	\$ 34,058,878
Additions	973,672	593,005	1,566,677	1,053,148	705,198	1,758,346
Deductions	-	-	-	-	-	-
Depreciation	(662,982)	(896,336)	(1,559,318)	(618,043)	(860,804)	(1,478,847)
Ending Balance	<u>\$ 7,012,030</u>	<u>\$ 27,333,706</u>	<u>\$ 34,345,736</u>	<u>\$ 6,701,340</u>	<u>\$ 27,637,037</u>	<u>\$ 34,338,377</u>

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

City of Benson, Arizona
Management's Discussion and Analysis
June 30, 2013

Debt Administration

As of June 30, 2013, the City had \$5.3 million in total debt outstanding, compared to \$5.5 million as of June 30, 2012.

Outstanding Debt at June 30, 2013 and 2012

	2013	2012
Governmental:		
Compensated absences	\$ 169,845	\$ 181,018
Capital lease	132,029	194,043
Bond Payable	4,825,000	5,035,000
Bond discount	(38,456)	(40,859)
Notes payable	109,132	19,735
Total governmental	<u>5,197,550</u>	<u>5,388,937</u>
Business-type:		
Compensated absences	92,571	98,157
Total business-type	<u>92,571</u>	<u>98,157</u>
Total	<u>\$ 5,290,121</u>	<u>\$ 5,487,094</u>

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 experienced its first year of positive revenue growth in many years; however, 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 again this fiscal year, 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 2012-2013, 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 slight revenue growth during the 2013-2014 fiscal year. The fiscal 2013-2014 budget anticipates approximately 1% increases 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 a 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.

CITY OF BENSON, ARIZONA
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,884,827	\$ -	\$ 2,884,827
Cash and cash equivalents, restricted	63,536	48,133	111,669
Accounts receivable - net	-	154,804	154,804
Taxes receivable	281,728	-	281,728
Prepaid expenses	147,300	133,772	281,072
Deferred charges	158,510	-	158,510
Due from other governments	184,135	-	184,135
Due from (to) other funds	651,054	(651,054)	-
Inventory	-	6,663	6,663
Capital assets, not being depreciated	705,308	7,744,582	8,449,890
Capital assets, being depreciated, net	<u>6,306,722</u>	<u>19,589,124</u>	<u>25,895,846</u>
Total assets	<u>11,383,120</u>	<u>27,026,024</u>	<u>38,409,144</u>
LIABILITIES			
Accounts payable	160,666	394,373	555,039
Deferred revenue	-	3,972	3,972
Accrued expenses	126,197	-	126,197
Refundable deposits	-	48,133	48,133
Interest payable	93,794	-	93,794
Noncurrent liabilities			
Due within 1 year	429,124	70,105	499,229
Due in more than 1 year	<u>4,768,426</u>	<u>22,566</u>	<u>4,790,992</u>
Total liabilities	<u>5,578,207</u>	<u>539,149</u>	<u>6,117,356</u>
NET POSITION			
Invested in capital assets, net of related debt	6,487,562	27,333,706	33,821,268
Restricted for:			
Public safety	63,536	-	63,536
Unrestricted (deficit)	<u>(746,185)</u>	<u>(846,831)</u>	<u>(1,593,016)</u>
Total net position	<u>\$ 5,804,913</u>	<u>\$ 26,486,875</u>	<u>\$ 32,291,788</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Activities
Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 1,761,807	\$ 116,455	\$ 9,941	\$ 14,110	\$(1,621,301)	\$ -	\$(1,621,301)
Public safety	2,368,001	18,233	125,785	89,779	(2,134,204)	-	(2,134,204)
Highways and streets	566,092	-	324,751	205,786	(35,555)	-	(35,555)
Public works	102,894	1,949	1,116	-	(99,829)	-	(99,829)
Culture and recreation	940,405	33,712	19,353	-	(887,340)	-	(887,340)
Welfare	241,130	7,756	164,628	-	(68,746)	-	(68,746)
Interest on long-term debt	199,662	-	-	-	(199,662)	-	(199,662)
Total governmental activities	6,179,991	178,105	645,574	309,675	(5,046,637)	-	(5,046,637)
Business-type activities							
Gas	937,118	867,813	-	-	-	(69,305)	(69,305)
Water	777,152	722,547	-	-	-	(54,605)	(54,605)
Liquid waste	946,421	660,188	-	-	-	(286,233)	(286,233)
Solid waste	587,008	607,102	-	-	-	20,094	20,094
Golf course	1,237,055	767,337	300,000	-	-	(169,718)	(169,718)
Municipal Airport	315,983	7,345	-	261,843	-	(46,795)	(46,795)
Total business-type activities	4,800,737	3,632,332	300,000	261,843	-	(606,562)	(606,562)
Total primary government	\$10,980,728	\$ 3,810,437	\$ 945,574	\$ 571,518	(5,046,637)	(606,562)	(5,653,199)
General revenue:							
Taxes:							
Sales Tax					2,616,036		2,616,036
Construction sales tax					271,110	-	271,110
Property tax					229,373	-	229,373
Franchise tax					177,621	-	177,621
Bed tax					78,639	-	78,639
State sales tax revenue sharing					417,854	-	417,854
Auto lieu tax revenue sharing					222,446	-	222,446
State revenue sharing					521,465	-	521,465
Interest income					8,420	-	8,420
Miscellaneous					24,587	-	24,587
Transfers					(163,974)	163,974	-
Total general revenue and transfers					4,403,577	163,974	4,567,551
Change in net position					(643,060)	(442,588)	(1,085,648)
Net position, July 1, 2012					6,447,973	26,929,463	33,377,436
Net position, June 30, 2013					<u>\$ 5,804,913</u>	<u>\$26,486,875</u>	<u>\$32,291,788</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Balance Sheet
Governmental Funds
Year Ended June 30, 2013

