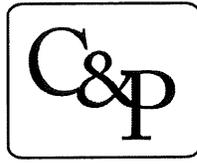


CITY OF BENSON, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Benson, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component unit, each major fund, and aggregate remaining fund information of the City of Benson, Arizona as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the City of Benson, Arizona as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12, the Budgetary Comparison Schedules on pages 41 through 44, and the Schedule of Agent Retirement Plans' Funding Progress on page 45, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Colby + Powell PLC

December 6, 2010

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

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, 2010.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased \$50,000 to \$22.5 million. Net assets from governmental activities increased \$282,000 to \$9.6 million. Net assets from business-type activities decreased \$232,000 to \$12.9 million.
- The City's revenues from governmental activities decreased \$55,000 to \$5.7 million. Revenues from business-type activities decreased \$988,000 to \$3.9 million. The decrease is due primarily to decrease of grant revenues from the airport expansion.
- Expenditures from governmental activities decreased \$271,000 to \$5.4 million. Expenses from business-type activities decreased \$60,000 to \$4.1 million.
- The total outstanding debt of the City decreased by \$640,000 to \$3.5 million during the past fiscal year.
- At June 30, 2010, the unreserved fund balance for the General Fund was \$4.0 million, or 89% of the fund's expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

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 41-44 of this report.

The basic governmental fund financial statements can be found on pages 15-18 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 five proprietary funds: Natural Gas, Water, Liquid Waste, Solid Waste and Airport. The basic proprietary fund financial statements can be found on pages 19-22 of this report.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

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 25-40 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary statements for the General, Highway Users (HURF) and Capital Projects Funds, and the progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 41-49 of this report.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$22.5 million at June 30, 2010. The largest portion of the City's net assets (85%) reflects its investment in capital assets (e.g. land, buildings, utility infrastructure, streets, vehicles and equipment). The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

The following table presents a summary of the City's net assets at the two most recent fiscal year ends - June 30, 2010 and June 30, 2009. **Net Assets at June 30, 2010 and 2009**

	Fiscal Year 2010			Fiscal Year 2009		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Cash and receivables	\$ 4,275,575	\$ (439,954)	\$ 3,835,621	\$ 4,298,599	\$ (441,647)	\$ 3,856,952
Other assets	105,761	99,745	205,506	100,014	99,745	199,759
Capital assets	6,146,759	13,705,003	19,851,762	6,077,931	14,080,458	20,158,389
Total assets	\$ 10,528,095	\$ 13,364,794	\$ 23,892,889	\$ 10,476,544	\$ 13,738,556	\$ 24,215,100
Current liabilities	\$ 248,743	\$ 256,688	\$ 505,431	\$ 267,529	\$ 207,821	\$ 475,350
Non-current liabilities	645,759	225,284	871,043	857,858	415,010	1,272,868
Total liabilities	\$ 894,502	\$ 481,972	\$ 1,376,474	\$ 1,125,387	\$ 622,831	\$ 1,748,218
Net assets:						
Invested in capital assets net of debt	\$ 5,633,820	\$ 13,532,503	\$ 19,166,323	\$ 5,344,697	\$ 13,727,168	\$ 19,071,865
Restricted			-			-
Unrestricted	3,999,773	(649,681)	3,350,092	4,006,460	(611,443)	3,395,017
Total net assets	\$ 9,633,593	\$ 12,882,822	\$ 22,516,415	\$ 9,351,157	\$ 13,115,725	\$ 22,466,882

The City's overall financial position improved slightly during the year as reflected in the increase in net assets to a total of \$22.516 million. The unrestricted net assets of the combined governmental and business-type activities decreased by \$45,000 during the year, to \$3.4 million. This is an important measure of the City's net assets available for spending at the end of the fiscal year. The relative stability of the City's spendable assets indicates that the City has operated at a near break-even level during the year, despite the effects of a severe recession. The City maintains sufficient net asset balances to operate in a very conservative, but fairly normal, manner. In fact, net assets have increased by \$1.2 million (56%) compared to balances just four years ago, at June 30, 2006.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

There are no restrictions on the net assets of the governmental or business type funds. Restrictions are legal obligations on how the assets may be expended. A portion of sales tax revenues have been earmarked for the repayment of the wastewater plant debt, but the funds are not legally restricted.

Changes in net assets. The City's total revenues for the fiscal year ended June 30, 2010, were \$9.5 million. The total cost of all programs and services was also \$9.5 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2010, and June 30, 2009.

Governmental and Business-type Activities
For the fiscal year ending June 30, 2010 and 2009

	Fiscal Year 2010		Fiscal Year 2009	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Revenue				
Program Revenue				
Charges for services & misc.	\$ 350,001	\$ 3,349,074	\$ 542,068	\$ 3,404,801
Grants and contributions	1,030,036	61,219	661,112	763,437
Total Program Revenue	1,380,037	3,410,293	1,203,180	4,168,238
General Revenue				
Taxes	3,056,153	476,625	3,216,815	637,160
Intergovernmental	1,172,472		1,306,767	
Interest	3,197		(35,852)	(14,831)
Other	43,577		19,860	84,847
Total general revenue	4,275,399	476,625	4,507,590	707,176
Total revenue	5,655,436	3,886,918	5,710,770	4,875,414
Expenses				
General government	1,488,710		1,652,664	
Culture and recreation	954,932		986,427	
Public safety	2,238,519		2,216,626	
Highways and streets	541,682		508,485	
Public Works	149,157		279,792	
Gas, water, sewer and garbage		3,840,175		3,898,890
Airport		279,656		280,900
Total expenses	5,373,000	4,119,831	5,643,994	4,179,790
Increase in net assets	282,436	(232,913)	66,776	695,624
Beginning net assets	9,351,157	13,115,725	9,284,381	12,420,101
Ending net assets	\$ 9,633,593	\$ 12,882,812	\$ 9,351,157	\$ 13,115,725

