City of Benson
City Council Communication

Regular Meeting **March 23, 2015**

To: Mayor and Council Agenda Item # 2

From: Dustin DeSpain, Finance Director

Subject:

Presentation of the Certified Audit Report for the City of Benson for the fiscal year ended June 30, 2014

Discussion:

Mr. Jim Usevitch from Colby and Powell, PLC, Certified Public Accountants, will present the City's audited financial statements to Council for review and will be available to answer Council's questions.

Staff Recommendation:

Presentation only

City of Benson, Arizona

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Annual Financial Report

Fiscal Year Ended June 30, 2014

CITY OF BENSON, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2014

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TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT 1

Required Supplementary Information – Management's Discussion and Analysis 4

Government-wide Statements
- Statement of Net Position 12
- Statement of Activities 13

Fund Statements
- Governmental Funds
  - Balance Sheet 15
  - Reconciliation of the Balance Sheet to the Statement of Net Position 16
  - Statement of Revenue, Expenditures, and Changes in Fund Balances 17
  - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 18
- Proprietary Funds
  - Statement of Net Position 19
  - Statement of Revenue, Expenses, and Changes in Fund Net Position 21
  - Statement of Cash Flows 23
- Fiduciary Funds
  - Statement of Fiduciary Net Position 27
  - Statement of Changes in Fiduciary Net Position 28

Notes to Financial Statements 29

Other Required Supplementary Information
- Budgetary Comparison Schedules 47
- Notes to Budgetary Comparison Schedules 50

Other Reporting
- 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* 53

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 56

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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, 2014, 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.

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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, 2014, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2015, 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.

Colby + Powell

February 13, 2015

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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, 2014.

FINANCIAL HIGHLIGHTS

- The City's total net position decreased $1.5 million to $30.7 million. Net position from governmental activities decreased $.8 million to $4.8 million due principally to a decrease in unrestricted cash, resulting from our operating expenditures exceeding our revenues. Net position from business-type activities decreased $0.6 million to $25.9 million, due principally to the aging of our water, natural gas and waste water utility infrastructure systems.

- The City's revenues from governmental activities decreased $0.2 million to $5.5 million principally due to decreased intergovernmental and sales tax revenues. Revenues from business-type activities decreased $0.3 million to $3.9 million, principally due to a decrease in capital grants and contributions for street maintenance, golf course, and capital improvements to the City's municipal airport.

- Expenses from governmental activities increased $0.1 million to $6.3 million. Expenses from business-type activities decreased $0.2 million to $4.6 million.

- The City's unrestricted net position decreased by $1.4 million to $(2.6) million, principally due to a decrease in cash and cash equivalents, the City has used unrestricted cash to meet the revenue shortfall to fund debt service

- At June 30, 2014, the unassigned fund balance for the General Fund was $2.2 million, or 42% of the fund's expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The ***statement of net 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.

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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 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 47-50 of this report.

The basic governmental fund financial statements can be found on pages 12-18 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 19-26 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 27 and 28 of this report.

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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 29-45 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 47-51 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 $30.6 million at June 30, 2014. The largest portion of the City's assets (91%) 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, 2014 and June 30, 2013.

Net Position at June 30, 2014 and 2013

	Fiscal Year 2014			Fiscal Year 2013		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Cash and receivables	$ 3,322,402	$ (499,003)	$ 2,823,399	$ 4,065,280	$ (448,117)	$ 3,617,163
Other assets	190,941	146,465	337,406	305,810	140,435	446,245
Capital assets	6,700,613	26,814,768	33,515,381	7,012,030	27,333,706	34,345,736
Total assets	$ 10,213,956	$ 26,462,230	$ 36,676,186	$ 11,383,120	$ 27,026,024	$ 38,409,144
Current liabilities	$ 940,835	$ 405,436	$ 1,346,271	$ 809,797	$ 516,583	$ 1,326,380
Non-current liabilities	4,473,267	195,379	4,668,646	4,768,426	22,566	4,790,992
Total liabilities	$ 5,414,102	$ 600,815	$ 6,014,917	$ 5,578,223	$ 539,149	$ 6,117,372
Net position:						
Invested in capital assets net of debt	$ 6,700,613	$ 26,586,865	$ 33,287,478	$ 6,487,562	$ 27,333,706	$ 33,821,268
Restricted	22,873		$ 22,873	63,536		$ 63,536
Unrestricted	(1,923,632)	(725,450)	(2,649,082)	(746,185)	(846,831)	(1,593,016)
Total net position	$ 4,799,854	$ 25,861,415	$ 30,661,269	$ 5,804,913	$ 26,486,875	$ 32,291,788

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The City's overall financial position decreased during the year as reflected in the decrease in net position to a total of $30.63 million. The unrestricted net position of the combined governmental and business-type activities decreased by $1.0 million during the year to a deficit balance of $(2,649,082). This decrease is principally due to the City's need to use cash reserves in order to service debt and pay for daily operations. . 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 invested in capital assets. Restrictions are legal obligations on how the assets may be expended. The City has $22,873 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, 2014, were $9.4 million. The total cost of all programs and services was $10.9 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2014, and June 30, 2013.