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,884,827	\$ -	\$ -	\$ -	\$ 2,884,827
Cash and cash equivalents-restricted	63,536	-	-	-	63,536
Taxes receivable	281,728	-	-	-	281,728
Due from other governments	86,503	29,822	-	67,810	184,135
Prepaid expenses	80,412	66,888	-	-	147,300
Due from other funds	1,637,574	-	-	-	1,637,574
Total assets	<u>\$ 5,034,580</u>	<u>\$ 96,710</u>	<u>\$ -</u>	<u>\$ 67,810</u>	<u>\$ 5,199,100</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 85,722	\$ 37,646	\$ 54	\$ 37,244	\$ 160,666
Accrued expenses	126,197	-	-	-	126,197
Deferred revenue	34,561	-	-	-	34,561
Due to other funds	-	600,667	172,294	213,559	986,520
Total liabilities	<u>246,480</u>	<u>638,313</u>	<u>172,348</u>	<u>250,803</u>	<u>1,307,944</u>
Fund balances					
Nonspendable	80,412	66,888	-	-	147,300
Restricted for:					
Public safety	63,536	-	-	-	63,536
Unassigned	4,644,152	(608,491)	(172,348)	(182,993)	3,680,320
Total fund balances	<u>4,788,100</u>	<u>(541,603)</u>	<u>(172,348)</u>	<u>(182,993)</u>	<u>3,891,156</u>
Total liabilities and fund balances	<u>\$ 5,034,580</u>	<u>\$ 96,710</u>	<u>\$ -</u>	<u>\$ 67,810</u>	<u>\$ 5,199,100</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2013

Fund balances--total governmental funds	\$ 3,891,156
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	7,012,030
Governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities	158,510
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	34,561
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds	<u>(5,291,344)</u>
Net position of governmental activities	<u><u>\$ 5,804,913</u></u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Fund
Revenue					
Taxes	\$ 3,111,701	\$ -	\$ 271,110	\$ -	\$ 3,382,811
Intergovernmental	1,295,664	324,751	-	469,319	2,089,734
Licenses and permits	76,099	-	-	-	76,099
Impact fees	-	-	14,110	-	14,110
Charges for services	53,465	-	-	7,756	61,221
Other revenue	66,214	-	-	-	66,214
Fines and forfeitures	12,330	-	-	-	12,330
Interest	8,420	-	-	-	8,420
Total revenue	<u>4,623,893</u>	<u>324,751</u>	<u>285,220</u>	<u>477,075</u>	<u>5,710,939</u>
Expenditures					
Current					
Public safety	2,131,091	-	-	14,643	2,145,734
General government	1,437,334	-	245,962	2,921	1,686,217
Culture and recreation	817,281	-	-	-	817,281
Highways and streets	-	374,797	-	-	374,797
Public works	93,186	-	-	-	93,186
Welfare	-	-	-	198,994	198,994
Debt service					
Principal	282,617	-	-	-	282,617
Interest	201,762	-	-	-	201,762
Capital outlay	280,329	207,975	96,903	388,465	973,672
Total expenditures	<u>5,243,600</u>	<u>582,772</u>	<u>342,865</u>	<u>605,023</u>	<u>6,774,260</u>
Excess (deficiency) of revenue over expenditures	<u>(619,707)</u>	<u>(258,021)</u>	<u>(57,645)</u>	<u>(127,948)</u>	<u>(1,063,321)</u>
Other financing sources (uses)					
Loan proceeds	100,000	-	-	-	100,000
Transfers in (out)	(434,639)	207,975	62,690	-	(163,974)
Total other financing sources (uses)	<u>(334,639)</u>	<u>207,975</u>	<u>62,690</u>	<u>-</u>	<u>(63,974)</u>
Net change in fund balance	(954,346)	(50,046)	5,045	(127,948)	(1,127,295)
Fund balance, July 1, 2012	<u>5,742,446</u>	<u>(491,557)</u>	<u>(177,393)</u>	<u>(55,045)</u>	<u>5,018,451</u>
Fund balance, June 30, 2013	<u>\$ 4,788,100</u>	<u>\$ (541,603)</u>	<u>\$ (172,348)</u>	<u>\$ (182,993)</u>	<u>\$ 3,891,156</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2013

Net change in fund balances--total governmental funds \$(1,127,295)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of
those assets is allocated over their estimated useful
lives and reported as depreciation expense.

Capital outlay	973,672	
Depreciation expense	(662,982)	
		310,690

Revenues in the Statement of Activities that do not provide
current financial resources are not reported as revenues
in the funds. (10,034)

Debt proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term
liabilities in the Statement of Net Assets.

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces
long-term liabilities in the Statement of Net Assets.

Debt issued or incurred	(100,000)	
Principal repaid	282,617	
		182,617

Some expenses reported in the Statement of Activities
do not require the use of current financial resources
and therefore, are not reported as expenditures in
governmental funds. 962