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

Government activities. The City's governmental functions include general government, culture and recreation, public safety, highways and streets 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, 2010 and 2009

	Fiscal Year 2010		Fiscal Year 2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$ 1,488,710	\$ 1,109,076	\$ 1,652,664	\$ 1,229,168
Culture and recreation	954,932	931,034	986,427	882,910
Highways and Streets	541,682	(53,760)	508,485	124,964
Public Safety	2,238,519	1,879,336	2,216,626	1,959,136
Public Works	149,157	127,277	257,803	222,647
Shop			21,989	21,989
Total	\$ 5,373,000	\$ 3,992,963	\$ 5,643,994	\$ 4,440,814

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

Business-type activities. The cost of providing all business-type activities for fiscal 2009-2010 was \$4.1 million, down from \$4.2 million last year.

The City's business-type activities include gas, water, wastewater, sanitation 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, 2010 and 2009

	Fiscal Year 2010		Fiscal Year 2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Gas	\$ 1,112,448	\$ 64,938	\$ 1,254,087	\$ (23,061)
Water	781,439	13,569	802,389	70,746
Liquid waste	1,286,345	453,754	1,198,730	497,209
Airport	279,656	214,041	280,900	(494,345)
Sanitation	659,943	(36,764)	643,684	(38,997)
Total	\$ 4,119,831	\$ 709,538	\$ 4,179,790	\$ 11,552

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2010 the City had invested \$25.3 million in capital assets (net of accumulated depreciation) as reflected in the following table. Of the total, \$727,000 represents current year infrastructure additions.

The following table the changes in capital assets for the fiscal years ended June 30, 2010, and June 30, 2009.

Change in Capital Assets for the fiscal years ended June 30, 2010 and 2009

	Fiscal Year 2010				Fiscal Year 2009			
	Governmental Activities	Business Type Activities	Component Unit	Total	Governmental Activities	Business Type Activities	Component Unit	Total
Beginning Balance	\$ 6,077,931	\$ 14,080,456	\$ 5,610,163	\$ 25,768,550	\$ 6,273,333	\$ 13,546,382	\$ 5,780,049	\$ 25,599,764
Additions	590,734	136,647		727,381	281,507	1,049,897		1,331,404
Deductions				-	(25,276)			(25,276)
Depreciation	(521,906)	(512,100)	(169,886)	(1,203,892)	(451,633)	(515,822)	(169,886)	(1,137,341)
Ending Balance	<u>\$ 6,146,759</u>	<u>\$ 13,705,003</u>	<u>\$ 5,440,277</u>	<u>\$ 25,292,039</u>	<u>\$ 6,077,931</u>	<u>\$ 14,080,457</u>	<u>\$ 5,610,163</u>	<u>\$ 25,768,551</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, 2010

Debt Administration

As of June 30, 2010, the City had \$3.47 million in total debt outstanding, compared to \$4.11 million as of June 30, 2009.

Outstanding Debt at June 30, 2010 and 2009

	2010	2009
Governmental:		
Compensated absences	\$ 132,820	\$ 124,624
Capital lease	310,605	365,355
Bond Payable	172,500	333,500
Notes payable	29,834	34,379
Total governmental	<u>645,759</u>	<u>857,858</u>
Business-type:		
Compensated absences	52,784	61,720
Bond payable	172,500	333,500
Notes payable	19,790	19,790
Total business-type	<u>225,284</u>	<u>415,010</u>
Component Unit:		
Notes payable	2,600,634	2,838,621
Total	<u>\$ 3,471,677</u>	<u>\$ 4,111,489</u>

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

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2010

Economic Factors

The City of Benson, along with most cities in Arizona and across the nation, experienced its second consecutive year of negative growth in revenues as a result of the recession. City Council and Staff proactively responded in advance of the recession by freezing salaries (for the past three fiscal years), instituting a soft hiring freeze, eliminating all but essential capital spending and tightening the controls over all spending categories. As a result, the City has not been forced to adopt 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 2009-2010, 92% of the general fund revenues were derived from state shared revenues and local sales tax. Those revenues decreased by \$49,000 compared to fiscal 2008-2009. Given the current and projected economic trends and general economic uncertainties, the City anticipates a further contraction of revenues during the 2010-2011 fiscal year. The fiscal 2010-2011 budget anticipates a further 16% reduction in state shared revenues and stable local sales tax collections.

Subsequent Events

The City has entered into two material transactions after the June 30, 2010 fiscal year end. Both events have affected the City's financial position.

On July 1, 2010, the City issued bonds that totaled \$5,240,000. The proceeds from a refunding obligation in the amount of \$2,715,000 were used to consolidate current debt at a more favorable interest rate and better terms of repayment. A revenue bond of \$2,525,000 was issued for future capital expenditures, principally for utility infrastructure projects.

Effective November 1, 2010, the San Pedro Golf Course was gifted to the City by its owner. The donation included a charitable contribution of \$150,000 cash and inventory held for resale at closing and a commitment to pay \$25,000 per month for 32 months to be spent on golf course operations and improvements. The City did not assume any debt in conjunction with its acceptance of the donation of the golf course.

