

CITY OF BENSON, ARIZONA

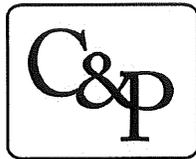
Annual Financial Statements
and Independent Auditors' Report
June 30, 2011

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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, 2011, 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, 2011, and the respective changes in financial position, and where applicable, cash flows 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 15, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 3 through 11 and 42 through 48, and the Schedule of Agent Retirement Plans' Funding Progress on page 46 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Benson, Arizona's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Colby + Powell PLC

December 15, 2011

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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, 2011.

FINANCIAL HIGHLIGHTS

- 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 infrastructure projects. As a result, the City's wastewater treatment plant was transferred from the Benson Municipal Property Corporation into the City's Wastewater Fund.
- Effective November 1, 2010, the San Pedro Golf Course was gifted to the City by its owner. The golf course, with its related buildings and equipment, is valued at \$8.7 million in the accompanying financial statements. The donation also 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.
- The City began operation of a fixed deviated transit route during the year. The transit system serves the greater San Pedro Valley area. The project is almost fully funded through grant funds. The City purchased three transit vans for a total of \$379,240.
- The City's total net assets increased \$11.6 million to \$34.1 million. Net assets from governmental activities decreased \$2.6 million to \$7.0 million due principally to the completion of the \$5.4 million bond issue. Net assets from business-type activities increased \$14.2 million to \$27.1 million, due principally to the addition of the golf course and the transfer of the wastewater treatment plant to the wastewater fund from the Benson Municipal Property Corporation.
- The City's revenues from governmental activities increased \$.7 million to \$6.4 million. Revenues from business-type activities increased \$9.2 million to \$13.1 million, principally due to donation of the golf course to the City.
- Expenditures from governmental activities increased \$1.0 million to \$6.4 million. Expenses from business-type activities increased \$0.5 million to \$4.6 million, principally as a result of golf course operations.
- The total outstanding debt of the City increased by \$2.3 million to \$5.8 million as a result of the bonds issued during the past fiscal year.
- At June 30, 2011, the unreserved fund balance for the General Fund was \$6.8 million, or 149% of the fund's expenditures for the year.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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

The City adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with the budget. The budgetary information can be found on pages 42-44 of this report.

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary statements for the General, Highway Users (HURF) and Capital Projects Funds, and the progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 41-47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$34.2 million at June 30, 2011. The largest portion of the City's net assets (99%) 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.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

The following table presents a summary of the City's net assets at the two most recent fiscal year ends - June 30, 2011 and June 30, 2010.

Net Assets at June 30, 2011 and 2010

	Fiscal Year 2011			Fiscal Year 2010		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Government</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Government</u>
Cash and receivables	\$ 6,573,377	\$ (401,626)	\$ 6,171,751	\$ 4,275,575	\$ (439,954)	\$ 3,835,621
Other assets	307,159	115,928	423,087	105,761	99,745	205,506
Capital assets	<u>6,266,235</u>	<u>27,792,643</u>	<u>34,058,878</u>	<u>6,146,759</u>	<u>13,705,003</u>	<u>19,851,762</u>
Total assets	<u><u>\$ 13,146,771</u></u>	<u><u>\$ 27,506,945</u></u>	<u><u>\$ 40,653,716</u></u>	<u><u>\$ 10,528,095</u></u>	<u><u>\$ 13,364,794</u></u>	<u><u>\$ 23,892,889</u></u>
Current liabilities	\$ 874,410	\$ 367,473	\$ 1,241,883	\$ 248,743	\$ 256,688	\$ 505,431
Non-current liabilities	<u>5,251,127</u>	<u>19,631</u>	<u>5,270,758</u>	<u>645,759</u>	<u>225,284</u>	<u>871,043</u>
Total liabilities	<u><u>\$ 6,125,537</u></u>	<u><u>\$ 387,104</u></u>	<u><u>\$ 6,512,641</u></u>	<u><u>\$ 894,502</u></u>	<u><u>\$ 481,972</u></u>	<u><u>\$ 1,376,474</u></u>
Net assets:						
Invested in capital assets						
net of debt	\$ 5,987,741	\$ 27,792,643	\$ 33,780,384	\$ 5,633,820	\$ 13,532,503	\$ 19,166,323
Unrestricted	<u>1,033,493</u>	<u>(672,802)</u>	<u>360,691</u>	<u>3,999,773</u>	<u>(649,681)</u>	<u>3,350,092</u>
Total net assets	<u><u>\$ 7,021,234</u></u>	<u><u>\$ 27,119,841</u></u>	<u><u>\$ 34,141,075</u></u>	<u><u>\$ 9,633,593</u></u>	<u><u>\$ 12,882,822</u></u>	<u><u>\$ 22,516,415</u></u>

The City's overall financial position improved during the year as reflected in the increase in net assets to a total of \$34.1 million. The unrestricted net assets of the combined governmental and business-type activities decreased by \$3.0 million during the year, to \$360,691. This decrease appears dramatic, but is due to the increase in non-current bond debt. 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.

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.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

Changes in net assets. The City's total revenues for the fiscal year ended June 30, 2011, were \$19.4 million. The total cost of all programs and services was also \$11.0 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2011, and June 30, 2010.

Governmental and Business-type Activities
For the fiscal year ending June 30, 2011 and 2010

	Fiscal Year 2011		Fiscal Year 2010	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Revenue				
Program Revenue				
Charges for services & misc.	\$ 345,175	\$ 3,590,975	\$ 350,001	\$ 3,349,074
Grants and contributions	1,437,325	9,535,243	1,030,036	61,219
Total Program Revenue	<u>1,782,500</u>	<u>13,126,218</u>	<u>1,380,037</u>	<u>3,410,293</u>
General Revenue				
Taxes	3,488,790	-	3,056,153	476,625
Intergovernmental	1,037,310	-	1,172,472	-
Interest	23,754	-	3,197	-
Other	25,371	-	43,577	-
Total general revenue	<u>4,575,225</u>	<u>-</u>	<u>4,275,399</u>	<u>476,625</u>
Total revenue	<u>6,357,725</u>	<u>13,126,218</u>	<u>5,655,436</u>	<u>3,886,918</u>
Expenses				
General government	1,993,117	-	1,488,710	-
Culture, recreation & welfare	1,055,209	-	954,932	-
Public safety	2,307,254	-	2,238,519	-
Highways and streets	706,141	-	541,682	-
Public Works	143,680	-	149,157	-
Interest on long-term debt	214,420	-	-	-
Gas, water, sewer and garbage	-	3,553,751	-	3,840,175
Golf Course	-	789,925	-	-
Airport	-	285,864	-	279,656
Total expenses	<u>6,419,821</u>	<u>4,629,540</u>	<u>5,373,000</u>	<u>4,119,831</u>
Increase in net assets	(62,096)	8,496,678	282,436	(232,913)
Beginning net assets	9,633,593	12,882,822	9,351,157	13,115,725
Transfers	(2,550,263)	5,740,341	-	-
Ending net assets	<u>\$ 7,021,234</u>	<u>\$ 27,119,841</u>	<u>\$ 9,633,593</u>	<u>\$ 12,882,812</u>

