

**CITY OF BENSON, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2012

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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, 2012, 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, 2012, 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 March 22, 2013, 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 45, 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

March 22, 2013

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

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

**FINANCIAL HIGHLIGHTS**

- The City's total net assets decreased \$.7 million to \$33.4 million. Net assets from governmental activities decreased \$.6 million to \$6.4 million due principally to a decrease in unrestricted cash. Net assets from business-type activities decreased \$.2 million to \$26.9 million, due principally to depreciation of capital assets.
- The City's revenues from governmental activities decreased \$.8 million to \$5.6 million principally due to decreased grant and sales tax revenues. Revenues from business-type activities decreased \$9 million to \$4.1 million, principally due to donation of the golf course to the City in the prior year. The donation was recognized as revenue in the year it was donated.
- Expenditures from governmental activities decreased \$.7 million to \$5.7 million. Expenses from business-type activities increased \$0.1 million to \$4.7 million, principally as a result of increased golf course operations.
- The City's unrestricted net assets decreased by \$1.2 million to \$(.8) million, principally due to a decrease in cash and cash equivalents.
- At June 30, 2012, the unassigned fund balance for the General Fund was \$5.7 million, or 115% of the fund's expenditures for the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

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

**Net Assets at June 30, 2012 and 2011**

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

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

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

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

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

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

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

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

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

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

**Governmental Activities June 30, 2012 and 2011**

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

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

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

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

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

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

**Capital Assets and Debt Administration**

***Capital Assets***

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

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

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

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

***Debt Administration***

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

**Outstanding Debt at June 30, 2012 and 2011**

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

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

**Economic Factors**

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

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

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

**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, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,967,340	\$ -	\$ 3,967,340
Cash and cash equivalents, restricted	61,459	57,551	119,010
Accounts receivable - net	-	135,005	135,005
Taxes receivable	272,876	-	272,876
Prepaid expenses	138,707	109,265	247,972
Deferred charges	168,417	-	168,417
Due from other governments	299,540	-	299,540
Due from (to) other funds	625,886	(625,886)	-
Inventory	-	6,663	6,663
Capital assets, not being depreciated	523,268	7,744,582	8,267,850
Capital assets, being depreciated, net	6,178,072	19,892,455	26,070,527
<b>Total assets</b>	<b>12,235,565</b>	<b>27,319,635</b>	<b>39,555,200</b>
<b>LIABILITIES</b>			
Accounts payable	107,845	227,790	335,635
Deferred revenue	-	2,081	2,081
Accrued expenses	194,917	-	194,917
Refundable deposits	-	57,551	57,551
Interest payable	95,894	-	95,894
Noncurrent liabilities			
Due within 1 year	420,028	82,201	502,229
Due in more than 1 year	4,968,908	20,549	4,989,457
<b>Total liabilities</b>	<b>5,787,592</b>	<b>390,172</b>	<b>6,177,764</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,487,562	27,637,037	34,124,599
Restricted for:			
Public safety	61,459	-	61,459
Unrestricted (deficit)	(101,048)	(707,574)	(808,622)
<b>Total net assets</b>	<b>\$ 6,447,973</b>	<b>\$ 26,929,463</b>	<b>\$ 33,377,436</b>