Change in net position of governmental activities **\$ (643,060)**

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
ASSETS							
Current assets							
Cash and cash equivalents, restricted	\$ 36,923	\$ 11,210	\$ -	\$ -	\$ -	\$ -	48,133
Accounts receivable - net	15,223	52,916	32,998	26,336	27,331	-	154,804
Due from other funds	1,520,279	-	-	154,911	-	-	1,675,190
Prepaid expenses	-	80,265	53,507	-	-	-	133,772
Inventory	-	-	-	-	6,663	-	6,663
Total current assets	<u>1,572,425</u>	<u>144,391</u>	<u>86,505</u>	<u>181,247</u>	<u>33,994</u>	<u>-</u>	<u>2,018,562</u>
Noncurrent assets							
Capital assets, net of accumulated depreciation, where applicable:							
Land	-	55,771	354,792	82,500	7,091,915	159,604	7,744,582
Utilities systems, net	510,909	2,528,746	761,960	-	431,201	8,613,624	12,846,440
Buildings, net	-	-	5,649,818	-	839,153	-	6,488,971
Equipment, net	3,139	22,708	73,223	-	153,774	869	253,713
Capital assets, net	<u>514,048</u>	<u>2,607,225</u>	<u>6,839,793</u>	<u>82,500</u>	<u>8,516,043</u>	<u>8,774,097</u>	<u>27,333,706</u>
Total noncurrent assets	<u>514,048</u>	<u>2,607,225</u>	<u>6,839,793</u>	<u>82,500</u>	<u>8,516,043</u>	<u>8,774,097</u>	<u>27,333,706</u>
Total assets	<u>2,086,473</u>	<u>2,751,616</u>	<u>6,926,298</u>	<u>263,747</u>	<u>8,550,037</u>	<u>8,774,097</u>	<u>29,352,268</u>
LIABILITIES							
Current liabilities							
Accounts payable	47,036	67,373	37,168	42,524	199,271	1,001	394,373
Deferred revenue	-	-	-	-	3,972	-	3,972
Refundable deposits	36,923	11,210	-	-	-	-	48,133
Due to other funds	-	570,262	889,853	-	84,491	781,638	2,326,244
Compensated absences, current	13,322	17,501	27,172	-	12,110	-	70,105
Total current liabilities	<u>97,281</u>	<u>666,346</u>	<u>954,193</u>	<u>42,524</u>	<u>299,844</u>	<u>782,639</u>	<u>2,842,827</u>
Noncurrent liabilities							
Compensated absences	5,258	6,529	8,550	-	2,229	-	22,566
Total liabilities	<u>102,539</u>	<u>672,875</u>	<u>962,743</u>	<u>42,524</u>	<u>302,073</u>	<u>782,639</u>	<u>2,865,393</u>
Net position							
Invested in capital assets, net of related debt	514,048	2,607,225	6,839,793	82,500	8,516,043	8,774,097	27,333,706
Unrestricted (deficit)	<u>1,469,886</u>	<u>(528,484)</u>	<u>(876,238)</u>	<u>138,723</u>	<u>(268,079)</u>	<u>(782,639)</u>	<u>(846,831)</u>
Total net position	<u>\$ 1,983,934</u>	<u>\$ 2,078,741</u>	<u>\$ 5,963,555</u>	<u>\$ 221,223</u>	<u>\$ 8,247,964</u>	<u>\$ 7,991,458</u>	<u>26,486,875</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
Operating revenue							
Charges for services, net of bad debt	\$ 867,813	\$ 722,547	\$ 660,188	\$ 607,102	\$ 427,852	\$ 7,345	\$ 3,292,847
Sales	-	-	-	-	339,485	-	339,485
Total operating revenue	<u>867,813</u>	<u>722,547</u>	<u>660,188</u>	<u>607,102</u>	<u>767,337</u>	<u>7,345</u>	<u>3,632,332</u>
Operating expenses							
Personnel	362,813	319,304	327,187	-	523,210	-	1,532,514
Insurance	39,743	7,949	23,846	-	6,359	15,438	93,335
Professional services	9,627	18,129	97,404	581,781	19,813	17,504	744,258
Utilities	4,543	126,176	83,927	-	82,034	18,541	315,221
Repairs and maintenance	10,587	31,429	51,247	-	81,082	6,881	181,226
Materials and supplies	41,548	77,019	56,981	-	156,986	-	332,534
Cost of sales	411,697	-	-	-	169,232	-	580,929
Other	15,647	20,220	31,668	5,227	51,622	-	124,384
Depreciation	40,913	176,926	274,161	-	146,717	257,619	896,336
Total operating expenses	<u>937,118</u>	<u>777,152</u>	<u>946,421</u>	<u>587,008</u>	<u>1,237,055</u>	<u>315,983</u>	<u>4,800,737</u>
Operating income (loss)	<u>(69,305)</u>	<u>(54,605)</u>	<u>(286,233)</u>	<u>20,094</u>	<u>(469,718)</u>	<u>(308,638)</u>	<u>(1,168,405)</u>
Nonoperating revenue (expenses)							
Operating contribution	-	-	-	-	300,000	-	300,000
Income (loss) before capital grants and transfers	(69,305)	(54,605)	(286,233)	20,094	(169,718)	(308,638)	(868,405)
Capital grants	-	-	-	-	-	261,843	261,843
Transfers	52,323	78,764	32,887	-	-	-	163,974
Increase (decrease) in net position	(16,982)	24,159	(253,346)	20,094	(169,718)	(46,795)	(442,588)
Total net position, July 1, 2012	<u>2,000,916</u>	<u>2,054,582</u>	<u>6,216,901</u>	<u>201,129</u>	<u>8,417,682</u>	<u>8,038,253</u>	<u>26,929,463</u>
Total net position, June 30, 2013	<u>\$ 1,983,934</u>	<u>\$ 2,078,741</u>	<u>\$ 5,963,555</u>	<u>\$ 221,223</u>	<u>\$ 8,247,964</u>	<u>\$ 7,991,458</u>	<u>\$ 26,486,875</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
Cash flows from operating activities:							
Receipts from customers	\$ 856,767	\$ 715,405	\$ 659,787	\$ 607,157	\$ 758,545	\$ 7,345	\$ 3,605,006
Payments to suppliers and providers of goods and services	(512,757)	(256,097)	(333,026)	(595,968)	(473,616)	(58,347)	(2,229,811)
Payments to employees	(366,668)	(323,610)	(330,702)	-	(521,613)	-	(1,542,593)
Net cash provided (used) by operating activities	<u>(22,658)</u>	<u>135,698</u>	<u>(3,941)</u>	<u>11,189</u>	<u>(236,684)</u>	<u>(51,002)</u>	<u>(167,398)</u>
Cash flows from noncapital financing activities:							
Received from other funds	17,127	-	3,941	-	7,109	147,766	175,943
Paid to other funds	-	(139,586)	-	(11,189)	-	-	(150,775)
Transfers	52,323	78,764	32,887	-	-	-	163,974
Operating contribution received	-	-	-	-	300,000	-	300,000
Net cash provided (used) by noncapital financing activities	<u>69,450</u>	<u>(60,822)</u>	<u>36,828</u>	<u>(11,189)</u>	<u>307,109</u>	<u>147,766</u>	<u>489,142</u>
Cash flows from capital and related financing activities:							
Purchase of capital assets	(52,322)	(78,764)	(32,887)	-	(70,425)	(358,607)	(593,005)
Capital grant receipts	-	-	-	-	-	261,843	261,843
Net cash provided (used) by capital and related financing activities	<u>(52,322)</u>	<u>(78,764)</u>	<u>(32,887)</u>	<u>-</u>	<u>(70,425)</u>	<u>(96,764)</u>	<u>(331,162)</u>
Net increase (decrease) in cash and cash equivalents	(5,530)	(3,888)	-	-	-	-	(9,418)
Cash and cash equivalents, July 1, 2012	42,453	15,098	-	-	-	-	57,551
Cash and cash equivalents, June 30, 2013	<u>\$ 36,923</u>	<u>\$ 11,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,133</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013
(Continued)