Financial Contact

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

CITY OF BENSON, ARIZONA
Statement of Net Assets
June 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 3,265,913	\$ -	\$ 3,265,913	\$ 350,435
Restricted cash- customer deposits	-	65,113	65,113	
Accounts receivable - net	-	124,840	124,840	-
Taxes receivable	240,633	-	240,633	-
Prepaid expenses	105,761	99,745	205,506	-
Due from other governments	139,122	-	139,122	-
Due from (to) other funds	629,907	(629,907)	-	-
Capital assets, not being depreciated	474,013	652,666	1,126,679	-
Capital assets, being depreciated, net	<u>5,672,746</u>	<u>13,052,337</u>	<u>18,725,083</u>	<u>5,440,277</u>
Total assets	<u>10,528,095</u>	<u>13,364,794</u>	<u>23,892,889</u>	<u>5,790,712</u>
LIABILITIES				
Accounts payable	164,137	164,323	328,460	-
Accrued expenses	84,606	27,252	111,858	-
Refundable deposits	-	65,113	65,113	-
Noncurrent liabilities				
Due within 1 year	340,372	214,727	555,099	271,555
Due in more than 1 year	<u>305,387</u>	<u>10,557</u>	<u>315,944</u>	<u>2,329,079</u>
Total liabilities	<u>894,502</u>	<u>481,972</u>	<u>1,376,474</u>	<u>2,600,634</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,633,820	13,532,503	19,166,323	2,839,643
Unrestricted (deficit)	<u>3,999,773</u>	<u>(649,681)</u>	<u>3,350,092</u>	<u>350,435</u>
Total net assets	<u>\$ 9,633,593</u>	<u>\$ 12,882,822</u>	<u>\$ 22,516,415</u>	<u>\$ 3,190,078</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Balance Sheet
Governmental Funds
Year Ended June 30, 2010

Functions / Programs	Program Revenue		Capital		Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Charges for Services	Operating Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total		
Primary government:								
Governmental activities								
General government	\$ 1,462,508	\$ 216,150	\$ 163,484	\$ -	\$ (1,082,874)	\$ (1,082,874)	\$ -	
Public safety	2,238,519	99,813	170,999	88,371	(1,879,336)	(1,879,336)	-	
Highways and streets	541,682	-	352,190	243,252	53,760	53,760	-	
Public works	149,157	21,880	-	-	(127,277)	(127,277)	-	
Culture and recreation	954,932	12,158	11,740	-	(931,034)	(931,034)	-	
Interest on long-term debt	26,202	-	-	-	(26,202)	(26,202)	-	
Total governmental activities	5,373,000	350,001	698,413	331,623	(3,992,963)	(3,992,963)	-	
Business-type activities								
Gas	1,112,448	1,047,510	-	-	(64,938)	(64,938)	-	
Water	781,439	767,870	-	-	(13,569)	(13,569)	-	
Liquid waste	1,286,345	832,591	-	-	(453,754)	(453,754)	-	
Solid waste	659,943	696,707	-	-	36,764	36,764	-	
Municipal Airport	279,656	4,396	-	61,219	(214,041)	(214,041)	-	
Total business-type activities	4,119,831	3,349,074	-	61,219	(709,538)	(709,538)	-	
Total primary government	\$ 9,492,831	\$ 3,699,075	\$ 698,413	\$ 392,842	(3,992,963)	(4,702,501)	-	
Component Units								
MPC	\$ 292,273	\$ -	\$ -	\$ 395,567	-	-	103,294	
General revenue:								
Taxes:								
Sales Tax					2,077,264	476,625	2,553,889	
Construction sales tax					505,420	-	505,420	
Property tax					211,769	-	211,769	
Franchise tax					174,630	-	174,630	
Bed tax					87,070	-	87,070	
State sales tax revenue sharing					347,847	-	347,847	
Auto lieu tax revenue sharing					212,641	-	212,641	
State revenue sharing					611,984	-	611,984	
Interest income					3,197	-	3,197	
Miscellaneous					43,577	-	43,577	
Total general revenue					4,275,399	476,625	4,752,024	
Change in net assets					282,436	(232,913)	49,523	
Net assets, July 1, 2009					9,351,157	13,115,735	22,466,892	
Net assets, June 30, 2010					\$ 9,633,593	\$ 12,882,822	\$ 3,190,078	

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Balance Sheet
Governmental Funds
Year Ended June 30, 2010

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,943,334	\$ -	\$ 322,579	\$ -	\$ 3,265,913
Taxes receivable	240,633	-	-	-	240,633
Due from other governments	68,805	30,346	-	39,971	139,122
Prepaid expenses	55,888	49,873	-	-	105,761
Due from other funds	930,353	-	-	-	930,353
Total assets	<u>\$ 4,239,013</u>	<u>\$ 80,219</u>	<u>\$ 322,579</u>	<u>\$ 39,971</u>	<u>\$ 4,681,782</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 151,278	\$ 12,251	\$ -	\$ 608	\$ 164,137
Accrued expenses	80,213	4,393	-	-	84,606
Due to other funds	-	261,083	-	39,363	300,446
Total liabilities	<u>231,491</u>	<u>277,727</u>	<u>-</u>	<u>39,971</u>	<u>549,189</u>
Fund balances					
Unreserved, reported in:					
General fund	4,007,522	-	-	-	4,007,522
Special revenue funds	-	(197,508)	-	-	(197,508)
Capital projects funds	-	-	322,579	-	322,579
Total fund balances	<u>4,007,522</u>	<u>(197,508)</u>	<u>322,579</u>	<u>-</u>	<u>4,132,593</u>
Total liabilities and fund balances	<u>\$ 4,239,013</u>	<u>\$ 80,219</u>	<u>\$ 322,579</u>	<u>\$ 39,971</u>	<u>\$ 4,681,782</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2010

Fund balances--total governmental funds	\$ 4,132,593
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.	6,146,759
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds	<u>(645,759)</u>
Net assets of governmental activities	<u><u>\$ 9,633,593</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, 2010