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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, 2011 and 2010

	Fiscal Year 2011		Fiscal Year 2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$ 1,993,117	\$ 1,628,036	\$ 1,462,508	\$ 1,082,874
Culture and recreation	873,769	843,123	954,932	931,034
Welfare	171,440	(304,443)	-	-
Highways and Streets	706,141	243,303	541,682	(53,760)
Public Safety	2,317,254	1,891,700	2,238,519	1,879,336
Public Works	143,680	111,182	149,157	127,277
Interest on long-term debt	214,420	214,420	26,202	26,202
Total	\$ 6,419,821	\$ 4,627,321	\$ 5,373,000	\$ 3,992,963

Business-type activities. The cost of providing all business-type activities for fiscal 2010-2011 was \$4.6 million, up from \$4.1 million last year. The increase is due to the addition of the golf course.

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, 2011 and 2010

	Fiscal Year 2011		Fiscal Year 2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Gas	\$ 1,078,101	\$ 171,970	\$ 1,112,448	\$ 64,938
Water	748,279	(2,130)	781,439	13,569
Liquid waste	1,008,559	140,434	1,286,345	453,754
Solid waste	663,777	(8,527)	659,943	(36,764)
Airport	285,864	275,063	279,656	214,041
Golf Course	789,925	461,755	-	-
Total	\$ 4,574,505	\$ 1,038,565	\$ 4,119,831	\$ 709,538

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011 the City had invested \$34.1 million in capital assets (net of accumulated depreciation) as reflected in the following table. Of the total, \$17 million represents current year infrastructure, buildings, and equipment additions and transfers.

The following table the changes in capital assets for the fiscal years ended June 30, 2011, and June 30, 2010.

Change in Capital Assets for the fiscal years ended June 30, 2011 and 2010

	Fiscal Year 2011				Fiscal Year 2010			
	Governmental	Business Type	Component	Total	Governmental	Business Type	Component	Total
	Activities	Activities	Unit		Activities	Activities	Unit	
Beginning Balance	\$ 6,146,759	\$ 13,705,003	\$ 5,440,277	\$ 25,292,039	\$ 6,077,931	\$ 14,080,456	\$ 5,610,163	\$ 25,768,550
Additions	716,876	9,480,021	-	10,196,897	590,734	136,647	-	727,381
Deductions	(31,436)	-	-	(31,436)	-	-	-	-
Transfer	-	5,440,277	(5,440,277)	-	-	-	-	-
Depreciation	(565,964)	(832,658)	-	(1,398,622)	(521,906)	(512,100)	(169,886)	(1,203,892)
Ending Balance	<u>\$ 6,266,235</u>	<u>\$ 27,792,643</u>	<u>\$ -</u>	<u>\$ 34,058,878</u>	<u>\$ 6,146,759</u>	<u>\$ 13,705,003</u>	<u>\$ 5,440,277</u>	<u>\$ 25,292,039</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, 2011

Debt Administration

As of June 30, 2011, the City had \$5.8 million in total debt outstanding, compared to \$3.5 million as of June 30, 2010.

Outstanding Debt at June 30, 2011 and 2010

	2011	2010
Governmental:		
Compensated absences	\$ 216,040	\$ 132,820
Capital lease	253,534	310,605
Bond Payable	5,240,000	172,500
Bond discount	(43,262)	-
Notes payable	24,961	29,834
Total governmental	5,691,273	645,759
Business-type:		
Compensated absences	98,157	52,784
Bond payable	-	172,500
Total business-type	98,157	225,284
Component Unit:		
Notes payable	-	2,600,634
Total	\$ 5,789,430	\$ 3,471,677

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

Economic Factors

The City of Benson, along with most cities in Arizona and across the nation, experienced its third 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 four 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 2010-2011, 88% of the general fund revenues were derived from state shared revenues and local sales tax. Given the current and projected economic trends and general economic uncertainties, the City anticipates a further contraction of revenues during the 2011-2012 fiscal year. The fiscal 2011-2012 budget anticipates a further 9% reduction in state shared revenues and local sales tax collections.

CITY OF BENSON, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,418,181	\$ -	\$ 2,418,181
Restricted cash- bond proceeds	2,783,329	-	2,783,329
Restricted cash- customer deposits	-	89,762	89,762
Accounts receivable - net	-	148,583	148,583
Taxes receivable	376,674	-	376,674
Prepaid expenses	138,835	109,265	248,100
Deferred charges	178,324	-	178,324
Due from other governments	345,222	-	345,222
Due from (to) other funds	639,971	(639,971)	-
Inventory	-	6,663	6,663
Capital assets, not being depreciated	474,013	7,744,582	8,218,595
Capital assets, being depreciated, net	5,792,222	20,048,061	25,840,283
Total assets	13,146,771	27,506,945	40,653,716
LIABILITIES			
Accounts payable	235,016	133,141	368,157
Deferred revenue	-	25,390	25,390
Accrued expenses	100,792	65,654	166,446
Refundable deposits	-	64,762	64,762
Interest payable	98,456	-	98,456
Noncurrent liabilities			
Due within 1 year	440,146	78,526	518,672
Due in more than 1 year	5,251,127	19,631	5,270,758
Total liabilities	6,125,537	387,104	6,512,641
NET ASSETS			
Invested in capital assets, net of related debt	5,987,741	27,792,643	33,780,384
Unrestricted (deficit)	1,033,493	(672,802)	360,691
Total net assets	\$ 7,021,234	\$ 27,119,841	\$ 34,141,075

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Activities
Year Ended June 30, 2011