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ (69,305)	\$ (54,605)	\$ (286,233)	\$ 20,094	\$ (469,718)	\$ (308,638)	\$ (1,168,405)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	40,913	176,926	274,161	-	146,717	257,619	896,336
(Increase) decrease in:							
Accounts receivable	(5,516)	(3,254)	(401)	55	(10,683)	-	(19,799)
Prepaid expenses	-	(14,704)	(9,803)	-	-	-	(24,507)
Increase (decrease) in:							
Accounts payable	20,635	39,529	21,850	(8,960)	93,512	17	166,583
Deferred revenue	-	-	-	-	1,891	-	1,891
Refundable deposits	(5,530)	(3,888)	-	-	-	-	(9,418)
Compensated absences payable	(3,855)	(4,306)	(3,515)	-	1,597	-	(10,079)
Net cash provided (used) by operating activities	<u>\$ (22,658)</u>	<u>\$ 135,698</u>	<u>\$ (3,941)</u>	<u>\$ 11,189</u>	<u>\$ (236,684)</u>	<u>\$ (51,002)</u>	<u>\$ (167,398)</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 597,188
Accounts receivable	<u>517</u>
Total assets	<u>597,705</u>
NET POSITION	
Held in trust for investment trust participants	<u><u>\$ 597,705</u></u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	<u>Trust Fund</u>
Additions:	
Contributions	\$ 9,900
Other income	7,130
Interest and dividends	<u>4,252</u>
Total additions	<u>21,282</u>
Deductions:	
Pension payments	<u>25,800</u>
Total deductions	<u>25,800</u>
Change in net position	(4,518)
Net position, July 1, 2012	<u>602,223</u>
Net position, June 30, 2013	<u><u>\$ 597,705</u></u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Benson, Arizona (City) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting Entity

The City is a general purpose local government that is governed by a separately elected City Council. The accompanying financial statements present the activities of the City (the primary government) and its component units.

Component units are legally separate entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City. The discretely presented component unit discussed below has a June 30 year-end.

The City of Benson Municipal Property Corporation is a nonprofit corporation incorporated under the laws of the State of Arizona. The principal objective of the Corporation is to assist the City of Benson, Arizona, in acquiring, constructing, financing, operating, improving or modifying public facilities for the benefit of all City of Benson, Arizona, residents. The Corporation's board of directors consists of seven members. For the year ending June 30, 2013, there was no activity.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the City as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the City) and its component unit. The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the City and between the City and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A statement of activities presents a comparison between direct expenses and program revenues for each function of the City’s governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the City’s funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund’s principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The City reports the following major governmental funds:

The ***General Fund*** is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund and from State of Arizona Local Transportation Assistance Fund which are legally restricted to expenditures for specified purposes.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The ***Capital Projects Fund*** accounts for resources to be used for acquiring or constructing major capital facilities, other than those financed by proprietary funds.

The City reports the following major enterprise funds:

The ***Gas, Water, Liquid Waste, Solid Waste, Golf Course, and Municipal Airport*** account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the City Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the City Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City reports the following fund types:

The ***Trust Fund*** accounts for pension funds for various police officers and firefighters. The City acts as trustee for such funds and does not have title to the assets or liabilities accounted for in this fund.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and post closure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Cash and Investments

For purposes of its statement of cash flows, the City considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the City.

F. Property Tax Calendar

Property taxes are levied on or before the third Monday in August and are payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real property assessed attaches on the first day of January preceding assessment and levy thereof.

Property taxes levied on residential property for current operations and maintenance expenses are limited to a percentage of the primary full cash value of such property. In addition, taxes levied for current operations and maintenance expenses on all types of property are limited to a maximum percentage increase over the prior year's levy adjusted for new construction and annexations. Property taxes levied to pay principle and interest on bonded indebtedness are unlimited.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	N/A	N/A
Construction in progress	5,000	N/A	N/A
Buildings	5,000	Straight-line	30
Infrastructure	5,000	Straight-line	25-40
Equipment	5,000	Straight-line	3-20

H. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered.