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Fund
Revenue					
Taxes	\$ 2,550,733	\$ -	\$ 505,420	\$ -	\$ 3,056,153
Intergovernmental	1,355,724	352,190	-	406,727	2,114,641
Fines and forfeitures	44,845	-	-	-	44,845
Licenses and permits	204,663	-	-	-	204,663
Charges for services	39,420	-	-	-	39,420
Impact fees	-	-	141,329	-	141,329
Interest	3,197	-	-	-	3,197
Other revenue	51,188	-	-	-	51,188
Total revenue	<u>4,249,770</u>	<u>352,190</u>	<u>646,749</u>	<u>406,727</u>	<u>5,655,436</u>
Expenditures					
Current					
Public safety	2,061,849	-	-	-	2,061,849
General government	1,344,833	-	53,828	15,214	1,413,875
Culture and recreation	833,238	-	-	7,500	840,738
Highways and streets	-	395,267	-	-	395,267
Public works	133,967	-	-	-	133,967
Debt service					
Principal	59,295	-	161,000	-	220,295
Interest	26,202	-	-	-	26,202
Capital outlay	92,967	-	110,032	387,735	590,734
Total expenditures	<u>4,552,351</u>	<u>395,267</u>	<u>324,860</u>	<u>410,449</u>	<u>5,682,927</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(302,581)</u>	<u>(43,077)</u>	<u>321,889</u>	<u>(3,722)</u>	<u>(27,491)</u>
Other financing sources					
Transfers in	-	-	-	3,722	3,722
Transfers out	(3,722)	-	-	-	(3,722)
Total other financing sources	<u>(3,722)</u>	<u>-</u>	<u>-</u>	<u>3,722</u>	<u>-</u>
Net change in fund balances	(306,303)	(43,077)	321,889	-	(27,491)
Fund balances, July 1, 2009	<u>4,313,825</u>	<u>(154,431)</u>	<u>690</u>	<u>-</u>	<u>4,160,084</u>
Fund balances, June 30, 2010	<u>\$ 4,007,522</u>	<u>\$ (197,508)</u>	<u>\$ 322,579</u>	<u>\$ -</u>	<u>\$ 4,132,593</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, 2010

Net change in fund balances--total governmental funds \$ (27,491)

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	590,734	
Depreciation expense	<u>(521,906)</u>	
		68,828

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		220,295
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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.

Liability for claims and judgments		29,000
Compensated absences		<u>(8,196)</u>

Change in net assets of governmental activities		<u><u>\$ 282,436</u></u>
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See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Business-type Activities--Enterprise Funds					Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Municipal Airport Fund	
ASSETS						
Current assets						
Restricted cash- customer deposits	\$ 48,972	\$ 16,141	\$ -	\$ -	\$ -	\$ 65,113
Accounts receivable - net	53,437	23,312	35,296	12,795	-	124,840
Due from other funds	1,671,244	-	-	175,684	-	1,846,928
Prepaid expenses	-	59,847	39,898	-	-	99,745
Total current assets	<u>1,773,653</u>	<u>99,300</u>	<u>75,194</u>	<u>188,479</u>	<u>-</u>	<u>2,136,626</u>
Noncurrent assets						
Capital assets, net of accumulated depreciation, where applicable:						
Land	-	55,771	354,791	82,500	159,604	652,666
Utilities systems, net	470,181	2,375,052	749,832	-	8,395,556	11,990,621
Buildings, net	-	-	884,853	-	-	884,853
Equipment, net	23,929	95,565	51,701	-	5,668	176,863
Capital assets, net	<u>494,110</u>	<u>2,526,388</u>	<u>2,041,177</u>	<u>82,500</u>	<u>8,560,828</u>	<u>13,705,003</u>
Total noncurrent assets	<u>494,110</u>	<u>2,526,388</u>	<u>2,041,177</u>	<u>82,500</u>	<u>8,560,828</u>	<u>13,705,003</u>
Total assets	<u>2,267,763</u>	<u>2,625,688</u>	<u>2,116,371</u>	<u>270,979</u>	<u>8,560,828</u>	<u>15,841,629</u>
LIABILITIES						
Current liabilities						
Accounts payable	39,408	47,541	20,944	53,302	3,128	164,323
Accrued expenses	10,457	6,997	9,798	-	-	27,252
Refundable deposits	48,972	16,141	-	-	-	65,113
Due to other funds	-	711,923	1,227,358	-	537,554	2,476,835
Compensated absences, current	10,442	9,008	22,777	-	-	42,227
Bonds payable, current	-	172,500	-	-	-	172,500
Total current liabilities	<u>109,279</u>	<u>964,110</u>	<u>1,280,877</u>	<u>53,302</u>	<u>540,682</u>	<u>2,948,250</u>
Noncurrent liabilities						
Compensated absences	2,611	2,252	5,694	-	-	10,557
Total noncurrent liabilities	<u>2,611</u>	<u>2,252</u>	<u>5,694</u>	<u>-</u>	<u>-</u>	<u>10,557</u>
Total liabilities	<u>111,890</u>	<u>966,362</u>	<u>1,286,571</u>	<u>53,302</u>	<u>540,682</u>	<u>2,958,807</u>
Net assets						
Invested in capital assets, net of related debt	494,110	2,353,888	2,041,177	82,500	8,560,828	13,532,503
Unrestricted (deficit)	1,661,763	(694,562)	(1,211,377)	135,177	(540,682)	(649,681)
Total net assets	<u>\$ 2,155,873</u>	<u>\$ 1,659,326</u>	<u>\$ 829,800</u>	<u>\$ 217,677</u>	<u>\$ 8,020,146</u>	<u>\$ 12,882,822</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2010