	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities			Total
Primary government:									
Governmental activities									
General government	\$ 1,993,117	\$ 207,222	\$ 157,859	\$ -	\$ (1,628,036)	\$ -	\$ (1,628,036)	\$ -	
Public safety	2,317,254	82,740	192,113	140,701	(1,901,700)	-	(1,901,700)	-	
Highways and streets	706,141	-	374,452	88,386	(243,303)	-	(243,303)	-	
Public works	143,680	32,498	-	-	(111,182)	-	(111,182)	-	
Culture and recreation	873,769	17,716	12,930	-	(843,123)	-	(843,123)	-	
Welfare	171,440	4,999	99,801	371,083	304,443	-	(843,123)	-	
Interest on long-term debt	214,420	-	-	-	(214,420)	-	(214,420)	-	
Total governmental activities	6,419,821	345,175	837,155	600,170	(4,637,321)	-	(4,941,764)	-	
Business-type activities									
Gas	1,123,342	951,372	-	-	-	(171,970)	(171,970)	-	
Water	756,495	758,625	-	-	-	2,130	2,130	-	
Liquid waste	1,010,137	869,703	-	-	-	(140,434)	(140,434)	-	
Solid waste	663,777	672,304	-	-	-	8,527	8,527	-	
Golf course	789,925	328,170	285,000	8,865,647	-	8,688,892	8,688,892	-	
Municipal Airport	285,864	10,801	-	384,596	-	109,533	109,533	-	
Total business-type activities	4,629,540	3,590,975	285,000	9,250,243	-	8,496,678	8,496,678	-	
Total primary government	11,049,361	3,936,150	1,122,155	9,850,413	(4,637,321)	8,496,678	3,554,914	-	
Component Units									
MPC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
General revenue:									
Taxes:									
Sales Tax					2,694,081		2,694,081	-	
Construction sales tax					318,176		318,176	-	
Property tax					250,510		250,510	-	
Franchise tax					151,334		151,334	-	
Bed tax					74,689		74,689	-	
State sales tax revenue sharing					365,038		365,038	-	
Auto lieu tax revenue sharing					210,915		210,915	-	
State revenue sharing					461,357		461,357	-	
Interest income					23,754		23,754	-	
Miscellaneous					25,371		25,371	-	
Transfers					(2,550,263)		(2,550,263)	-	
Total general revenue					5,740,341		5,740,341	(3,190,078)	
Change in net assets					2,024,962		7,765,303	(3,190,078)	
Net assets, July 1, 2010					(2,612,359)		14,237,019	(3,190,078)	
Net assets, June 30, 2011					9,633,593		22,516,415	3,190,078	
					\$ 7,021,234		\$ 33,836,632	\$ -	

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Balance Sheet
Governmental Funds
Year Ended June 30, 2011

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,418,181	\$ -	\$ -	\$ -	\$ 2,418,181
Resrecited cash	2,783,329	-	-	-	2,783,329
Taxes receivable	376,674	-	-	-	376,674
Due from other governments	81,080	31,765	-	232,377	345,222
Prepaid expenses	84,201	54,634	-	-	138,835
Due from other funds	1,307,690	-	-	-	1,307,690
Total assets	\$ 7,051,155	\$ 86,399	\$ -	\$ 232,377	\$ 7,369,931
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 84,893	\$ 19,988	\$ 6,270	\$ 123,865	\$ 235,016
Accrued expenses	94,133	3,840	-	2,819	100,792
Deferred revenue	43,229	-	-	-	43,229
Due to other funds	-	430,157	72,848	164,714	667,719
Total liabilities	222,255	453,985	79,118	291,398	1,046,756
Fund balances					
Unassigned	6,828,900	(367,586)	(79,118)	(59,021)	6,323,175
Total liabilities and fund balances	\$ 7,051,155	\$ 86,399	\$ -	\$ 232,377	\$ 7,369,931

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, 2011

Fund balances--total governmental funds	\$ 6,323,175
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.	178,324 6,266,235
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	43,229
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds	<u>(5,789,729)</u>
Net assets of governmental activities	<u><u>\$ 7,021,234</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, 2011

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Fund
Revenue					
Taxes	\$ 3,127,385	\$ -	\$ 318,176	\$ -	\$ 3,445,561
Intergovernmental	1,242,771	344,242	-	829,240	2,416,253
Licenses and permits	185,698	-	-	-	185,698
Impact fees	-	-	86,110	-	86,110
Charges for services	63,924	-	-	4,999	68,923
Other revenue	35,535	24,147	-	-	59,682
Fines and forfeitures	28,514	-	-	-	28,514
Interest	23,755	-	-	-	23,755
Total revenue	<u>4,707,582</u>	<u>368,389</u>	<u>404,286</u>	<u>834,239</u>	<u>6,314,496</u>
Expenditures					
Current					
Public safety	2,043,925	-	-	62,453	2,106,378
General government	1,281,954	-	528,955	86,089	1,896,998
Culture and recreation	705,190	-	6,500	3,824	715,514
Highways and streets	-	538,467	-	-	538,467
Public works	125,900	-	-	-	125,900
Welfare	21,836	-	-	109,781	131,617
Debt service					
Principal	61,944	-	172,500	-	234,444
Bond issuance cost	188,231	-	-	-	188,231
Interest	113,561	-	-	-	113,561
Capital outlay	37,998	-	47,765	631,113	716,876
Total expenditures	<u>4,580,539</u>	<u>538,467</u>	<u>755,720</u>	<u>893,260</u>	<u>6,767,986</u>
Excess (deficiency) of revenue over (under) expenditures	<u>127,043</u>	<u>(170,078)</u>	<u>(351,434)</u>	<u>(59,021)</u>	<u>(453,490)</u>
Other financing sources					
Bond issuance	2,525,000	-	-	-	2,525,000
Bond issuance- refunding bond	2,715,000	-	-	-	2,715,000
Bond discount	(45,665)	-	-	-	(45,665)
Transfers out	(2,500,000)	-	(50,263)	-	(2,550,263)
Total other financing sources	<u>2,694,335</u>	<u>-</u>	<u>(50,263)</u>	<u>-</u>	<u>2,644,072</u>
Net change in fund balances	2,821,378	(170,078)	(401,697)	(59,021)	2,190,582
Fund balances, July 1, 2010	<u>4,007,522</u>	<u>(197,508)</u>	<u>322,579</u>	<u>-</u>	<u>4,132,593</u>
Fund balances, June 30, 2011	<u>\$ 6,828,900</u>	<u>\$ (367,586)</u>	<u>\$ (79,118)</u>	<u>\$ (59,021)</u>	<u>\$ 6,323,175</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, 2011

Net change in fund balances--total governmental funds \$ 2,190,582

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	716,876	
Depreciation expense	<u>(565,964)</u>	150,912

In the Statement of Activities, only the gain/loss on the
sale of capital assets is reported whereas in the
governmental funds, the proceeds from the sale
increase financial resources. Thus, the change in net
assets differ from the change in fund balance by the
book value of the capital assets sold.