*See accompanying notes to financial statements.*

**CITY OF BENSON, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2012**

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities							
General government	\$ 1,429,695	\$ 172,292	\$ 5,379	\$ 76,730	\$ (1,175,294)	\$ -	\$ (1,175,294)
Public safety	2,198,146	28,747	94,741	244,904	(1,829,754)	-	(1,829,754)
Highways and streets	597,181	-	304,043	112,679	(180,459)	-	(180,459)
Public works	132,671	12,407	-	-	(120,264)	-	(120,264)
Culture and recreation	874,491	30,855	10,816	-	(832,820)	-	(832,820)
Welfare	246,681	5,990	150,331	-	(90,360)	-	(90,360)
Interest on long-term debt	204,098	-	-	-	(204,098)	-	(204,098)
<b>Total governmental activities</b>	<b>5,682,963</b>	<b>250,291</b>	<b>565,310</b>	<b>434,313</b>	<b>(4,433,049)</b>	<b>-</b>	<b>(4,433,049)</b>
Business-type activities							
Gas	934,174	899,255	-	-	-	(34,919)	(34,919)
Water	755,301	725,555	-	-	-	(29,746)	(29,746)
Liquid waste	949,435	718,679	-	-	-	(230,756)	(230,756)
Solid waste	656,727	631,652	-	-	-	(25,075)	(25,075)
Golf course	1,171,304	600,094	300,000	-	-	(271,210)	(271,210)
Municipal Airport	289,776	8,739	-	189,611	-	(91,426)	(91,426)
<b>Total business-type activities</b>	<b>4,756,717</b>	<b>3,583,974</b>	<b>300,000</b>	<b>189,611</b>	<b>-</b>	<b>(683,132)</b>	<b>(683,132)</b>
<b>Total primary government</b>	<b>\$ 10,439,680</b>	<b>\$ 3,834,265</b>	<b>\$ 865,310</b>	<b>\$ 623,924</b>	<b>(4,433,049)</b>	<b>(683,132)</b>	<b>(5,116,181)</b>
<b>General revenue:</b>							
Taxes:							
Sales Tax					2,440,861		2,440,861
Construction sales tax					376,580	-	376,580
Property tax					229,659	-	229,659
Franchise tax					163,231	-	163,231
Bed tax					51,928	-	51,928
State sales tax revenue sharing					398,906	-	398,906
Auto lieu tax revenue sharing					226,483	-	226,483
State revenue sharing					430,866	-	430,866
Interest income					11,441	-	11,441
Miscellaneous					22,587	-	22,587
Transfers					(492,754)	492,754	-
Total general revenue and transfers					3,859,788	492,754	4,352,542
Change in net assets					(573,261)	(190,378)	(763,639)
Net assets, July 1, 2011					7,021,234	27,119,841	34,141,075
Net assets, June 30, 2012					<u>\$ 6,447,973</u>	<u>\$ 26,929,463</u>	<u>\$ 33,377,436</u>

*See accompanying notes to financial statements.*

**CITY OF BENSON, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**Year Ended June 30, 2012**

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,967,340	\$ -	\$ -	\$ -	\$ 3,967,340
Cash and cash equivalents-restricted	61,459	-	-	-	61,459
Taxes receivable	272,876	-	-	-	272,876
Due from other governments	42,811	30,549	-	226,180	299,540
Prepaid expenses	84,073	54,634	-	-	138,707
Due from other funds	1,607,343	-	-	-	1,607,343
<b>Total assets</b>	<b>\$ 6,035,902</b>	<b>\$ 85,183</b>	<b>\$ -</b>	<b>\$ 226,180</b>	<b>\$ 6,347,265</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 53,944	\$ 18,482	\$ 15,660	\$ 19,759	\$ 107,845
Accrued expenses	194,917	-	-	-	194,917
Deferred revenue	44,595	-	-	-	44,595
Due to other funds	-	558,258	161,733	261,466	981,457
<b>Total liabilities</b>	<b>293,456</b>	<b>576,740</b>	<b>177,393</b>	<b>281,225</b>	<b>1,328,814</b>
<b>Fund balances</b>					
Nonspendable	84,073	54,634	-	-	138,707
Restricted for:					
Public safety	61,459	-	-	-	61,459
Unassigned	5,596,914	(546,191)	(177,393)	(55,045)	4,818,285
<b>Total fund balances</b>	<b>5,742,446</b>	<b>(491,557)</b>	<b>(177,393)</b>	<b>(55,045)</b>	<b>5,018,451</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,035,902</b>	<b>\$ 85,183</b>	<b>\$ -</b>	<b>\$ 226,180</b>	<b>\$ 6,347,265</b>