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Governmental and Business-type Activities
For the fiscal year ending June 30, 2014 and 2013

	Fiscal Year 2014		Fiscal Year 2013	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Revenue				
Program Revenue				
Charges for services & misc.	$ 148,246	$ 3,867,844	$ 178,105	$ 3,632,332
Grants and contributions	737,293	25,000	955,249	561,843
Total Program Revenue	885,539	3,892,844	1,133,354	4,194,175
General Revenue				
Taxes	3,349,601		3,372,779	
Intergovernmental	1,235,032		1,161,765	
Interest	4,417		8,420	
Other	33,492		24,587	
Total general revenue	4,622,542	-	4,567,551	-
Total revenue	5,508,081	3,892,844	5,700,905	4,194,175
Expenses				
General government	1,895,539		1,761,807	
Culture,recreation & welfare	1,195,575		1,181,535	
Public safety	2,373,541		2,368,001	
Highways and streets	575,971		566,092	
Public Works	80,964		102,894	
Interest on long-term debt	194,017		199,662	
Gas, water, sewer and garbage		3,068,349		3,247,699
Golf Course		1,154,063		1,237,055
Airport		334,915		315,983
Total expenses	6,315,607	4,557,327	6,179,991	4,800,737
Decrease in net position	(807,526)	(664,483)	(479,086)	(606,562)
Beginning net position	5,646,403	26,486,875	6,447,973	26,929,463
Transfers	(39,023)	39,023	(163,974)	163,974
Ending net position	$ 4,799,854	$ 25,861,415	$ 5,804,913	$ 26,486,875

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

Governmental Activities June 30, 2014 and 2013

	Fiscal Year 2014		Fiscal Year 2013	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	$ 1,895,539	$ 1,785,661	$ 1,761,807	$ 1,621,301
Culture and recreation	978,721	786,080	940,405	887,340
Welfare	216,854	87,424	241,130	68,746
Highways and Streets	575,971	240,242	566,092	35,555
Public Safety	2,373,541	2,257,508	2,368,001	2,134,204
Public Works	80,964	79,136	102,894	99,829
Interest on long-term debt	194,017	194,017	199,662	199,662
Total	$ 6,315,607	$ 5,430,068	$ 6,179,991	$ 5,046,637

Business-type activities. The cost of providing all business-type activities for fiscal 2013-2014 was $4.6 million, down from $4.8 million last year. Minor decreases were experienced in utility costs, golf course operations, and airport operations.

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, 2014 and 2013

	Fiscal Year 2014		Fiscal Year 2013	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Gas	$ 869,454	$ 41,422	$ 937,118	$ 69,305
Water	782,214	90,101	777,152	54,605
Liquid waste	831,803	(73,945)	946,421	286,233
Solid waste	584,878	(49,852)	587,008	(20,094)
Airport	334,915	319,011	315,983	46,795
Golf Course	1,154,063	337,746	1,237,055	169,718
Total	$ 4,557,327	$ 664,483	$ 4,800,737	$ 606,562

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Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014 the City had invested $33.5 million in capital assets (net of accumulated depreciation) as reflected in the following table. Of the total, $.65 million represents current year additions.

The following table presents the changes in capital assets for the fiscal years ended June 30, 2014, and June 30, 2013.

Change in Capital Assets for the fiscal years ended June 30, 2014 and 2013

	Fiscal Year 2014			Fiscal Year 2013		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Beginning Balance	$ 7,012,030	$ 27,333,706	$ 34,345,736	$ 6,701,340	$ 27,637,037	$ 34,338,377
Additions	288,940	354,818	643,758	973,672	593,005	1,566,677
Deductions	-	-	-	-	-	-
Depreciation	(600,357)	(873,756)	(1,474,113)	(662,982)	(896,336)	(1,559,318)
Ending Balance	$ 6,700,613	$ 26,814,768	$ 33,515,381	$ 7,012,030	$ 27,333,706	$ 34,345,736

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

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Debt Administration

As of June 30, 2014, the City had $5.2 million in total debt outstanding, compared to $5.3 million as of June 30, 2013.

Outstanding Debt at June 30, 2014 and 2013

	2014	2013
Governmental:		
Compensated absences	$ 176,178	$ 169,845
Capital lease	67,385	132,029
Bond Payable	4,610,000	4,825,000
Bond discount	(36,053)	(38,456)
Notes payable	98,124	109,132
Total governmental	4,915,634	5,197,550
Business-type:		
Compensated absences	83,364	92,571
Lease payable	227,903	-
Total business-type	311,267	92,571
Total	$ 5,226,901	$ 5,290,121

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 Council and Staff have continued to operate conservatively by eliminating all but essential capital spending and tightening the controls over all spending categories. During the year, the City has been able to cut $2.1 million in budgeted expenses. 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 2013-2014, 81% 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 2014-2015 fiscal year. The fiscal 2014-2015 budget anticipates an approximate 10% increase 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.