Employees may accumulate vacation hours equal to 1.5 times their annual vacation hours earned. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Unused sick leave hours in excess of 960 accumulated at May 1 each year are paid to each eligible employee at 25% of the employee’s normal hourly rate of pay.

J. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the City's city council,
4. *Assigned* fund balances are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the City's governmental funds and includes all spendable amounts not contained in other classifications.

The City's policy for committed fund balances is through formal City resolutions passed through the elected city council. The process of rescinding a committed fund balance requires the same process.

The City's policy for assigned fund balances is through motions passed by the elected city council. Assigned fund balances do not require a formal resolution.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the City's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

J. Impact of Recently Issued Accounting Principles

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants'(AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the City's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the City to invest public monies in the State Treasurer’s investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Deposits – At June 30, 2013, the carrying amount of the City’s total nonpooled cash in bank was \$2,896,815 and the bank balance was \$2,916,450. Of the bank balance, \$1,696,060, was covered by federal depository insurance and \$1,220,390 backed by the U.S. government.

Investments – At June 30, 2013, the investments consisted of the following:

	Rating	Reported Amount	Fair Value
Investment in State Treasurer's investment pool			
Primary Government	Unrated	\$ 109,597	\$ 109,597
Investment in State Treasurer's investment pool			
Fiduciary Funds	Unrated	\$ 66,166	\$ 66,166

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the City’s name, or were held by the City or its agent in the City’s name.

Restricted cash –\$48,133 is restricted for refundable customer deposits in the proprietary funds and \$63,536 of RICO funds is restricted for public safety.

NOTE 3 – ACCOUNTS RECEIVABLES

The following table summarizes that City’s receivables, net of allowance for uncollectible, for the proprietary funds as of June 30, 2013:

	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Total
Accounts receivable	\$ 26,019	\$ 58,888	\$ 35,065	\$ 30,471	\$ 27,331	\$ 177,774
Less Allowance	(10,796)	(5,972)	(2,067)	(4,135)	-	(22,970)
Accounts receivable - net	\$ 15,223	\$ 52,916	\$ 32,998	\$ 26,336	\$ 27,331	\$ 154,804

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2013, included \$9,069 in county-shared revenue from auto lieu taxes, \$36,380 in state-shared revenue from sales taxes, \$29,822 in state-shared revenue from highway user revenue fund (HURF) taxes, \$38,912 in federal-shared revenue from Homeland Security, \$41,511 in federal-shared revenue from Department of Transportation, \$25,269 in revenue from various governmental agencies, and \$16,466 in state-shared revenue from Arizona Department of Transportation.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 523,268	182,040	-	\$ 705,308
Total capital assets not being depreciated	<u>523,268</u>	<u>182,040</u>	<u>-</u>	<u>705,308</u>
Capital assets being depreciated:				
Buildings	3,190,697	6,294	-	3,196,991
Equipment/Recreation	4,531,353	346,527	-	4,877,880
Infrastructure	4,330,253	438,811	-	4,769,064
Total	<u>12,052,303</u>	<u>791,632</u>	<u>-</u>	<u>12,843,935</u>
Less accumulated depreciation for:				
Buildings	(1,742,836)	(74,966)	-	(1,817,802)
Equipment/Recreation	(2,322,908)	(396,707)	-	(2,719,615)
Infrastructure	(1,808,487)	(191,309)	-	(1,999,796)
Total	<u>(5,874,231)</u>	<u>(662,982)</u>	<u>-</u>	<u>(6,537,213)</u>
Total capital assets being depreciated, net	<u>6,178,072</u>	<u>128,650</u>	<u>-</u>	<u>6,306,722</u>
Governmental activities capital assets, net	<u>\$ 6,701,340</u>	<u>\$ 310,690</u>	<u>\$ -</u>	<u>\$ 7,012,030</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 5 – CAPITAL ASSETS – Continued

	Balance <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2013</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 7,744,582	\$ -	\$ -	\$ 7,744,582
Total capital assets not being depreciated	<u>7,744,582</u>	<u>-</u>	<u>-</u>	<u>7,744,582</u>
Capital assets being depreciated:				
Utility systems	17,577,132	489,694	-	18,066,826
Buildings	9,894,642	-	-	9,894,642
Equipment	945,530	103,311	-	1,048,841
Total	<u>28,417,304</u>	<u>593,005</u>	<u>-</u>	<u>29,010,309</u>
Less accumulated depreciation for:				
Utility systems	(4,688,605)	(531,780)	-	(5,220,385)
Buildings	(3,149,747)	(255,925)	-	(3,405,672)
Equipment	(686,497)	(108,631)	-	(795,128)
Total	<u>(8,524,849)</u>	<u>(896,336)</u>	<u>-</u>	<u>(9,421,185)</u>
Total capital assets being depreciated, net	<u>19,892,455</u>	<u>(303,331)</u>	<u>-</u>	<u>19,589,124</u>
Business-type activities capital assets, net	<u>\$ 27,637,037</u>	<u>\$ (303,331)</u>	<u>\$ -</u>	<u>\$ 27,333,706</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 5 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 76,946
Public safety	215,999
Highways and streets	192,504
Welfare	42,449
Culture and recreation	124,907
Public works	<u>10,177</u>
 Total governmental activities depreciation expense	 <u><u>\$ 662,982</u></u>
 Business-type activities:	
Gas	\$ 40,913
Water	176,926
Liquid waste	274,161
Golf Course	146,717
Airport	<u>257,619</u>
 Total business-type activities depreciation expense	 <u><u>\$ 896,336</u></u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2013.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within 1 year
Governmental activities:					
Compensated absences	\$ 181,018	\$ 50,954	\$ 62,127	\$ 169,845	\$ 135,876
Capital leases payable	194,043	-	62,014	132,029	64,643
Bond payable-refunding	2,425,000	-	100,000	2,325,000	105,000
Bond payable	2,610,000	-	110,000	2,500,000	110,000
Bond discount	(40,859)	2,403	-	(38,456)	(2,403)
Notes payable	19,735	100,000	10,603	109,132	16,008
Governmental activities long-term liabilities	<u>\$ 5,388,937</u>	<u>\$ 153,357</u>	<u>\$ 344,744</u>	<u>\$ 5,197,550</u>	<u>\$ 429,124</u>
Business-type activities:					
Compensated absences	<u>\$ 98,157</u>	<u>\$ 23,068</u>	<u>\$ 28,654</u>	<u>\$ 92,571</u>	<u>\$ 70,105</u>

The following schedule details debt service requirements to maturity for the City’s bonds and notes payable at June 30, 2013.