	Business-type Activities--Enterprise Funds					Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Municipal Airport Fund	
Operating Revenue						
Charges for services, net of bad debt	\$ 1,047,323	\$ 767,406	\$ 817,405	\$ 696,679	\$ 4,396	\$ 3,333,209
Other revenue	87	397	15,186	-	-	15,670
Total operating revenue	<u>1,047,410</u>	<u>767,803</u>	<u>832,591</u>	<u>696,679</u>	<u>4,396</u>	<u>3,348,879</u>
Operating expenses:						
Personnel	411,866	314,054	534,812	-	-	1,260,732
Insurance	36,915	7,299	21,841	-	15,315	81,370
Professional services	11,773	20,825	52,486	656,386	15,005	756,475
Utilities	3,453	155,743	85,038	-	14,565	258,799
Repairs and maintenance	12,314	43,858	37,942	-	10,971	105,085
Materials & supplies	588,238	51,233	42,812	-	1,555	683,838
Other	7,456	13,692	26,088	3,529	-	50,765
Depreciation	40,333	151,323	98,199	-	222,245	512,100
MPC lease payments	-	-	387,127	-	-	387,127
Total operating expenses	<u>1,112,348</u>	<u>758,027</u>	<u>1,286,345</u>	<u>659,915</u>	<u>279,656</u>	<u>4,096,291</u>
Operating income (loss)	<u>(64,938)</u>	<u>9,776</u>	<u>(453,754)</u>	<u>36,764</u>	<u>(275,260)</u>	<u>(747,412)</u>
Nonoperating revenue (expenses)						
Sales tax	-	-	476,625	-	-	476,625
Interest expense	-	(23,345)	-	-	-	(23,345)
Total nonoperating revenue (expenses)	<u>-</u>	<u>(23,345)</u>	<u>476,625</u>	<u>-</u>	<u>-</u>	<u>453,280</u>
Income (loss) before contributions, gains, losses, and transfers	<u>(64,938)</u>	<u>(13,569)</u>	<u>22,871</u>	<u>36,764</u>	<u>(275,260)</u>	<u>(294,132)</u>
Capital grants	-	-	-	-	61,219	61,219
Increase (decrease) in net assets	<u>(64,938)</u>	<u>(13,569)</u>	<u>22,871</u>	<u>36,764</u>	<u>(214,041)</u>	<u>(232,913)</u>
Total net assets, July 1, 2009	<u>2,220,811</u>	<u>1,672,895</u>	<u>806,929</u>	<u>180,913</u>	<u>8,234,187</u>	<u>13,115,735</u>
Total net assets, June 30, 2010	<u>\$ 2,155,873</u>	<u>\$ 1,659,326</u>	<u>\$ 829,800</u>	<u>\$ 217,677</u>	<u>\$ 8,020,146</u>	<u>\$ 12,882,822</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010

	Business-type Activities--Enterprise Funds					
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Municipal Airport Fund	Total
Cash flows from operating activities:						
Receipts from customers	\$ 1,038,137	\$ 769,223	\$ 805,343	\$ 703,130	\$ 4,396	\$ 3,320,229
Payments to suppliers and providers of goods and services	(627,363)	(265,947)	(649,094)	(660,619)	(61,228)	(2,264,251)
Payments to employees	(423,292)	(315,462)	(538,670)	-	-	(1,277,424)
Net cash provided (used) by operating activities	<u>(12,518)</u>	<u>187,814</u>	<u>(382,421)</u>	<u>42,511</u>	<u>(56,832)</u>	<u>(221,446)</u>
Cash flows from noncapital financing activities:						
Received from other funds	26,057	60,126	-	-	58,402	144,585
Paid to other funds	-	-	(94,204)	(42,511)	-	(136,715)
Sales tax	-	-	476,625	-	-	476,625
Net cash provided (used) by noncapital financing activities	<u>26,057</u>	<u>60,126</u>	<u>382,421</u>	<u>(42,511)</u>	<u>58,402</u>	<u>484,495</u>
Cash flows from capital and related financing activities:						
Principal paid on long-term debt	-	(180,790)	-	-	-	(180,790)
Purchase of capital assets	(14,089)	(59,769)	-	-	(62,789)	(136,647)
Capital grant receipts	-	-	-	-	61,219	61,219
Interest paid	-	(23,345)	-	-	-	(23,345)
Net cash provided (used) by capital and related financing activities	<u>(14,089)</u>	<u>(263,904)</u>	<u>-</u>	<u>-</u>	<u>(1,570)</u>	<u>(279,563)</u>
Net increase (decrease) in cash and cash equivalents	(550)	(15,964)	-	-	-	(16,514)
Cash and cash equivalents, July 1, 2009	<u>49,522</u>	<u>32,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,627</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 48,972</u>	<u>\$ 16,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,113</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010
(Continued)

	Business-type Activities--Enterprise Funds					
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Municipal Airport Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (64,938)	\$ 9,776	\$ (453,754)	\$ 36,764	\$ (275,260)	\$ (747,412)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	40,333	151,323	98,199	-	222,245	512,100
Bad debts	100	67	-	28	-	195
(Increase) decrease in:						
Accounts receivable	(8,923)	3,506	(27,248)	6,395	-	(26,270)
Increase (decrease) in:						
Accounts payable	32,886	26,770	4,240	(676)	(3,817)	59,403
Accrued expenses	(8,127)	110	261	-	-	(7,756)
Refundable deposits	(550)	(2,220)	-	-	-	(2,770)
Compensated absences payable	(3,299)	(1,518)	(4,119)	-	-	(8,936)
Net cash provided (used) by operating activities	<u>\$ (12,518)</u>	<u>\$ 187,814</u>	<u>\$ (382,421)</u>	<u>\$ 42,511</u>	<u>\$ (56,832)</u>	<u>\$ (221,446)</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 597,981
Accounts receivable	<u>531</u>
Total assets	<u>598,512</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for investment trust participants	<u><u>\$ 598,512</u></u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2010

	Trust Fund
Additions:	
Contributions	\$ 19,600
Other income	4,659
Interest and dividends	12,746
Total additions	37,005
Deductions:	
Pension payments	26,400
Total deductions	26,400
Change in net assets	10,605
Net assets, July 1, 2009	587,907
Net assets, June 30, 2010	\$ 598,512

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

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.