(31,436)

Revenues in the Statement of Activities that do not provide
current financial resources are not reported as revenues
in the funds.

43,229

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.

Principle payments	234,444	
Bond issuance	<u>(5,240,000)</u>	(5,005,556)

Governmental funds report the effect of issuance costs
when debt is first issued, whereas these amounts are
deferred and amortized in the Statement of Activities

Bond discount	45,665	
Bond issuance cost	188,231	
Amortized bond discount	(2,403)	
Amortized issuance cost	<u>(9,907)</u>	221,586

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.

Interest payable	(98,456)	
Increase in compensated absences	<u>(83,220)</u>	(181,676)

Change in net assets of governmental activities \$ (2,612,359)

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
ASSETS							
Current assets							
Restricted cash- customer deposits	\$ 44,677	\$ 20,085	\$ -	\$ -	\$ 25,000	\$ -	89,762
Accounts receivable - net	18,705	30,097	75,016	15,626	9,139	-	148,583
Due from other funds	1,539,061	-	-	181,315	26,634	-	1,747,010
Prepaid expenses	-	65,561	43,704	-	-	-	109,265
Inventory	-	-	-	-	6,663	-	6,663
Total current assets	1,602,443	115,743	118,720	196,941	67,436	-	2,101,283
Noncurrent assets							
Capital assets, net of accumulated depreciation, where applicable:							
Land	-	55,771	354,792	82,500	7,091,915	159,604	7,744,582
Utilities systems, net	460,445	2,322,505	798,284	-	554,400	8,558,113	12,693,747
Buildings, net	-	-	6,100,369	-	901,312	-	7,001,681
Equipment, net	16,799	71,280	79,122	-	181,364	4,068	352,633
Capital assets, net	477,244	2,449,556	7,332,567	82,500	8,728,991	8,721,785	27,792,643
Total noncurrent assets	477,244	2,449,556	7,332,567	82,500	8,728,991	8,721,785	27,792,643
Total assets	2,079,687	2,565,299	7,451,287	279,441	8,796,427	8,721,785	29,893,926
LIABILITIES							
Current liabilities							
Accounts payable	25,290	13,488	12,513	53,237	27,050	1,563	133,141
Deferred revenue	-	-	-	-	25,390	-	25,390
Accrued expenses	2,069	8,083	8,905	-	46,597	-	65,654
Refundable deposits	44,677	20,085	-	-	-	-	64,762
Due to other funds	-	835,325	961,113	-	-	590,543	2,386,981
Compensated absences, current	18,998	21,490	31,239	-	6,798	-	78,526
Bonds payable, current	-	-	-	-	-	-	-
Total current liabilities	91,034	898,471	1,013,770	53,237	105,835	592,106	2,754,454
Noncurrent liabilities							
Compensated absences	4,750	5,372	7,810	-	1,700	-	19,631
Total noncurrent liabilities	4,750	5,372	7,810	-	1,700	-	19,631
Total liabilities	95,784	903,843	1,021,580	53,237	107,535	592,106	2,774,085
Net assets							
Invested in capital assets, net of related debt	477,244	2,449,556	7,332,567	82,500	8,728,991	8,721,785	27,792,643
Unrestricted (deficit)	1,506,659	(788,100)	(902,860)	143,704	(40,099)	(592,106)	(672,802)
Total net assets	\$ 1,983,903	\$ 1,661,456	\$ 6,429,707	\$ 226,204	\$ 8,688,892	\$ 8,129,679	27,119,841

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, 2011

Business-type Activities--Enterprise Funds

	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
Operating Revenue							
Charges for services, net of bad debt	\$ 906,131	\$ 758,603	\$ 868,125	\$ 672,270	\$ 203,156	10,801	\$ 3,419,086
Sales	-	-	-	-	125,014	-	125,014
Total operating revenue	<u>906,131</u>	<u>758,603</u>	<u>868,125</u>	<u>672,270</u>	<u>328,170</u>	<u>10,801</u>	<u>3,544,100</u>
Operating expenses:							
Personnel	384,924	333,572	386,501	-	277,236	-	1,382,233
Insurance	31,876	6,301	18,956	-	306	13,482	70,921
Professional services	12,830	16,314	137,525	659,264	11,212	18,799	855,944
Utilities	4,947	134,621	73,508	-	43,497	13,165	269,738
Repairs and maintenance	21,840	45,456	58,831	-	146,797	6,827	279,751
Materials & supplies	52,246	47,750	47,321	-	90,750	45	238,112
Cost of sales	516,747	-	-	-	63,014	-	579,761
Other	14,124	8,136	18,157	4,479	20,457	-	65,353
Depreciation	38,567	156,129	267,760	-	136,656	233,546	832,658
Total operating expenses	<u>1,078,101</u>	<u>748,279</u>	<u>1,008,559</u>	<u>663,743</u>	<u>789,925</u>	<u>285,864</u>	<u>4,574,471</u>
Operating income (loss)	<u>(171,970)</u>	<u>10,324</u>	<u>(140,434)</u>	<u>8,527</u>	<u>(461,755)</u>	<u>(275,063)</u>	<u>(1,030,371)</u>
Nonoperating revenue (expenses)							
Interest expense	-	(8,194)	-	-	-	-	(8,194)
Total nonoperating revenue (expenses)	<u>-</u>	<u>(8,194)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,194)</u>
Income (loss) before contributions, gains, losses, and transfers	<u>(171,970)</u>	<u>2,130</u>	<u>(140,434)</u>	<u>8,527</u>	<u>(461,755)</u>	<u>(275,063)</u>	<u>(1,038,565)</u>
Other financing sources							
Capital grants	-	-	-	-	-	384,596	384,596
Capital contributions	-	-	-	-	8,865,647	-	8,865,647
Contribution	-	-	-	-	285,000	-	285,000
Transfers	-	-	5,740,341	-	-	-	5,740,341
Total other financing sources	<u>-</u>	<u>-</u>	<u>5,740,341</u>	<u>-</u>	<u>9,150,647</u>	<u>384,596</u>	<u>15,275,584</u>
Increase (decrease) in net assets	<u>(171,970)</u>	<u>2,130</u>	<u>5,599,907</u>	<u>8,527</u>	<u>8,688,892</u>	<u>109,533</u>	<u>14,237,019</u>
Total net assets, July 1, 2010	<u>2,155,873</u>	<u>1,659,326</u>	<u>829,800</u>	<u>217,677</u>	<u>-</u>	<u>8,020,146</u>	<u>12,882,822</u>
Total net assets, June 30, 2011	<u>\$ 1,983,903</u>	<u>\$ 1,661,456</u>	<u>\$ 6,429,707</u>	<u>\$ 226,204</u>	<u>\$ 8,688,892</u>	<u>8,129,679</u>	<u>\$ 27,119,841</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