Year Ending June 30	Governmental Activities					
	Notes Payable		Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 16,008	\$ 4,499	\$ 215,000	\$ 183,288	\$ 231,008	\$ 187,787
2015	16,443	3,664	220,000	177,788	236,443	181,452
2016	11,681	2,920	225,000	172,163	236,681	175,083
2017	10,000	2,500	230,000	165,263	240,000	167,763
2018	10,000	2,100	235,000	157,625	245,000	159,725
2019-23	45,000	4,500	1,325,000	635,350	1,370,000	639,850
2024-28	-	-	1,625,000	318,675	1,625,000	318,675
2029-30	-	-	750,000	17,325	750,000	17,325
Total	<u>\$ 109,132</u>	<u>\$ 20,183</u>	<u>\$ 4,825,000</u>	<u>\$ 1,827,477</u>	<u>\$ 4,934,132</u>	<u>\$ 1,847,660</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES – Continued

Bonds Payable – The City’s bonded debt consists of a 2010 Excise Tax Revenue Bond issuance of \$5,240,000. The Excise Tax Revenue Bond requires repayments of interest only due semi-annually starting January 1, 2011, with annual principal payments starting on July 1, 2011. Bonds outstanding at June 30, 2013, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
<u>Governmental Activities</u>				
Excise tax revenue bond	\$ 2,525,000	2030	3.70%	\$ 2,500,000
Excise tax revenue refunding bond	<u>2,715,000</u>	2030	3.70%	<u>2,325,000</u>
Total excise tax revenue bonds	<u>\$ 5,240,000</u>			4,825,000
			Amortized bond discount	<u>(38,456)</u>
			Revenue bonds, net	<u>\$ 4,786,544</u>

Notes Payable – Notes payable consisted of the following:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
<u>Governmental Activities</u>				
Note payable - Company	\$ 100,000	2023	4.00%	\$ 95,000
Note payable - Individual	<u>60,000</u>	2015	7.00%	<u>14,132</u>
Total notes payable	<u>\$ 160,000</u>			<u>\$ 109,132</u>

Capital Leases Payable – The City has acquired a fire truck under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

The following schedule details debt service requirements to maturity for the City’s capital leases payable at June 30, 2013.

Year Ending June 30	Governmental Activities		
	<u>Leases Payable</u>		Total
	Principal	Interest	Minimum Lease Pmts
2014	\$ 64,643	\$ 5,598	\$ 70,241
2015	<u>67,386</u>	<u>2,856</u>	<u>70,242</u>
Total	<u>\$ 132,029</u>	<u>\$ 8,454</u>	<u>\$ 140,483</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES – Continued

The asset acquired through a capital lease is as follows:

	Governmental Activities
Equipment	\$ 516,602
Less: accumulated depreciation	(397,996)
Carrying value	\$ 118,606

NOTE 7 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for all such risks of loss, including workers’ compensation and employees’ health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – RETIREMENT PLANS

Plan Descriptions—The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 8 – RETIREMENT PLANS – Continued

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

<p>ASRS 3300 N. Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or (800) 621-3778</p>	<p>PSPRS 1020 E. Missouri Ave. Phoenix, AZ 85014 (602) 255-5575</p>
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Funding Policy—The Arizona State Legislature establishes and may amend active plan members’ and the City’s contribution rates.

Cost-sharing plans – For the year ended June 30, 2013, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent retirement and 0.24 percent long-term disability) of the members’ annual covered payroll. The City’s contributions to ASRS for the years ended June 30, 2013, 2012, and 2011, were \$264,828, \$254,213, \$210,803, and respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 8.65 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rate of 17.29 and 20.67 percent for police and fire personnel, respectively.

Annual Pension Cost – The City’s pension cost for the agent plan for the year ended June 30, 2013, and related information follows.

	PSPRS	
	Police	Fire
Contribution rates:		
City	20.32%	19.38%
Plan members	9.55%	9.55%
Annual pension cost	\$ 185,219	\$ 21,049
Contributions made	\$ 185,219	\$ 21,049

The current-year annual required contributions for the PSPRS were determined as part of its June 30, 2013, actuarial valuation using the individual entry-age actuarial cost method. The actuarial assumptions included (a) 7.85 percent investment rate of return and (b) projected salary increases ranging from 4.5 percent to 8.5 percent per year. Both (a) and (b) included an inflation component of 4.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 7-year period. The unfunded actuarial accrued liability is being

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 8 – RETIREMENT PLANS – Continued

amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 24 years.