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 assets 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, 2010

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, 2010

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 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, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The City's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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. The amount recorded as uncollectible at June 30, 2010 for the Gas, Water, Liquid Waste, and Solid Waste Funds was \$50,001, \$27,660, \$9,575, and \$19,149 respectively.

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.

The property tax rate to finance current operations and maintenance expenses for the year ended June 30, 2010, was \$0.4645 per \$100 of the primary assessed valuation of \$49,642,462

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

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.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

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, 2010, the carrying amount of the City’s total nonpooled cash in bank was \$3,852,602 and the bank balance was \$3,931,420. Of the bank balance, \$2,860,976 was covered by federal depository insurance or by collateral held by the City or its agent in the City’s name, \$100,000 by Securities Investor Protection Corporation, \$533,928 backed by the U.S. government, and \$436,516 was insured by a commercial insurer.

Investments – At June 30, 2010, the investments consisted of the following.

	Rating	Reported Amount	Fair Value
Investment in State Treasurer's investment pool			
Primary Government	Unrated	\$ 365,349	\$ 365,349
Investment in State Treasurer's investment pool			
Fiduciary Funds	Unrated	\$ 61,490	\$ 61,490

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 deposits – Of the total deposits in bank, \$65,113 is restricted for refundable customer deposits in the proprietary funds.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2010, included \$30,346 in state-shared revenue from highway user revenue fund (HURF) taxes, \$29,744 in state-shared revenue from sales taxes, \$24,199 in federal-shared revenue from Homeland Security, \$20,284 in county-shared revenue from auto lieu taxes, \$19,750 in revenue from various governmental agencies, and \$14,799 in state-shared revenue from department of transportation.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 474,013	-	-	\$ 474,013
Total capital assets not being depreciated	<u>474,013</u>	<u>-</u>	<u>-</u>	<u>474,013</u>
Capital assets being depreciated:				
Buildings	3,048,214	-	-	3,048,214
Equipment/Recreation	3,165,682	280,492	-	3,446,174
Infrastructure	3,632,155	310,242	-	3,942,397
Total	<u>9,846,051</u>	<u>590,734</u>	<u>-</u>	<u>10,436,785</u>
Less accumulated depreciation for:				
Buildings	(1,559,454)	(54,423)	-	(1,613,877)
Equipment/Recreation	(1,346,160)	(322,197)	-	(1,668,357)
Infrastructure	(1,336,519)	(145,286)	-	(1,481,805)
Total	<u>(4,242,133)</u>	<u>(521,906)</u>	<u>-</u>	<u>(4,764,039)</u>
Total capital assets being depreciated, net	<u>5,603,918</u>	<u>68,828</u>	<u>-</u>	<u>5,672,746</u>
Governmental activities capital assets, net	<u>\$ 6,077,931</u>	<u>\$ 68,828</u>	<u>\$ -</u>	<u>\$ 6,146,759</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 4 – CAPITAL ASSETS – Continued

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 641,895	\$ 10,771	\$ -	\$ 652,666
Total capital assets not being depreciated	<u>641,895</u>	<u>10,771</u>	<u>-</u>	<u>652,666</u>
Capital assets being depreciated:				
Utility systems	15,580,880	104,862	-	15,685,742
Buildings	2,166,797	-	-	2,166,797
Equipment	654,994	21,014	-	676,008
Total	<u>18,402,671</u>	<u>125,876</u>	<u>-</u>	<u>18,528,547</u>
Less accumulated depreciation for:				
Utility systems	(3,291,682)	(403,439)	-	(3,695,121)
Buildings	(1,225,179)	(56,765)	-	(1,281,944)
Equipment	(447,249)	(51,896)	-	(499,145)
Total	<u>(4,964,110)</u>	<u>(512,100)</u>	<u>-</u>	<u>(5,476,210)</u>
Total capital assets being depreciated, net	<u>13,438,561</u>	<u>(386,224)</u>	<u>-</u>	<u>13,052,337</u>
Business-type activities capital assets, net	<u>\$ 14,080,456</u>	<u>\$ (375,453)</u>	<u>\$ -</u>	<u>\$ 13,705,003</u>
	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Component Unit activities:				
Capital assets being depreciated:				
Utility systems	\$ 6,795,453	\$ -	\$ -	\$ 6,795,453
Less accumulated depreciation for:				
Utility systems	(1,185,290)	(169,886)	-	(1,355,176)
Component unit activities capital assets, net	<u>\$ 5,610,163</u>	<u>\$ (169,886)</u>	<u>\$ -</u>	<u>\$ 5,440,277</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 76,133
Public safety	172,720
Highways and streets	145,286
Culture and recreation	112,860
Public works	<u>14,907</u>
 Total governmental activities depreciation expense	 <u><u>\$ 521,906</u></u>
 Business-type activities:	
Gas	\$ 40,333
Water	151,323
Liquid waste	98,199
Airport	<u>222,245</u>
 Total business-type activities depreciation expense	 <u><u>\$ 512,100</u></u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2010.