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CITY OF BENSON, ARIZONA
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 2,242,626	$ -	$ 2,242,626
Cash and cash equivalents, restricted	22,873	55,842	78,715
Accounts receivable - net	-	125,974	125,974
Taxes receivable	244,242	-	244,242
Due from other governments	131,842	-	131,842
Prepaid expenses	190,941	139,802	330,743
Inventory	-	6,663	6,663
Due from (to) other funds	680,819	(680,819)	-
Capital assets, not being depreciated	705,308	7,744,582	8,449,890
Capital assets, being depreciated, net	5,995,305	19,070,186	25,065,491
Total assets	10,213,956	26,462,230	36,676,186
LIABILITIES			
Accounts payable	93,605	228,819	322,424
Accrued expenses	163,219	-	163,219
Deferred revenue	-	4,887	4,887
Settlement liability	150,000	-	150,000
Interest payable	91,644	-	91,644
Refundable deposits	-	55,842	55,842
Noncurrent liabilities			
Due within 1 year	442,367	115,888	558,255
Due in more than 1 year	4,473,267	195,379	4,668,646
Total liabilities	5,414,102	600,815	6,014,917
NET POSITION			
Net investment in capital assets	6,700,613	26,586,865	33,287,478
Restricted for:			
Public safety	22,873	-	22,873
Unrestricted (deficit)	(1,923,632)	(725,450)	(2,649,082)
Total net position	$ 4,799,854	$ 25,861,415	$ 30,661,269

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See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Activities
June 30, 2014

Functions / Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions
Primary government:			
Governmental activities			
General government	$ 1,895,539	$ 92,413	$ 17,465
Public safety	2,373,541	26,136	75,618
Highways and streets	575,971	-	335,729
Public works	80,964	1,714	114
Culture and recreation	978,721	21,343	6,098
Welfare	216,854	6,640	122,790
Interest on long-term debt	194,017	-	-
Total governmental activities	6,315,607	148,246	557,814
Business-type activities			
Gas	869,454	828,032	-
Water	782,214	692,113	-
Liquid waste	831,803	905,748	-
Solid waste	584,878	634,730	-
Golf course	1,154,063	791,317	25,000
Municipal Airport	334,915	15,904	-
Total business-type activities	4,557,327	3,867,844	25,000
Total primary government	$ 10,872,934	$ 4,016,090	$ 582,814
General revenue:			
Taxes:			
Sales Tax			
Construction sales tax			
Property tax			
Franchise tax			
Bed tax			
State sales tax revenue sharing			
Auto lieu tax revenue sharing			
State revenue sharing			
Interest income			
Miscellaneous			
Transfers			
Total general revenue and transfers			
Change in net position			
Net position, July 1, 2013, as restated			
Net position, June 30, 2014			

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See accompanying notes to financial statements.

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities	Business-type Activities	Total
$ -	$ (1,785,661)	$ -	$ (1,785,661)
14,279	(2,257,508)	-	(2,257,508)
-	(240,242)	-	(240,242)
-	(79,136)	-	(79,136)
165,200	(786,080)	-	(786,080)
-	(87,424)	-	(87,424)
-	(194,017)	-	(194,017)
179,479	(5,430,068)	-	(5,430,068)
-	-	(41,422)	(41,422)
-	-	(90,101)	(90,101)
-	-	73,945	73,945
-	-	49,852	49,852
-	-	(337,746)	(337,746)
-	-	(319,011)	(319,011)
-	-	(664,483)	(664,483)
$ 179,479	(5,430,068)	(664,483)	(6,094,551)
	2,722,940	-	2,722,940
	178,656	-	178,656
	209,633	-	209,633
	160,636	-	160,636
	77,736	-	77,736
	444,353	-	444,353
	221,662	-	221,662
	569,017	-	569,017
	4,417	-	4,417
	33,492	-	33,492
	(39,023)	39,023	-
	4,583,519	39,023	4,622,542
	(846,549)	(625,460)	(1,472,009)
	5,646,403	26,486,875	32,133,278
	$ 4,799,854	$ 25,861,415	$ 30,661,269

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CITY OF BENSON, ARIZONA
Balance Sheet
Governmental Funds
Year Ended June 30, 2014

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 2,242,626	$ -	$ -	$ -	$ 2,242,626
Cash and cash equivalents-restricted	22,873	-	-	-	22,873
Taxes receivable	244,242	-	-	-	244,242
Due from other governments	78,235	31,804	-	21,803	131,842
Prepaid expenses	121,038	69,903	-	-	190,941
Due from other funds	1,811,517	-	-	-	1,811,517
Total assets	$ 4,520,531	$ 101,707	$ -	$ 21,803	$ 4,644,041
LIABILITIES					
Accounts payable	$ 59,005	$ 14,882	$ 19,562	$ 156	$ 93,605
Accrued expenses	163,219	-	-	-	163,219
Settlement liability	150,000	-	-	-	150,000
Due to other funds	-	653,481	288,691	188,526	1,130,698
Total liabilities	372,224	668,363	308,253	188,682	1,537,522
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	29,306	-	-	-	29,306
FUND BALANCES					
Nonspendable	1,932,555	69,903	-	-	2,002,458
Restricted for:					
Public safety	22,873	-	-	-	22,873
Unassigned	2,163,573	(636,559)	(308,253)	(166,879)	1,051,882
Total fund balances	4,119,001	(566,656)	(308,253)	(166,879)	3,077,213
Total liabilities, deferred inflows of resources, and fund balances	$ 4,520,531	$ 101,707	$ -	$ 21,803	$ 4,644,041

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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, 2014

Fund balances--total governmental funds	$ 3,077,213
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.	6,700,613
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	148,603
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	29,306
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds	(5,007,278)
Net position of governmental activities	$ 4,948,457

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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, 2014