Trend Information – Annual pension cost information for the three preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS - Police	2013	185,219	100 %	-
	2012	170,345	100	-
	2011	169,083	100	-
PSPRS - Fire	2013	21,049	100 %	-
	2012	9,166	100	-
	2011	5,597	100	-

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2013, were as follows:

Payable from	Payable to			Total
	General Fund	Gas Fund	Solid Waste Fund	
HURF/LTAF Fund	\$ 600,667	\$ -	\$ -	\$ 600,667
Capital Projects Fund	172,294	-	-	172,294
Grants Fund (nonmajor)	82,141	-	-	82,141
Transit Fund (nonmajor)	131,418	-	-	131,418
Water Fund	-	570,262	-	570,262
Liquid Waste Fund	-	889,853	-	889,853
Golf Course Fund	-	-	84,491	84,491
Municipal Airport Fund	651,054	60,164	70,420	781,638
	<u>\$ 1,637,574</u>	<u>\$ 1,520,279</u>	<u>\$ 154,911</u>	<u>\$ 3,312,764</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 9 – INTERFUND BALANCES AND ACTIVITY – Continued

Interfund transfers—Interfund transfers for the fiscal year ended June 30, 2013, were as follows:

Transfer to	Transfer from General Fund
HURF/LTAF Fund	\$ 207,975
Gas Fund	52,323
Water Fund	78,764
Liquid Waste Fund	32,887
Capital Projects Fund	62,690
	\$ 434,639

The purpose of the interfund transfers shown above were to pay for capital expenditures and to fund current operations.

NOTE 10 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At June 30, 2013, the following funds reported a deficit fund balances:

Fund	Deficit
HURF/LTAF Fund	\$ 541,603
Capital Project Fund	172,348
Transit Fund	122,111
Grants Fund	68,686

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
General Fund
June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Taxes	\$ 3,058,000	\$ 3,058,000	\$ 3,111,701	\$ 53,701
Intergovernmental	1,376,169	1,376,169	1,295,664	(80,505)
Licenses and permits	130,000	130,000	76,099	(53,901)
Charges for services	57,400	57,400	53,465	(3,935)
Other revenue	122,100	122,100	66,214	(55,886)
Fines and forfeitures	19,600	19,600	12,330	(7,270)
Interest	12,000	12,000	8,420	(3,580)
Total revenue	<u>4,775,269</u>	<u>4,775,269</u>	<u>4,623,893</u>	<u>(151,376)</u>
Expenditures				
Current				
Public safety	2,445,052	2,445,052	2,131,091	313,961
General government	1,617,448	1,617,448	1,437,334	180,114
Culture and recreation	948,945	948,945	817,281	131,664
Public works	104,910	104,910	93,186	11,724
Welfare	3,500	3,500	-	3,500
Debt service				
Principal	77,049	77,049	282,617	(205,568)
Interest	-	-	201,762	(201,762)
Capital outlay	126,000	126,000	280,329	(154,329)
Total expenditures	<u>5,322,904</u>	<u>5,322,904</u>	<u>5,243,600</u>	<u>79,304</u>
Excess (deficiency) of revenue over expenditures	<u>(547,635)</u>	<u>(547,635)</u>	<u>(619,707)</u>	<u>(72,072)</u>
Other financing sources (uses)				
Loan proceeds	-	-	100,000	100,000
Transfers in (out)	<u>(3,052,365)</u>	<u>(3,052,365)</u>	<u>(434,639)</u>	<u>2,617,726</u>
Total other financing sources (uses)	<u>(3,052,365)</u>	<u>(3,052,365)</u>	<u>(334,639)</u>	<u>2,717,726</u>
Net changes in fund balance	(3,600,000)	(3,600,000)	(954,346)	2,645,654
Fund balance, July 1, 2012	<u>3,600,000</u>	<u>3,600,000</u>	<u>5,742,446</u>	<u>2,142,446</u>
Fund balance, June 30, 2013	<u><u>-</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,788,100</u></u>	<u><u>\$ 4,788,100</u></u>

See accompanying notes to budgetary comparison schedule.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
HURF/LTAF Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 391,180	\$ 391,180	\$ 324,751	\$ (66,429)
Expenditures				
Current				
Highways and streets	391,180	391,180	374,797	16,383
Capital outlay	200,000	200,000	207,975	(7,975)
Total expenditures	<u>591,180</u>	<u>591,180</u>	<u>582,772</u>	<u>8,408</u>
Excess (deficiency) of revenue over expenditures	<u>(200,000)</u>	<u>(200,000)</u>	<u>(258,021)</u>	<u>(58,021)</u>
Other financing sources (uses)				
Transfers in (out)	200,000	200,000	207,975	7,975
Total other financing sources (uses)	<u>200,000</u>	<u>200,000</u>	<u>207,975</u>	<u>7,975</u>
Net changes in fund balance	-	-	(50,046)	(50,046)
Fund balance, July 1, 2012	<u>-</u>	<u>-</u>	<u>(491,557)</u>	<u>(491,557)</u>
Fund balance, June 30, 2013	<u>-</u>	<u>\$ -</u>	<u>\$ (541,603)</u>	<u>\$ (541,603)</u>

See accompanying notes to budgetary comparison schedule.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
Capital Projects Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Taxes	\$ 440,000	\$ 440,000	\$ 271,110	\$ (168,890)
Intergovernmental	305,000	305,000	-	(305,000)
Impact fees	80,000	80,000	14,110	(65,890)
Total revenue	<u>825,000</u>	<u>825,000</u>	<u>285,220</u>	<u>(539,780)</u>
Expenditures				
Current				
General government	250,000	250,000	245,962	4,038
Capital outlay	1,405,000	1,405,000	96,903	1,308,097
Total expenditures	<u>1,655,000</u>	<u>1,655,000</u>	<u>342,865</u>	<u>1,312,135</u>
Excess (deficiency) of revenue over expenditures	<u>(830,000)</u>	<u>(830,000)</u>	<u>(57,645)</u>	<u>772,355</u>
Other financing sources (uses)				
Transfers in (out)	869,000	869,000	62,690	(806,310)
Total other financing sources (uses)	<u>869,000</u>	<u>869,000</u>	<u>62,690</u>	<u>(806,310)</u>
Net changes in fund balance	39,000	39,000	5,045	(33,955)
Fund balance, July 1, 2012	<u>(39,000)</u>	<u>(39,000)</u>	<u>(177,393)</u>	<u>(138,393)</u>
Fund balance, June 30, 2013	<u>-</u>	<u>\$ -</u>	<u>\$ (172,348)</u>	<u>\$ (172,348)</u>

See accompanying notes to budgetary comparison schedule.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2013

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

Arizona Revised Statutes (A.R.S.) require the City to prepare and adopt a balanced budget annually for each governmental fund. The City Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the City Councils' approval.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

The City's budget is prepared on a basis consistent with generally accepted accounting principles.