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within 1 year
Governmental activities:					
Compensated absences	\$ 124,624	\$ 146,891	\$ 138,695	\$ 132,820	\$ 106,256
Capital leases payable	365,355	-	54,750	310,605	57,071
Bond payable	333,500	-	161,000	172,500	172,500
Notes payable	34,379	-	4,545	29,834	4,545
Governmental activities long-term liabilities	<u>\$ 857,858</u>	<u>\$ 146,891</u>	<u>\$ 358,990</u>	<u>\$ 645,759</u>	<u>\$ 340,372</u>
Business-type activities:					
Compensated absences	\$ 61,720	\$ 150,933	\$ 159,869	\$ 52,784	\$ 42,227
Bond payable	333,500	-	161,000	172,500	172,500
Notes payable	19,790	-	19,790	-	-
Business-type activities long-term liabilities	<u>\$ 415,010</u>	<u>\$ 150,933</u>	<u>\$ 340,659</u>	<u>\$ 225,284</u>	<u>\$ 214,727</u>
Component unit activities:					
Notes payable	\$ 2,838,621	\$ -	\$ 237,987	\$ 2,600,634	\$ 271,555
Component unit activities long-term liabilities	<u>\$ 2,838,621</u>	<u>\$ -</u>	<u>\$ 237,987</u>	<u>\$ 2,600,634</u>	<u>\$ 271,555</u>

Bonds Payable – The City’s bonded debt consists of a 2006 Excise Tax Revenue Bond issuance of \$1,220,000 of which the City has received \$1,000,000 as of June 30, 2006. The Excise Tax Revenue Bond requires repayments of interest only due semi-annually starting July 1, 2006, with principal payments starting on July 1, 2008. Bonds outstanding at June 30, 2010, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Excise Tax Revenue Bond	<u>\$1,000,000</u>	2009-2010	4.75%	<u>\$ 345,000</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the City’s notes payable at June 30, 2010.

Year Ending June 30	Governmental Activities							
	Notes Payable		Leases Payable		Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	4,873	1,934	57,072	13,169	172,500	4,097	234,445	19,200
2012	5,226	1,582	59,491	10,750	-	-	64,717	12,332
2013	5,603	1,204	62,014	8,227	-	-	67,617	9,431
2014	6,008	799	64,643	5,597	-	-	70,651	6,396
2015	6,443	364	67,385	2,857	-	-	73,828	3,221
2016-18	1,681	20	-	-	-	-	1,681	20
Total	\$ 29,834	\$ 5,903	\$ 310,605	\$ 40,600	\$ 172,500	\$ 4,097	\$ 512,939	\$ 50,600

Year Ending June 30	Business-type Activities		Component Unit	
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2011	172,500	4,096	271,555	110,372
2012	-	-	286,123	97,805
2013	-	-	299,267	84,661
2014	-	-	313,015	70,912
2015	-	-	327,395	56,532
2016-18	-	-	1,103,279	35,067
Total	\$ 172,500	\$ 4,096	\$ 2,600,634	\$ 455,349

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 5 – LONG-TERM LIABILITIES – Continued

Notes payable consisted of the following:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
<u>Governmental Activities</u>				
Note payable - Individual	\$ 60,000	2015	7.00%	\$ 29,834
<u>Component Unit Activities</u>				
Note payable - USDA	\$ 4,892,000	2018	4.50%	\$ 2,600,634

Capital leases—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 asset acquired through a capital lease is as follows:

	<u>Governmental Activities</u>
Equipment	\$ 516,602
Less: accumulated depreciation	<u>(243,015)</u>
Carrying value	<u>\$ 273,587</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the City’s capital leases payable at June 30, 2010.

Year Ending June 30	Governmental Activities
2011	70,241
2012	70,241
2013	70,241
2014-15	140,482
Total minimum lease payments	351,205
Less amount representing interest	(40,600)
Present value of net minimum lease payments	\$ 310,605

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events were evaluated through December 6, 2010, which is the date of the financial statements were available to be issued.

As of July 1, 2010, subsequent bonds were purchased that totaled \$5,240,000. A refunding obligation of \$2,715,000 was purchased to consolidate current debt with a more favorable interest rate and a revenue bond of \$2,525,000 was purchased for future capital and operating expenditures.

As of October 24, 2010, the San Pedro Golf Course was gifted to the City by it’s owner, including a charitable contribution of \$150,000 on the date of ownership changes and a commitment to pay \$25,000 a month for 32 months to be spent on golf course operations and improvements. The total cash contribution commitment by the owner is \$950,000. The City did not take on any addition debt on this contribution.

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.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

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.

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.

ASRS	PSPRS
3300 N. Central Ave.	1020 E. Missouri Ave.
P.O. Box 33910	Phoenix, AZ 85014
Phoenix, AZ 85067-3910	(602) 255-5575
(602) 240-2000 or (800) 621-3778	

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, 2010, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 9.4 percent (8.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2010, 2009, and 2008, were \$233,785, \$237,079, and \$221,098 respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2010, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 13.65 and 9.64 percent for police and fire personnel respectively.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 8 – RETIREMENT PLANS – Continued

Annual Pension Cost – The City’s pension cost for the agent plan for the year ended June 30, 2010, and related information follows.

	PSPRS	
	Police	Fire
Contribution rates:		
City	13.65%	9.64%
Plan members	7.65%	7.65%
Annual pension cost	\$ 171,501	\$ 6,369
Contributions made	\$ 171,501	\$ 6,369

The current-year annual required contributions for the PSPRS were determined as part of its June 30, 2010, actuarial valuation using the individual entry-age actuarial cost method. The actuarial assumptions included (a) 8.5 percent investment rate of return and (b) projected salary increases ranging from 5.5 percent to 9.0 percent per year. Both (a) and (b) included an inflation component of 5.5 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 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 20 years.