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Fund
Revenue					
Taxes	$ 3,176,200	$ -	$ 178,656	$ -	$ 3,354,856
Intergovernmental	1,309,134	335,729	-	298,272	1,943,135
Other revenue	67,833	-	-	-	67,833
Charges for services	53,211	-	-	6,640	59,851
Licenses and permits	54,848	-	-	-	54,848
Fines and forfeitures	27,746	-	-	-	27,746
Interest	4,417	-	-	-	4,417
Impact fees	-	-	650	-	650
Total revenue	4,693,389	335,729	179,306	304,912	5,513,336
Expenditures					
Current					
Public safety	2,229,771	-	-	600	2,230,371
General government	1,564,047	-	250,000	2,979	1,817,026
Culture and recreation	836,426	-	-	-	836,426
Highways and streets	-	360,782	20,561	-	381,343
Transit	-	-	-	174,199	174,199
Public works	75,535	-	-	-	75,535
Debt service					
Principal	290,652	-	-	-	290,652
Interest	193,764	-	-	-	193,764
Capital outlay	50,681	-	5,627	232,632	288,940
Total expenditures	5,240,876	360,782	276,188	410,410	6,288,256
Excess (deficiency) of revenue over expenditures	(547,487)	(25,053)	(96,882)	(105,498)	(774,920)
Other financing sources (uses)					
Transfers in (out)	(121,612)	-	(39,023)	121,612	(39,023)
Net change in fund balance	(669,099)	(25,053)	(135,905)	16,114	(813,943)
Fund balance, July 1, 2013	4,788,100	(541,603)	(172,348)	(182,993)	3,891,156
Fund balance, June 30, 2014	$ 4,119,001	$ (566,656)	$ (308,253)	$ (166,879)	$ 3,077,213

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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, 2014

Net change in fund balances--total governmental funds		$ (813,943)
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	288,940	
Depreciation expense	(600,357)	
		(311,417)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(5,255)
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.		
Principal repaid	290,652	
		290,652
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.		(16,493)
Change in net position of governmental activities		$ (856,456)

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See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-type Activities--Enterprise Funds		
	Gas Fund	Water Fund	Liquid Waste Fund
ASSETS			
Current assets			
Cash and cash equivalents, restricted	$ 40,258	$ 15,584	$ -
Accounts receivable - net	10,092	34,495	28,349
Prepaid expenses	-	83,883	55,919
Inventory	-	-	-
Due from other funds	1,462,351	-	-
Total current assets	1,512,701	133,962	84,268
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Land	-	55,771	354,792
Utilities systems, net	522,825	2,418,688	734,822
Buildings, net	-	-	5,427,019
Equipment, net	-	8,745	58,836
Capital assets, net	522,825	2,483,204	6,575,469
Total noncurrent assets	522,825	2,483,204	6,575,469
Total assets	2,035,526	2,617,166	6,659,737
LIABILITIES			
Current liabilities			
Accounts payable	40,394	16,355	12,462
Deferred revenue	-	-	-
Refundable deposits	40,258	15,584	-
Due to other funds	-	533,957	572,138
Compensated absences, current	9,888	18,886	30,110
Notes payable, current	-	-	-
Total current liabilities	90,540	584,782	614,710
Noncurrent liabilities			
Compensated absences	2,474	4,721	7,527
Lease payable	-	-	-
Total noncurrent liabilities	2,474	4,721	7,527
Total liabilities	93,014	589,503	622,237
Net position			
Net investment in capital assets	522,825	2,483,204	6,575,469
Unrestricted (deficit)	1,419,687	(455,541)	(537,969)
Total net position	$ 1,942,512	$ 2,027,663	$ 6,037,500

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See accompanying notes to financial statements.

Business-type Activities--Enterprise Funds			
Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
$ -	$ -	$ -	55,842
22,275	30,763	-	125,974
-	-	-	139,802
-	6,663	-	6,663
210,747	-	-	1,673,098
233,022	37,426	-	2,001,379
82,500	7,091,915	159,604	7,744,582
-	369,601	8,355,670	12,401,606
-	808,073	-	6,235,092
-	365,907	-	433,488
82,500	8,635,496	8,515,274	26,814,768
82,500	8,635,496	8,515,274	26,814,768
315,522	8,672,922	8,515,274	28,816,147
44,447	114,193	968	228,819
-	4,887	-	4,887
-	-	-	55,842
-	405,963	841,859	2,353,917
-	7,806	-	66,690
-	49,198	-	49,198
44,447	582,047	842,827	2,759,353
-	1,952	-	16,674
-	178,705	-	178,705
-	180,657	-	195,379
44,447	762,704	842,827	2,954,732
82,500	8,407,593	8,515,274	26,586,865
188,575	(497,375)	(842,827)	(725,450)
$ 271,075	$ 7,910,218	$ 7,672,447	25,861,415

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CITY OF BENSON, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2014

	Business-type Activities--Enterprise Funds		
	Gas Fund	Water Fund	Liquid Waste Fund
Operating revenue			
Charges for services, net of bad debt	$ 828,032	$ 692,113	$ 905,748
Sales	-	-	-
Total operating revenue	828,032	692,113	905,748
Operating expenses			
Personnel	317,776	373,683	306,498
Insurance	41,018	8,204	24,611
Professional services	9,757	6,071	21,900
Utilities	4,664	130,528	84,311
Repairs and maintenance	11,775	18,840	44,858
Materials and supplies	24,685	58,188	45,994
Cost of sales	407,314	-	-
Other	13,755	18,661	39,307
Depreciation	38,710	168,039	264,324
Total operating expenses	869,454	782,214	831,803
Operating income (loss)	(41,422)	(90,101)	73,945
Nonoperating revenue (expenses)			
Operating contribution	-	-	-
Interest expense	-	-	-
Total nonoperating revenue (expenses)	-	-	-
Income (loss) before capital grants and transfers	(41,422)	(90,101)	73,945
Transfers	-	39,023	-
Increase (decrease) in net position	(41,422)	(51,078)	73,945
Total net position, July 1, 2013	1,983,934	2,078,741	5,963,555
Total net position, June 30, 2014	$ 1,942,512	$ 2,027,663	$ 6,037,500

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See accompanying notes to financial statements.