Business-type Activities--Enterprise Funds

	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
Cash flows from operating activities:							
Receipts from customers	\$ 936,568	\$ 755,762	\$ 828,405	\$ 669,439	\$ 344,421	\$ 10,801	\$ 3,545,396
Payments to suppliers and providers of goods and services	(668,728)	(298,345)	(366,535)	(663,808)	(355,646)	(53,883)	(2,406,945)
Payments to employees	(382,617)	(316,884)	(376,816)	-	(222,141)	-	(1,298,458)
Net cash provided (used) by operating activities	<u>(114,777)</u>	<u>140,533</u>	<u>85,054</u>	<u>5,631</u>	<u>(233,366)</u>	<u>(43,082)</u>	<u>(160,007)</u>
Cash flows from noncapital financing activities:							
Received from other funds	132,183	123,402	2,233,755	-	-	52,989	2,542,329
Paid to other funds	-	-	(2,199,935)	(5,631)	(26,634)	-	(2,232,200)
Contribution	-	-	-	-	285,000	-	285,000
Net cash provided (used) by noncapital financing activities	<u>132,183</u>	<u>123,402</u>	<u>33,820</u>	<u>(5,631)</u>	<u>258,366</u>	<u>52,989</u>	<u>595,129</u>
Cash flows from capital and related financing activities:							
Principal paid on long-term debt	-	(172,500)	-	-	-	-	(172,500)
Purchase of capital assets	(21,701)	(79,297)	(118,874)	-	-	(394,503)	(614,375)
Capital grant receipts	-	-	-	-	-	384,596	384,596
Interest paid	-	(8,194)	-	-	-	-	(8,194)
Net cash provided (used) by capital and related financing activities	<u>(21,701)</u>	<u>(259,991)</u>	<u>(118,874)</u>	<u>-</u>	<u>-</u>	<u>(9,907)</u>	<u>(410,473)</u>
Net increase (decrease) in cash and cash equivalents	(4,295)	3,944	-	-	25,000	-	24,649
Cash and cash equivalents, July 1, 2009	48,972	16,141	-	-	-	-	65,113
Cash and cash equivalents, June 30, 2010	<u>\$ 44,677</u>	<u>\$ 20,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 89,762</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011
(Continued)

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ (171,970)	\$ 10,324	\$ (140,434)	\$ 8,527	\$ (461,755)	\$ (275,063)	\$ (1,030,371)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	38,567	156,129	267,760	-	136,656	233,546	832,658
(Increase) decrease in:							
Accounts receivable	34,732	(6,785)	(39,720)	(2,831)	(9,139)	-	(23,743)
Prepaid expenses	-	(5,714)	(3,806)	-	-	-	(9,520)
Inventory	-	-	-	-	(6,663)	-	(6,663)
Increase (decrease) in:							
Accounts payable	(14,118)	(34,053)	(8,431)	(65)	27,050	(1,565)	(31,182)
Deferred revenue	-	-	-	-	25,390	-	25,390
Accrued expenses	(8,388)	1,086	(893)	-	46,597	-	38,402
Refundable deposits	(4,295)	3,944	-	-	-	-	(351)
Compensated absences payable	10,695	15,602	10,578	-	8,498	-	45,373
Net cash provided (used) by operating activities	<u>\$ (114,777)</u>	<u>\$ 140,533</u>	<u>\$ 85,054</u>	<u>\$ 5,631</u>	<u>\$ (233,366)</u>	<u>\$ (43,082)</u>	<u>\$ (160,007)</u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 599,333
Accounts receivable	<u>838</u>
Total assets	<u>600,171</u>
NET ASSETS	
Held in trust for investment trust participants	<u><u>\$ 600,171</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, 2011

	<u>Trust Fund</u>
Additions:	
Contributions	\$ 10,000
Other income	6,158
Interest and dividends	<u>11,901</u>
Total additions	<u>28,059</u>
Deductions:	
Pension payments	<u>26,400</u>
Total deductions	<u>26,400</u>
Change in net assets	1,659
Net assets, July 1, 2010	<u>598,512</u>
Net assets, June 30, 2011	<u><u>\$ 600,171</u></u>

See accompanying notes to financial statements.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011

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, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

The City reports the following major enterprise funds:

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

The City reports the following fund types:

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

C. Basis of Accounting

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

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

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011 for the Gas, Water, Liquid Waste, and Solid Waste Funds was \$10,796, \$5,972, \$2,067, and \$4,135 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.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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,
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 incur 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.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011, the carrying amount of the City’s total nonpooled cash in bank was \$5,629,418 and the bank balance was \$6,036,833. Of the bank balance, \$3,331,704, was covered by federal depository insurance or by collateral held by the City or its agent in the City’s name, and \$2,705,129 backed by the U.S. government.

Investments – At June 30, 2011, the investments consisted of the following.

	Rating	Reported Amount	Fair Value
Investment in State Treasurer's investment pool Primary Government	Unrated	\$ 200,088	\$ 200,088
Investment in State Treasurer's investment pool Fiduciary Funds	Unrated	\$ 61,558	\$ 61,558

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, \$89,762 is restricted for refundable customer deposits in the proprietary funds, \$61,459 of RICO funds is restricted for public safety, and \$2,705,129 is restricted funds from remaining bond proceeds.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2011, 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.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</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	3,446,174	628,490	(105,251)	3,969,413
Infrastructure	3,942,397	88,386	-	4,030,783
Total	<u>10,436,785</u>	<u>716,876</u>	<u>(105,251)</u>	<u>11,048,410</u>
Less accumulated depreciation for:				
Buildings	(1,613,877)	(54,423)	-	(1,668,300)
Equipment/Recreation	(1,668,357)	(356,526)	73,815	(1,951,068)
Infrastructure	(1,481,805)	(155,015)	-	(1,636,820)
Total	<u>(4,764,039)</u>	<u>(565,964)</u>	<u>73,815</u>	<u>(5,256,188)</u>
Total capital assets being depreciated, net	<u>5,672,746</u>	<u>150,912</u>	<u>(31,436)</u>	<u>5,792,222</u>
Governmental activities capital assets, net	<u>\$ 6,146,759</u>	<u>\$ 150,912</u>	<u>\$ (31,436)</u>	<u>\$ 6,266,235</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 4 – CAPITAL ASSETS – Continued