Trend Information – Annual pension cost information for the 3 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	2010	177,870	100 %	-
	2009	168,448	100 %	-
	2008	105,484	100 %	-

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2010

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2010, were as follows:

Payable from	Payable to			
	General Fund	Gas Fund	Solid Waste Fund	Total
Liquid Waste Fund	\$ -	\$ 1,227,358	\$ -	\$ 1,227,358
Water Fund	92,353	443,886	175,684	711,923
Municipal Airport Fund	537,554	-	-	537,554
HURF/LTAF Fund	261,083	-	-	261,083
Other governmental funds	39,363	-	-	39,363
	\$ 930,353	\$ 1,671,244	\$ 175,684	\$ 2,777,281

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
General Fund
June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Taxes	\$ 2,506,374	\$ 2,506,374	\$ 2,550,733	\$ 44,359
Intergovernmental	1,221,678	1,221,678	1,355,724	134,046
Fines & forfeitures	83,500	83,500	44,845	(38,655)
Licenses and permits	112,500	112,500	204,663	92,163
Charges for services	157,050	157,050	39,420	(117,630)
Interest	30,000	30,000	3,197	(26,803)
Other revenue	11,200	11,200	51,188	39,988
Total revenue	<u>4,122,302</u>	<u>4,122,302</u>	<u>4,249,770</u>	<u>127,468</u>
Expenditures				
Current				
Public safety	2,379,058	2,379,058	2,061,849	317,209
General government	2,651,510	2,651,510	1,344,833	1,306,677
Culture and recreation	946,214	946,214	833,238	112,976
Public works	144,146	144,146	133,967	10,179
Debt service				
Principal/Interest	-	-	85,497	(85,497)
Capital outlay	-	-	92,967	(92,967)
Total expenditures	<u>6,120,928</u>	<u>6,120,928</u>	<u>4,552,351</u>	<u>1,251,368</u>
Excess (deficiency) of revenue over expenditures	<u>(1,998,626)</u>	<u>(1,998,626)</u>	<u>(302,581)</u>	<u>(1,123,900)</u>
Other financing sources				
Sale of Assets	25,000	25,000	-	(25,000)
Transfers in/(out)	-	-	(3,722)	(3,722)
Total other financing sources	<u>25,000</u>	<u>25,000</u>	<u>(3,722)</u>	<u>(28,722)</u>
Net changes in fund balances	(1,973,626)	(1,973,626)	(306,303)	(1,123,900)
Fund balances, July 1, 2009	1,973,626	1,973,626	4,313,825	8,261,077
Fund balances, June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,007,522</u>	<u>\$ 7,137,177</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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 381,655	\$ 381,655	\$ 352,190	\$ (29,465)
Total revenue	<u>381,655</u>	<u>381,655</u>	<u>352,190</u>	<u>(29,465)</u>
Expenditures				
Highways and streets	381,655	381,655	395,267	(13,612)
Total expenditures	<u>381,655</u>	<u>381,655</u>	<u>395,267</u>	<u>(13,612)</u>
Net changes in fund balances	-	-	(43,077)	(43,077)
Fund balances, July 1, 2009	-	-	(154,431)	(154,431)
Fund balances, June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (197,508)</u></u>	<u><u>\$ (197,508)</u></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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 1,205,000	\$ 1,205,000	\$ 505,420	\$ (699,580)
Impact fees	50,000	50,000	141,329	91,329
Total revenue	<u>1,255,000</u>	<u>1,255,000</u>	<u>646,749</u>	<u>(608,251)</u>
Expenditures				
General government	-	-	53,828	53,828
Principle on debt	-	-	161,000	161,000
Capital outlay	1,154,460	1,154,460	110,032	(1,044,428)
Total expenditures	<u>1,154,460</u>	<u>1,154,460</u>	<u>324,860</u>	<u>(829,600)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>100,540</u>	<u>100,540</u>	<u>321,889</u>	<u>221,349</u>
Other financing sources				
Transfers out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	100,540.00	100,540.00	321,889	221,349
Fund balances, July 1, 2009	-	-	690	690
Fund balances, June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,579</u>	<u>\$ 222,039</u>

See accompanying notes to budgetary comparison schedule.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2010

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

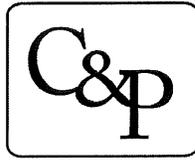
The City's budget is prepared on a basis consistent with generally accepted accounting principles, except for the following unbudgeted items.

- Financial activity of component unit.
- Expendable Trust Fund.
- Enterprise Funds.

CITY OF BENSON, ARIZONA
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Process
June 30, 2010

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2009	\$1,883,837	\$2,809,602	\$(925,765)	67.0 %	\$ 844,098	109.7 %
6/30/2008	\$1,677,675	\$2,500,103	\$(822,428)	67.1 %	\$ 838,583	98.1 %
6/30/2007	\$1,486,103	\$2,399,757	\$(913,654)	61.9 %	\$ 722,158	126.5 %



COLBY &
POWELL, PLC

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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the City Council
City of Benson, Arizona

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, 2010, which collectively comprise the City of Benson, Arizona's basic financial statements and have issued our report thereon dated December 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Benson, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City's management, City Council, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Colby + Powell PLC

December 6, 2010

CITY OF BENSON, ARIZONA
Schedule of Prior Year Audit Findings
June 30, 2010

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

Item: 09-01

Subject: Unrecorded transactions and bank balances.

Condition: It was determined the City had a bank account and it's respective transactions not recorded on the general ledger

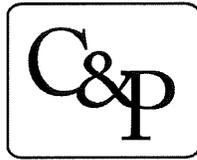
Status: The City has corrected the issue with no similar finding for 2010.

Item: 09-02

Subject: Unallowable grant reimbursement.

Condition: Expenditures reimbursed under the airport improvement grant were unallowable due to their previous reimbursement from a state agency.

Status: The City has corrected this issue and refunded all monies to the state agency with no similar finding for 2010.



**COLBY &
POWELL, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

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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**

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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 6, 2010.

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 PLC

December 6, 2010