Business-type Activities--Enterprise Funds			
Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
$ 634,730	$ 469,131	$ 15,904	$ 3,545,658
-	322,186	-	322,186
634,730	791,317	15,904	3,867,844
22,332	500,415	-	1,520,704
-	6,563	18,219	98,615
558,882	29,030	20,971	646,611
-	84,245	13,832	317,580
-	61,278	23,044	159,795
-	122,466	26	251,359
-	153,668	-	560,982
3,664	45,878	-	121,265
-	143,860	258,823	873,756
584,878	1,147,403	334,915	4,550,667
49,852	(356,086)	(319,011)	(682,823)
-	25,000	-	25,000
-	(6,660)	-	(6,660)
-	18,340	-	18,340
49,852	(337,746)	(319,011)	(664,483)
-	-	-	39,023
49,852	(337,746)	(319,011)	(625,460)
221,223	8,247,964	7,991,458	26,486,875
$ 271,075	$ 7,910,218	$ 7,672,447	$ 25,861,415

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CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	Business-type Activities--Enterprise Funds		
	Gas Fund	Water Fund	Liquid Waste Fund
Cash flows from operating activities:			
Receipts from customers	$ 836,498	$ 714,908	$ 910,397
Payments to suppliers and providers of goods and services	(609,668)	(392,464)	(363,849)
Payments to employees	(233,936)	(276,770)	(228,833)
Net cash provided (used) by operating activities	(7,106)	45,674	317,715
Cash flows from noncapital financing activities:			
Received from other funds	57,928	-	-
Paid to other funds	-	(36,305)	(317,715)
Transfers	-	39,023	-
Operating contribution received	-	-	-
Net cash provided (used) by noncapital financing activities	57,928	2,718	(317,715)
Cash flows from capital and related financing activities:			
Principal paid on long-term debt	-	-	-
Purchase of capital assets	(47,487)	(44,018)	-
Interest paid	-	-	-
Net cash provided (used) by capital and related financing activities	(47,487)	(44,018)	-
Net increase (decrease) in cash and cash equivalents	3,335	4,374	-
Cash and cash equivalents, July 1, 2013	36,923	11,210	-
Cash and cash equivalents, June 30, 2014	$ 40,258	$ 15,584	$ -

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See accompanying notes to financial statements.

Business-type Activities--Enterprise Funds			
Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
$ 638,791	$ 788,800	$ 15,904	$ 3,905,298
(566,642)	(707,927)	(76,125)	(2,716,675)
(16,313)	(385,275)	-	(1,141,127)
55,836	(304,402)	(60,221)	47,496
-	321,472	60,221	439,621
(55,836)	-	-	(409,856)
-	-	-	39,023
-	25,000	-	25,000
(55,836)	346,472	60,221	93,788
-	(31,739)	-	(31,739)
-	(3,671)	-	(95,176)
-	(6,660)	-	(6,660)
-	(42,070)	-	(133,575)
-	-	-	7,709
-	-	-	48,133
$ -	$ -	$ -	$ 55,842

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CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014
(Continued)

	Business-type Activities--Enterprise Funds		
	Gas Fund	Water Fund	Liquid Waste Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ (41,422)	$ (90,101)	$ 73,945
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	38,710	168,039	264,324
(Increase) decrease in:			
Accounts receivable	5,131	18,421	4,649
Prepaid expenses	-	(3,618)	(2,412)
Increase (decrease) in:			
Accounts payable	(6,642)	(51,018)	(24,706)
Deferred revenue	-	-	-
Refundable deposits	3,335	4,374	-
Compensated absences payable	(6,218)	(423)	1,915
Net cash provided (used) by operating activities	$ (7,106)	$ 45,674	$ 317,715

NONCASH INVESTING, CAPITAL FINANCING, AND NONCAPITAL FINANCING ACTIVITIES

The Golf Course Fund acquired $259,642 of equipment under the terms of a capital lease agreement for the year ending June 30, 2014.

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See accompanying notes to financial statements.

Business-type Activities--Enterprise Funds			
Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
$ 49,852	$ (356,086)	$ (319,011)	$ (682,823)
-	143,860	258,823	873,756
4,061	(3,432)	-	28,830
-	-	-	(6,030)
1,923	(85,078)	(33)	(165,554)
-	915	-	915
-	-	-	7,709
-	(4,581)	-	(9,307)
$ 55,836	$ (304,402)	$ (60,221)	$ 47,496

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CITY OF BENSON, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Trust Fund
ASSETS	
Cash and cash equivalents	$ 592,600
Accounts receivable	517
Total assets	593,117
NET POSITION	
Held in trust for investment trust participants	$ 593,117

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See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2014

	Trust Fund
Additions:	
Contributions	$ 9,900
Other income	7,139
Interest and dividends	4,773
Total additions	21,812
Deductions:	
Pension payments	26,400
Total deductions	26,400
Change in net position	(4,588)
Net position, July 1, 2013	597,705
Net position, June 30, 2014	$ 593,117

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See accompanying notes to financial statements.