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 652,666	\$ 7,091,916	\$ -	\$ 7,744,582
Total capital assets not being depreciated	<u>652,666</u>	<u>7,091,916</u>	<u>-</u>	<u>7,744,582</u>
Capital assets being depreciated:				
Utility systems	15,685,742	1,186,192	-	16,871,934
Buildings	2,166,797	7,727,845	-	9,894,642
Equipment	676,008	269,522	-	945,530
Total	<u>18,528,547</u>	<u>9,183,559</u>	<u>-</u>	<u>27,712,106</u>
Less accumulated depreciation for:				
Utility systems	(3,695,121)	(483,066)	-	(4,178,187)
Buildings	(1,281,944)	(1,611,017)	-	(2,892,961)
Equipment	(499,145)	(93,752)	-	(592,897)
Total	<u>(5,476,210)</u>	<u>(2,187,835)</u>	<u>-</u>	<u>(7,664,045)</u>
Total capital assets being depreciated, net	<u>13,052,337</u>	<u>6,995,724</u>	<u>-</u>	<u>20,048,061</u>
Business-type activities capital assets, net	<u>\$ 13,705,003</u>	<u>\$ 14,087,640</u>	<u>\$ -</u>	<u>\$ 27,792,643</u>
	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Component Unit activities:				
Capital assets being depreciated:				
Utility systems	\$ 6,795,453	\$ -	\$ (6,795,453)	\$ -
Less accumulated depreciation for:				
Utility systems	(1,355,176)	-	1,355,176	-
Component unit activities capital assets, net	<u>\$ 5,440,277</u>	<u>\$ -</u>	<u>\$ (5,440,277)</u>	<u>\$ -</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 70,981
Public safety	170,769
Highways and streets	156,210
Welfare	39,823
Culture and recreation	113,274
Public works	<u>14,907</u>
 Total governmental activities depreciation expense	 <u><u>\$ 565,964</u></u>
 Business-type activities:	
Gas	\$ 38,567
Water	156,129
Liquid waste	267,760
Golf Course	136,656
Airport	<u>233,546</u>
 Total business-type activities depreciation expense	 <u><u>\$ 832,658</u></u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2011.

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within 1 year
Governmental activities:					
Compensated absences	\$ 132,820	\$ 141,335	\$ 58,115	\$ 216,040	\$ 172,832
Capital leases payable	310,605	-	57,071	253,534	59,491
Bond payable	172,500	-	172,500	-	-
Bond payable-refunding	-	2,525,000	-	2,525,000	100,000
Bond payable	-	2,715,000	-	2,715,000	105,000
Bond discount	-	2,403	45,665	(43,262)	(2,403)
Notes payable	29,834	-	4,873	24,961	5,226
Governmental activities long-term liabilities	<u>\$ 645,759</u>	<u>\$ 5,383,738</u>	<u>\$ 338,224</u>	<u>\$ 5,691,273</u>	<u>\$ 440,146</u>
Business-type activities:					
Compensated absences	\$ 52,784	\$ 84,575	\$ 39,202	\$ 98,157	\$ 78,526
Bond payable	172,500	-	172,500	-	-
Business-type activities long-term liabilities	<u>\$ 225,284</u>	<u>\$ 84,575</u>	<u>\$ 211,702</u>	<u>\$ 98,157</u>	<u>\$ 78,526</u>
Component unit activities:					
Notes payable	\$ 2,600,634	\$ -	\$ 2,600,634	\$ -	\$ -
Component unit activities long-term liabilities	<u>\$ 2,600,634</u>	<u>\$ -</u>	<u>\$ 2,600,634</u>	<u>\$ -</u>	<u>\$ -</u>

The following schedule details debt service requirements to maturity for the City’s bonds and notes payable at June 30, 2011.

Year Ending June 30	Governmental Activities					
	Notes Payable		Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	5,226	1,582	205,000	194,350	269,717	206,682
2013	5,603	1,204	210,000	189,687	277,617	199,118
2014	6,008	799	215,000	185,437	285,651	191,833
2015	6,443	364	220,000	180,537	293,828	183,758
2016	1,681	20	225,000	174,975	226,681	174,995
2017-21	-	-	1,225,000	758,988	1,225,000	758,988
2022-26	-	-	1,500,000	488,131	1,500,000	488,131
2027-30	-	-	1,440,000	133,200	1,440,000	133,200
Total	<u>\$ 24,961</u>	<u>\$ 3,969</u>	<u>\$ 5,240,000</u>	<u>\$ 2,305,305</u>	<u>\$ 5,518,494</u>	<u>\$ 2,336,705</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – 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, 2011, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Excise tax revenue bond	\$ 2,525,000	2030	3.70%	\$2,525,000
Excise tax revenue refunding bond	<u>2,715,000</u>	2030	3.70%	<u>\$2,715,000</u>
Total excise tax revenue bonds	<u>5,240,000</u>			5,240,000
		Amortized bond discount		<u>(43,262)</u>
		Revenue bonds, net		<u>5,196,738</u>

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	<u>\$ 60,000</u>	2015	7.00%	<u>\$ 24,961</u>

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 following schedule details debt service requirements to maturity for the City’s capital leases payable at June 30, 2011.

Year Ending June 30	<u>Governmental Activities</u>		
	Leases Payable		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	59,491	10,750	70,241
2013	62,014	8,227	70,241
2014	64,643	5,598	70,241
2015	<u>67,385</u>	<u>2,856</u>	<u>70,241</u>
Total	<u>\$ 253,533</u>	<u>\$ 27,431</u>	<u>\$ 280,964</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – LONG-TERM LIABILITIES – Continued

The asset acquired through a capital lease is as follows:

	Governmental Activities
Equipment	\$ 516,602
Less: accumulated depreciation	(294,675)
Carrying value	\$ 221,927

NOTE 6 – 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 7 – RETIREMENT PLANS

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

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

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

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 7 – RETIREMENT PLANS – Continued

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

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

Cost-sharing plans – For the year ended June 30, 2011, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 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, 2011, 2010, and 2009, were \$210,803, \$233,785, \$237,079, and respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2011, 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 17.29 and 9.64 percent for police and fire personnel respectively.