SINGLE AUDIT ACT REPORTS SECTION

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**INDEPENDENT AUDITORS' 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***

To the City Council
City of Benson, Arizona

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Benson, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Benson, Arizona's basic financial statements and have issued our report thereon dated February 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Benson, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Benson, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Benson, Arizona's 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. *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. *A significant deficiency* is a deficiency, or a 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.

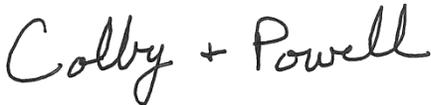
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item **2013-1** that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Benson, Arizona's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Colby + Powell".

February 13, 2014



1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

To the City Council
City of Benson, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Benson, Arizona's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Benson, Arizona's major federal programs for the year ended June 30, 2013. The City of Benson, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Benson, Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Benson, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Benson, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Benson, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

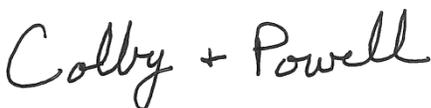
Report on Internal Control Over Compliance

Management of the City of Benson, Arizona is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Benson, Arizona's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Benson, Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



February 13, 2014

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CITY OF BENSON, ARIZONA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Arizona Department of Commerce			
Community Development Block Grant	14.228	105-11	\$ 205,786
Community Development Block Grant	14.228	107-13	<u>11,124</u>
Total U.S. Department of Housing and Urban Development			<u>216,910</u>
<u>U.S. Department of Homeland Security</u>			
Passed through Arizona Department of Homeland Security			
Homeland Security Grant Program	97.067	11-HSGP-888419-01	30,369
Homeland Security Grant Program	97.067	777442-01	51,396
Homeland Security Grant Program	97.067	11-OPGS-888419-02	<u>58,720</u>
Total U.S. Department of Homeland Security			<u>140,485</u>
<u>U.S. Department of Transportation</u>			
Airport Improvement Program	20.106	--	249,600
State and Community Highway Safety	20.600	--	7,688
Passed through Arizona Department of Transportation			
Formula Grants for Other Than Urbanized Areas	20.509	200-002356	<u>125,233</u>
Total U.S. Department of Transportation			<u>382,521</u>
Total Federal Assistance			<u>\$ 739,916</u>

CITY OF BENSON, ARIZONA
Notes to Schedule of Expenditures of Federal Awards-continued
For the Year Ended June 30, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Benson, Arizona and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OBM Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2013 *catalog of federal domestic assistance*. When a CFDA number had been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

CITY OF BENSON, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section 1 – Summary of Auditors’ Results

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors’ report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|--|--------------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| 2. Type of auditor’s report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510 (a)? | No |
| 4. Identification of major programs: | |
| <u>Name of Federal Program</u> | <u>CFDA Number</u> |
| Community Development Block Grant | 14.228 |
| Homeland Security Grant Program | 97.067 |
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$ 300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No |

CITY OF BENSON, ARIZONA
Schedule of Findings and Questioned Costs-continued
For the Year Ended June 30, 2013

Financial Statement Findings

2013-1 - Improve Financial Statement Close Process.

Condition: We noted during our audit the City had ineffective controls over the financial statement close process. A significant number of general ledger accounts were not reviewed or reconciled in a timely manner.

Criteria: Government accounting standards require management to be responsible for establishing and maintaining effective internal controls over financial reporting to prevent or detect in a timely manner any errors or fraud. Internal controls over financial reporting include a financial statement close process, which is a review of all accounts to ensure they have been properly accounted and reconciled.

Cause and Effect: The City lacked sufficient policies and procedures for the financial statement close process in preparation for an audit. The ineffective internal controls would not prevent or detect in a timely manner any errors or fraud.

Recommendation: We recommend the City implement appropriate policies and procedures in accordance with the financial statement close process to ensure all general ledger accounts have be properly reviewed and reconciled.

Federal Award Program Findings

None

CITY OF BENSON, ARIZONA
Schedule of Prior Year Audit Findings
June 30, 2013

The status of audit findings from the prior year is as follows:

Item: 2012-01 - Improve Financial Statement Close Process

Condition: We noted during our audit the City had ineffective controls over the financial statement close process. A significant number of general ledger accounts were not reviewed or reconciled in a timely manner.

Status: A similar finding was noted for 2013 as item **2013-1**

Item: 2012-02 - Improve Internal Controls over monitoring

Program: Formula Grants for Other Than Urbanized Areas
CFDA#: 20.509

Condition: We noted during our audit that the City lacked sufficient internal controls over grant compliance requirements. Personnel were preparing and submitting requests for reimbursement, reports, and other grant documents without proper oversight or monitoring.

Status: No similar finding was noted for 2013.



1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO THE USES OF HIGHWAY USER REVENUE FUND MONIES
IN ACCORDANCE WITH ARS TITLE 28, CHAPTER 18, ARTICLE 2**

To the City Council
City of Benson, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Benson as of and for the year ended June 30, 2013, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 13, 2014.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to use highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Colby + Powell

February 13, 2014