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, 2014, 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.

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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.

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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.

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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.

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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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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,

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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 March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

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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, 2014, the carrying amount of the City's total nonpooled cash in bank was $2,111,678 and the bank balance was $2,160,533. Of the bank balance, $1,875,358, was covered by federal depository insurance and $285,175 backed by the U.S. government.

Investments – At June 30, 2014, the investments consisted of the following:

	Rating	Reported Amount	Fair Value
Investment in State Treasurer's investment pool			
Primary Government	Unrated	$ 113,065	$ 113,065
Investment in State Treasurer's investment pool			
Fiduciary Funds	Unrated	$ 67,217	$ 67,217

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 –$55,842 is restricted for refundable customer deposits in the proprietary funds and $22,873 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, 2014:

	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Total
Accounts recievable	$ 20,888	$ 40,467	$ 30,416	$ 26,410	$ 30,763	$ 148,944
Less Allowance	(10,796)	(5,972)	(2,067)	(4,135)	-	(22,970)
Accounts recivable - ne	$ 10,092	$ 34,495	$ 28,349	$ 22,275	$ 30,763	$ 125,974

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NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2014, included $9,089 in county-shared revenue from auto lieu taxes, $37,728 in state-shared revenue from sales taxes, $31,804 in state-shared revenue from highway user revenue fund (HURF) taxes, $15,635 in federal-shared revenue from Homeland Security, $19,668 in revenue from various governmental agencies, and $17,918 in state-shared revenue from Arizona Department of Transportation.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 705,308	-	-	$ 705,308
Total capital assets not being depreciated	705,308	-	-	705,308
Capital assets being depreciated:				
Buildings	3,196,991	-	-	3,196,991
Equipment/Recreation	4,877,880	288,940	-	5,166,820
Infrastructure	4,769,064	-	-	4,769,064
Total	12,843,935	288,940	-	13,132,875
Less accumulated depreciation for:				
Buildings	(1,817,802)	(73,135)	-	(1,890,937)
Equipment/Recreation	(2,719,615)	(335,913)	-	(3,055,528)
Infrastructure	(1,999,796)	(191,309)	-	(2,191,105)
Total	(6,537,213)	(600,357)	-	(7,137,570)
Total capital assets being depreciated, net	6,306,722	(311,417)	-	5,995,305
Governmental activities capital assets, net	$ 7,012,030	$ (311,417)	$ -	$ 6,700,613

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NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 7,744,582	$ -	$ -	$ 7,744,582
Total capital assets not being depreciated	7,744,582	-	-	7,744,582
Capital assets being depreciated:				
Utility systems	18,066,826	91,506	-	18,158,332
Buildings	9,894,642	-	-	9,894,642
Equipment	1,048,841	263,312	(45,794)	1,266,359
Total	29,010,309	354,818	(45,794)	29,319,333
Less accumulated depreciation for:				
Utility systems	(5,220,385)	(536,342)	-	(5,756,727)
Buildings	(3,405,672)	(253,878)	-	(3,659,550)
Equipment	(795,128)	(83,536)	45,794	(832,870)
Total	(9,421,185)	(873,756)	45,794	(10,249,147)
Total capital assets being depreciated, net	19,589,124	(518,938)	-	19,070,186
Business-type activities capital assets, net	$ 27,333,706	$ (518,938)	$ -	$ 26,814,768

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NOTE 5 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 76,545
Public safety	140,537
Highways and streets	194,178
Transit	42,449
Culture and recreation	141,308
Public works	5,340
Total governmental activities depreciation expense	$ 600,357
Business-type activities:	
Gas	$ 38,710
Water	168,039
Liquid waste	264,324
Golf Course	143,860
Airport	258,823
Total business-type activities depreciation expense	$ 873,756

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NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the City's long-term liability and obligation activity for the year ended June 30, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities:					
Compensated absences	$ 169,845	$ 57,068	$ 50,735	$ 176,178	$ 140,942
Capital leases payable	132,029	-	64,644	67,385	67,385
Bond payable-refunding	2,325,000	-	105,000	2,220,000	105,000
Bond payable	2,500,000	-	110,000	2,390,000	115,000
Bond discount	(38,456)	2,403	-	(36,053)	(2,403)
Notes payable	109,132	-	11,008	98,124	15,889
Governmental activities long-term liabilities	$ 5,197,550	$ 59,471	$ 341,387	$ 4,915,634	$ 441,813
Business-type activities:					
Compensated absences	$ 92,571	$ 25,836	$ 35,043	$ 83,364	$ 66,691
Lease payable	-	259,642	31,739	227,903	49,198
Business-type activities long-term liabilities	$ 92,571	$ 285,478	$ 66,782	$ 311,267	$ 115,889

The following schedule details debt service requirements to maturity for the City's bonds and notes payable at June 30, 2014.