Annual Pension Cost – The City’s pension cost for the agent plan for the year ended June 30, 2011, and related information follows.

	PSPRS	
	Police	Fire
Contribution rates:		
City	17.29%	20.67%
Plan members	8.65%	8.65%
Annual pension cost	\$ 169,083	\$ 5,596
Contributions made	\$ 169,083	\$ 5,596

The current-year annual required contributions for the PSPRS were determined as part of its June 30, 2011, 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, 2011, was 20 years.

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 7 – RETIREMENT PLANS – Continued

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	2011	174,679	100 %	-
	2010	177,870	100 %	-
	2009	168,448	100 %	-

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2011, were as follows:

Payable from	Payable to				Total
	General Fund	Gas Fund	Solid Waste Fund	Golf Course Fund	
Water Fund	-	835,325	-	-	\$ 835,325
Liquid Waste Fund	49,428	703,736	181,315	26,634	961,113
Municipal Airport Fund	590,543	-	-	-	590,543
HURF/LTAF Fund	430,157	-	-	-	430,157
Capital Projects Fund	72,848	-	-	-	72,848
Other Governmental Funds	164,714	-	-	-	164,714
	<u>\$ 1,307,690</u>	<u>\$ 1,539,061</u>	<u>\$ 181,315</u>	<u>\$ 26,634</u>	<u>\$ 3,054,700</u>

CITY OF BENSON, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 8 – INTERFUND BALANCES AND ACTIVITY-continued

Interfund transfers- Interfund transfers for the fiscal year ended June 30, 2011, were as follows:

Transfer to	Transfer from			
	General Fund	Capital Projects Fund	Component Unit	Total
Liquid Waste Fund	2,500,000	50,263	3,190,078	5,740,341

The purpose of the interfund transfer shown above to the Liquid Waste Fund was to transfer the wastewater treatment plant. The purpose of the interfund transfer shown above to the Liquid Waste Fund from the General Fund was to help pay off the existing loan held in the component unit for the wastewater treatment plant. The purpose of the interfund transfer shown above to the Liquid Waste Fund from the Capital Projects Fund was to transfer assets acquired during the year.

NOTE 9 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit fund balances – At June 30, 2011, the Transit and Grant funds reported deficits in fund balances of \$41,618 and \$17,403 respectively..

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
General Fund
June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Taxes	\$ 2,929,000	\$ 2,929,000	\$ 3,127,385	\$ 198,385
Intergovernmental	1,238,563	1,238,563	1,242,771	4,208
Fines & forfeitures	57,600	57,600	28,514	(29,086)
Licenses and permits	120,000	120,000	185,698	65,698
Charges for services	136,550	136,550	63,924	(72,626)
Interest	5,000	5,000	23,755	18,755
Other revenue	5,700	5,700	35,535	29,835
Total revenue	4,492,413	4,492,413	4,707,582	215,169
Expenditures				
Current				
Public safety	2,161,832	2,161,832	2,043,925	117,907
General government	3,258,422	3,258,422	1,281,954	1,976,468
Culture and recreation	741,749	741,749	705,190	36,559
Public works	109,582	109,582	125,900	(16,318)
Welfare	-	-	21,836	(21,836)
Debt service				
Principal/Interest	-	-	363,736	(363,736)
Capital outlay	-	-	37,998	(37,998)
Total expenditures	6,271,585	6,271,585	4,580,539	1,573,139
Excess (deficiency) of revenue over expenditures	(1,779,172)	(1,779,172)	127,043	(1,357,970)
Other financing sources				
Transfers in/(out)	(536,828)	(536,828)	2,694,335	3,231,163
Total other financing sources	(536,828)	(536,828)	2,694,335	3,231,163
Net changes in fund balances	(2,316,000)	(2,316,000)	2,821,378	(1,357,970)
Fund balances, July 1, 2010	2,316,000	2,316,000	4,007,522	8,639,522
Fund balances, June 30, 2011	\$ -	\$ -	\$ 6,828,900	\$ 7,281,552

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
HURF/LTAF Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 343,295	\$ 343,295	\$ 344,242	\$ 947
Other revenue	-	-	24,147	24,147
Total revenue	<u>343,295</u>	<u>343,295</u>	<u>368,389</u>	<u>25,094</u>
Expenditures				
Highways and streets	<u>543,295</u>	<u>543,295</u>	<u>538,467</u>	<u>4,828</u>
Total expenditures	<u>543,295</u>	<u>543,295</u>	<u>538,467</u>	<u>4,828</u>
Net changes in fund balances	-	-	(170,078)	229,922
Fund balances, July 1, 2010	-	-	(197,508)	(197,508)
Fund balances, June 30, 2011	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (367,586)</u></u>	<u><u>\$ 32,414</u></u>

CITY OF BENSON, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedules
Capital Projects Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 5,217,000	\$ 5,217,000	\$ 318,176	\$ (4,898,824)
Impact fees	660,000	660,000	86,110	(573,890)
Total revenue	<u>5,877,000</u>	<u>5,877,000</u>	<u>404,286</u>	<u>(5,472,714)</u>
Expenditures				
General government	3,072,000	3,072,000	528,955	(2,543,045)
Culture and recreation	-	-	6,500	6,500
Principle on debt	-	-	172,500	172,500
Capital outlay	3,849,000	3,849,000	47,765	(3,801,235)
Total expenditures	<u>6,921,000</u>	<u>6,921,000</u>	<u>755,720</u>	<u>(6,165,280)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,044,000)</u>	<u>(1,044,000)</u>	<u>(351,434)</u>	<u>692,566</u>
Other financing sources				
Transfers in/(out)	<u>(63,900)</u>	<u>(63,900)</u>	<u>(50,263)</u>	<u>13,637</u>
Total other financing sources	<u>(63,900.00)</u>	<u>(63,900.00)</u>	<u>(50,263)</u>	<u>13,637</u>
Net change in fund balance	<u>(1,107,900)</u>	<u>(1,107,900)</u>	<u>(401,697)</u>	<u>706,203</u>
Fund balances, July 1, 2010	<u>-</u>	<u>-</u>	<u>322,579</u>	<u>322,579</u>
Fund balances, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (79,118)</u>	<u>\$ 1,028,782</u>

CITY OF BENSON, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2011

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.