Year Ending June 30	Governmental Activities					
	Notes Payable		Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 15,889	$ 4,419	$ 220,000	$ 177,788	$ 235,889	$ 182,207
2016	12,235	3,134	225,000	172,163	237,235	175,297
2017	10,000	2,700	230,000	165,263	240,000	167,963
2018	10,000	2,300	235,000	157,625	245,000	159,925
2019	10,000	1,900	245,000	147,825	255,000	149,725
2020-24	40,000	3,600	1,380,000	579,313	1,420,000	582,913
2025-29	-	-	1,690,000	244,213	1,690,000	244,213
2030-31	-	-	385,000	-	385,000	-
Total	$ 98,124	$ 18,053	$ 4,610,000	$ 1,644,188	$ 4,708,124	$ 1,662,241

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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, 2014, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Governmental Activities				
Excise tax revenue bond	$ 2,525,000	2030	3.70%	$ 2,390,000
Excise tax revenue refunding bond	2,715,000	2030	3.70%	2,220,000
Total excise tax revenue bonds	$ 5,240,000			4,610,000
		Amortized bond discount		(36,053)
		Revenue bonds, net		$ 4,573,947

Notes Payable – Notes payable consisted of the following:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Governmental Activities				
Note payable - Company	$ 100,000	2023	4.00%	$ 90,000
Note payable - Individual	60,000	2016	7.00%	8,124
Total notes payable	$ 160,000			$ 98,124

Capital Leases Payable – The City has acquired equipment under the provisions of a long-term lease agreements classified as capital leases for accounting purposes because they 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, 2014.

	Leases Payable					
	Governmental Activities			Business-type Activities		
Year Ending June 30	Principal	Interest	Total Minimum Lease Pmts	Principal	Interest	Total Minimum Lease Pmts
2015	$ 67,385	$ 2,856	$ 70,241	$ 49,198	$ 8,101	$ 57,299
2016	-	-	-	51,172	6,126	57,299
2017	-	-	-	53,226	4,072	57,299
2018	-	-	-	55,363	1,936	57,299
2019	-	-	-	18,944	156	19,100
Total	$ 67,385	$ 2,856	$ 70,241	$ 227,903	$ 20,392	$ 248,295

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NOTE 6 – LONG-TERM LIABILITIES – Continued

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities	Total
Equipment	$ 516,602	$ 259,642	$ 776,244
Less: accumulated depreciation	(449,656)	(12,364)	(462,020)
Carrying value	$ 66,946	$ 247,278	$ 314,224

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 retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and dependents

The *Arizona State Retirement System* (ASRS) administers cost-sharing multiple-employer defined benefit pension, health insurance premium, and long-term disability plans that cover employees of the State of Arizona and participating political subdivisions and school districts. 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 system issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, Arizona, 85067-3910 or by calling (602) 240-2000 or 1 (800) 621-3778.

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NOTE 8 – RETIREMENT PLANS – Continued

The *Public Safety Personnel Retirement System* (PSPRS) administers agent multiple-employer defined benefit pension and health insurance premium plans that cover 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. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016-4416, or by calling (602) 255-5575.

Funding Policy **–** The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates for both ASRS and PSPRS.

Cost-sharing plans **–** For the year ended June 30, 2014, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2014, 2013, and 2012, were $262,066, $264,828, and $254,213, respectively, which were equal to the required contributions for the year.

Agent plans **–** For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members' annual covered payroll. For the police department, the City was required to contribute at the actuarially determined rate of 22.80 percent, of which 1.12 percent was the health insurance premium portion. For the fire department, the City was required to contribute at the actuarially determined rate of 21.63 percent, of which 1.71 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding status presented below provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on 1) the plans as understood by the City of Benson, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the City and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant

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NOTE 8 – RETIREMENT PLANS – Continued

actuarial methods and assumptions used to establish the fiscal year 2014 contribution requirements are as follows:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.00% - 9.00%
Payroll growth	5.00%

Trend Information – Annual pension cost information for the current and two 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
Pension - Police	2014	211,149	100 %	-
	2013	175,377	100	-
	2012	160,607	100	-
Pension - Fire	2014	22,501	100 %	-
	2013	19,707	100	-
	2012	7,603	100	-
Health Insurance - Police	2014	9,134	100 %	-
	2013	9,842	100	-
	2012	9,738	100	-
Health Insurance - Fire	2014	1,303	100 %	-
	2013	1,342	100	-
	2012	1,563	100	-

Schedules of Funded Status – Following are the schedules of funded status of the plans as of the most recent valuation date, June 30, 2014, and the previous two fiscal years. The fiscal year 2014 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2012 actuarial methods and assumptions as described above.

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NOTE 8 – RETIREMENT PLANS – Continued

Pension-Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	$2,010,735	$ 3,895,269	$1,884,534	51.6 %	$784,311	240.3 %
6/30/2013	2,080,926	3,443,201	1,362,275	60.4	785,494	173.4
6/30/2012	1,978,329	3,334,699	1,356,370	59.3	739,731	183.4

Pension-Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	$ 421,688	$ 500,384	$ 78,696	84.3 %	$ 68,532	114.8 %
6/30/2013	400,117	463,920	63,803	86.2	68,531	93.1
6/30/2012	369,108	435,891	66,783	84.7	69,095	96.7

Health Insurance-Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	$ 140,167	$ 118,884	$ (21,283)	117.9 %	$784,311	- %
6/30/2013	-	114,719	114,719	-	785,494	14.6
6/30/2012	-	95,227	95,227	-	739,731	12.9

Health Insurance-Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	$ 8,188	$ 18,787	$ 10,599	43.6 %	$ 68,532	15.5 %
6/30/2013	-	18,901	18,901	-	68,531	27.6
6/30/2012	-	17,527	17,527	-	69,095	25.4

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NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2014, were as follows:

	Payable to			
Payable from	General Fund	Gas Fund	Solid Waste Fund	Total
HURF/LTAF Fund	$ 653,481	$ -	$ -	$ 653,481
Capital Projects Fund	288,691	-	-	288,691
Transit Fund (nonmajor)	188,526	-	-	188,526
Water Fund	-	533,957	-	533,957
Liquid Waste Fund	-	572,138	-	572,138
Golf Course Fund	-	356,256	49,707	405,963
Municipal Airport Fund	680,819	-	161,040	841,859
	$ 1,811,517	$ 1,462,351	$ 210,747	$ 3,484,615

Interfund transfers—Interfund transfers for the fiscal year ended June 30, 2014, were as follows:

	Transfer from		
Transfer to	General Fund	Capital Projects Fund	Total
Water Fund	$ -	$ 39,023	$ 39,023
Grants Fund	121,612	-	121,612
	$ 121,612	$ 39,023	$ 160,635

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, 2014, the following funds reported a deficit fund balances, HURF/LTAF $566,656, Capital Project $308,253, and Transit $166,879.

NOTE 9 – RESTATEMENT OF BEGINNING NET POSITION

The City had to restate net position of the Governmental Activities to adjust for deferred costs which are no longer considered assets under GASB 65 (see Note 1). The effects of the restatement are a reduction of beginning net position of the Governmental Activities in the amount of $158,510

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
General Fund
June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenue				
Taxes	$ 3,055,000	$ 3,055,000	$ 3,176,200	$ 121,200
Intergovernmental	1,460,391	1,460,391	1,309,134	(151,257)
Other revenue	126,800	126,800	67,833	(58,967)
Charges for services	58,600	58,600	53,211	(5,389)
Licenses and permits	90,350	90,350	54,848	(35,502)
Fines and forfeitures	69,000	69,000	27,746	(41,254)
Interest	5,000	5,000	4,417	(583)
Total revenue	4,865,141	4,865,141	4,693,389	(171,752)
Expenditures				
Current				
Public safety	2,625,291	2,625,291	2,229,771	395,520
General government	1,905,220	1,905,220	1,564,047	341,173
Culture and recreation	884,350	884,350	836,426	47,924
Public works	109,398	109,398	75,535	33,863
Debt service				
Principal	300,438	300,438	290,652	9,786
Interest	206,225	206,225	193,764	12,461
Capital outlay	250,000	250,000	50,681	199,319
Total expenditures	6,280,922	6,280,922	5,240,876	1,040,046
Excess (deficiency) of revenue over expenditures	(1,415,781)	(1,415,781)	(547,487)	868,294
Other financing sources (uses)				
Transfers in (out)	(284,219)	(284,219)	(121,612)	162,607
Total other financing sources (uses)	(284,219)	(284,219)	(121,612)	162,607
Net changes in fund balance	(1,700,000)	(1,700,000)	(669,099)	1,030,901
Fund balance, July 1, 2013	1,700,000	1,700,000	4,788,100	3,088,100
Fund balance, June 30, 2014	-	$ -	$ 4,119,001	$ 4,119,001

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See accompanying notes to budgetary comparison schedule.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
HURF/LTAF Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenue				
Intergovernmental	$ 361,147	$ 361,147	$ 335,729	$ (25,418)
Total revenue	361,147	361,147	335,729	(25,418)
Expenditures				
Current				
Highways and streets	361,147	361,147	360,782	365
Total expenditures	361,147	361,147	360,782	365
Excess (deficiency) of revenue over expenditures	-	-	(25,053)	(25,053)
Net changes in fund balance	-	-	(25,053)	(25,053)
Fund balance, July 1, 2013	-	-	(541,603)	(541,603)
Fund balance, June 30, 2014	-	$ -	$ (566,656)	$ (566,656)

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See accompanying notes to budgetary comparison schedule.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
Capital Projects Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenue				
Taxes	$ 400,000	$ 400,000	$ 178,656	$ (221,344)
Intergovernmental	855,000	855,000	-	(855,000)
Interest	-	-	650	650
Impact fees	50,000	50,000	-	(50,000)
Total revenue	1,305,000	1,305,000	179,306	(1,125,694)
Expenditures				
Current				
General government	280,000	280,000	250,000	30,000
Highways and streets	300,000	300,000	20,561	279,439
Capital outlay	1,475,000	1,475,000	5,627	1,469,373
Total expenditures	2,055,000	2,055,000	276,188	1,778,812
Excess (deficiency) of revenue over expenditures	(750,000)	(750,000)	(96,882)	653,118
Other financing sources (uses)				
Transfers in (out)	750,000	750,000	(39,023)	(789,023)
Total other financing sources (uses)	750,000	750,000	(39,023)	(789,023)
Net changes in fund balance	-	-	(135,905)	(135,905)
Fund balance, July 1, 2013	-	-	(172,348)	(172,348)
Fund balance, June 30, 2014	-	$ -	$ (308,253)	$ (308,253)

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See accompanying notes to budgetary comparison schedule.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2014

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.

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Benson
Arizona
Founded in 1880
Gateway to the San Pedro Valley

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OTHER REPORTING SECTION

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COLBY & POWELL, PLC
CERTIFIED PUBLIC ACCOUNTANTS
1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233
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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, 2014, 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, 2015.

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.

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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.

Colby + Powell

February 13, 2015

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Benson
Arizona
Founded in 1880
Gateway to the San Pedro Valley

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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

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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, 2014, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 13, 2015.

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, 2015