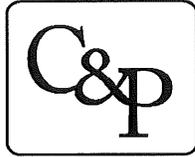
CITY OF BENSON, ARIZONA
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Process
June 30, 2011

Public Safety Personnel Retirement System

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)
06/30/11	\$1,863,546	\$ 3,048,855	\$1,185,309	61.1 %	\$ 804,194	147.4 %
06/30/10	\$1,670,652	\$ 2,636,164	\$ 965,512	63.4 %	\$ 795,381	121.4 %
06/30/09	\$1,610,314	\$ 2,482,397	\$ 872,083	64.9 %	\$ 777,623	112.1 %

SINGLE AUDIT ACT REPORTS SECTION

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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, 2011, which collectively comprise the City of Benson, Arizona's basic financial statements and have issued our report thereon dated December 15, 2011. 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 material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. It is listed as item **11-01**.

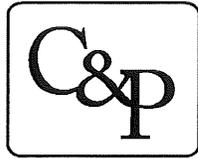
Compliance and Other Matters

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 15, 2011



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the City Council
City of Benson, Arizona

Compliance

We have audited the City of Benson, Arizona's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Benson, Arizona's major federal programs for the year ended June 30, 2011. The City of Benson, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Benson, Arizona's management. Our responsibility is to express an opinion on the City of Benson, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Benson, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Benson, Arizona's compliance with those requirements.

Internal Control Over Compliance

Management of the City of Benson, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Benson, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control

over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The City of Benson, Arizona's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item **11-02**. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Benson, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Benson, Arizona's responses and, accordingly, we express no opinion on the responses.

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

Colby + Powell PLLC

December 15, 2011

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CITY OF BENSON, ARIZONA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Health and Human Services</u>			
Passed through Southeastern Arizona Council of Governemnts Special Programs for the Aging--Title III, Part B-- Grants for Supportive Services and Senior Centers	93.044	15	33,200
Social Services Block Grant	93.667	15	<u>1,000</u>
Total U.S. Department of Health and Human Services			<u>34,200</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Arizona Department of Commerce Community Development Block Grant	14.228	112-09	<u>\$ 88,386</u>
Total U.S. Department of Housing and Urban Development			<u>88,386</u>
<u>U.S. Department of Education</u>			
Passed through Arizona Department of Education ARRA State Fiscal Stabilization Fund (SFSF)-Government Services	84.397	OER-11-IGA-GS-132	7,155
ARRA State Fiscal Stabilization Fund (SFSF)-Government Services	84.397	OER-11-IGA-GS-01	<u>76,080</u>
Total U.S. Department of Education			<u>83,235</u>
<u>U.S. Department of Justice</u>			
Passed through Arizona Criminal Justice Commission Edward Byne Memorial Justice Assistance Grant Program	16.738	CRI09-10-203	<u>44,894</u>
Total U.S. Department of Justice			<u>44,894</u>
<u>U.S. Department of Homeland Security</u>			
Passed through Arizona Department of Homeland Security Homeland Security Grant Program	97.067	08-OPSG-444421-03	2,146
Homeland Security Grant Program	97.067	09-OPSG-555413-02	10,807
Homeland Security Grant Program	97.067	09-OPSG-555413-03	30,000
Homeland Security Grant Program	97.067	10-OPSG-777419-02	<u>86,689</u>
Total U.S. Department of Homeland Security			<u>129,642</u>
<u>U.S. Department of Transportation</u>			
Airport Improvement Program	20.106	--	374,777
State and Community Highway Safety	20.600	--	1,072
Passed through Arizona Department of Transportation Job Access-Reverse Commute	20.516	AZ-57-X010	20,000
New Freedom Program	20.521	AZ-57-X010	10,000
Formula Grants for Other Than Urbanized Areas	20.509	200-002356	<u>482,501</u>
Total U.S. Department of Transportation			<u>888,350</u>

CITY OF BENSON, ARIZONA
Notes to Schedule of Expenditures of Federal Awards-continued
For the Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Energy</u>			
Passed through Arizona Department of Commerce			
Efficiency and Conservation Block Grant Program (EECBG)	81.128	R016-10-02	<u>68,958</u>
Total U.S. Department of the Interior National Park Service			<u>68,958</u>
Total Federal Assistance			<u><u>\$ 1,337,665</u></u>

CITY OF BENSON, ARIZONA
Notes to Schedule of Expenditures of Federal Awards-continued
For the Year Ended June 30, 2011

NOTE 1 – BASIS OF PRESENTATION

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2011 *catalog of federal domestic assistance*. When a CFDA number had been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

CITY OF BENSON, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section 1 – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

- | | |
|--|--------------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 2. Type of auditor’s report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510 (a)? | No |
| 4. Identification of major programs: | |
| <u>Name of Federal Program</u> | <u>CFDA Number</u> |
| Airport Improvement Program | 20.106 |
| Formula Grants for Other Than Urbanized Areas | 20.509 |
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$ 300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No |

CITY OF BENSON, ARIZONA
Schedule of Findings and Questioned Costs-continued
For the Year Ended June 30, 2011

Financial Statement Findings

2011-1 - Improve Financial Statement Close Process.

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

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

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

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

CITY OF BENSON, ARIZONA
Schedule of Findings and Questioned Costs-continued
For the Year Ended June 30, 2011

Federal Award Program Findings

2011-2 - Improve Internal Controls over monitoring

U.S. Department of Transportation
CFDA Number: 20.509
Grant or Contract Number: 53.11
Question Costs: None

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

Criteria: Government accounting standards in regards to require establishing and maintaining effective internal controls over complying with requirements of laws, regulations, and the provisions of contracts or grant agreements that would have a material effect on the financial statements, financial reporting, or compliance. A key part of effective internal controls includes the proper oversight or monitoring of assets and financial information.

Context: We noted during our audit that the City personnel were preparing and submitting requests for reimbursement, reports, and other grant documents without proper oversight or monitoring.

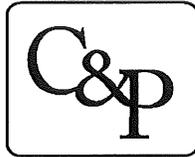
Cause and Effect: The City lacked sufficient policies and procedures in administration of grant compliance requirements. The ineffective internal controls would not prevent or detect in a timely manner any errors, fraud, or non compliance.

Recommendation: We recommend the City implement appropriate policies and procedures in accordance with grant requirements to ensure all personnel who administer grants have sufficient oversight or monitoring.

CITY OF BENSON, ARIZONA
Schedule of Prior Year Audit Findings
June 30, 2011

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

No prior year findings.



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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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2011.

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 15, 2011