*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, 2012**

Fund balances--total governmental funds	\$ 5,018,451
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	6,701,340
Governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities	168,417
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	44,595
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds	<u>(5,484,830)</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$ 6,447,973</u></u></b>

*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, 2012**

	General Fund	HURF/LTAF Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Fund
<b>Revenue</b>					
Taxes	\$ 2,884,313	\$ -	\$ 376,580	\$ -	\$ 3,260,893
Intergovernmental	1,166,721	304,165	-	511,767	1,982,653
Licenses and permits	136,524	-	-	-	136,524
Impact fees	-	-	76,730	-	76,730
Charges for services	55,521	-	-	5,990	61,511
Other revenue	52,339	-	-	-	52,339
Fines and forfeitures	18,999	-	-	-	18,999
Interest	11,441	-	-	-	11,441
<b>Total revenue</b>	<u>4,325,858</u>	<u>304,165</u>	<u>453,310</u>	<u>517,757</u>	<u>5,601,090</u>
<b>Expenditures</b>					
Current					
Public safety	1,997,692	-	-	6,930	2,004,622
General government	1,357,736	-	-	1,891	1,359,627
Culture and recreation	764,082	-	-	-	764,082
Highways and streets	-	428,136	-	-	428,136
Public works	118,612	-	-	-	118,612
Welfare	25,555	-	-	182,880	208,435
Debt service					
Principal	269,717	-	-	-	269,717
Interest	206,681	-	-	-	206,681
Capital outlay	268,503	182,936	279,629	322,080	1,053,148
<b>Total expenditures</b>	<u>5,008,578</u>	<u>611,072</u>	<u>279,629</u>	<u>513,781</u>	<u>6,413,060</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(682,720)</u>	<u>(306,907)</u>	<u>173,681</u>	<u>3,976</u>	<u>(811,970)</u>
<b>Other financing sources</b>					
Transfers in (out)	<u>(403,734)</u>	<u>182,936</u>	<u>(271,956)</u>	<u>-</u>	<u>(492,754)</u>
<b>Total other financing sources</b>	<u>(403,734)</u>	<u>182,936</u>	<u>(271,956)</u>	<u>-</u>	<u>(492,754)</u>
<b>Net change in fund balances</b>	(1,086,454)	(123,971)	(98,275)	3,976	(1,304,724)
Fund balances, July 1, 2011	<u>6,828,900</u>	<u>(367,586)</u>	<u>(79,118)</u>	<u>(59,021)</u>	<u>6,323,175</u>
<b>Fund balances, June 30, 2012</b>	<u>\$ 5,742,446</u>	<u>\$ (491,557)</u>	<u>\$ (177,393)</u>	<u>\$ (55,045)</u>	<u>\$ 5,018,451</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, 2012**

Net change in fund balances--total governmental funds \$ (1,304,724)

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	1,053,148	
Depreciation expense	<u>(618,043)</u>	
		435,105

Revenues in the Statement of Activities that do not provide  
current financial resources are not reported as revenues  
in the funds. 1,366

Repayment of debt principal is an expenditure in the  
governmental funds, but the repayment reduces  
long-term liabilities in the Statement of Net Assets. 269,717

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. 25,275

**Change in net assets of governmental activities** **\$ (573,261)**

*See accompanying notes to financial statements.*

**CITY OF BENSON, ARIZONA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
<b>ASSETS</b>							
Current assets							
Cash and cash equivalents, restricted	\$ 42,453	\$ 15,098	\$ -	\$ -	\$ -	\$ -	57,551
Accounts receivable - net	9,707	49,662	32,597	26,391	16,648	-	135,005
Due from other funds	1,537,406	-	-	143,722	-	-	1,681,128
Prepaid expenses	-	65,561	43,704	-	-	-	109,265
Inventory	-	-	-	-	6,663	-	6,663
<b>Total current assets</b>	<b>1,589,566</b>	<b>130,321</b>	<b>76,301</b>	<b>170,113</b>	<b>23,311</b>	<b>-</b>	<b>1,989,612</b>
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	492,970	2,602,621	791,144	-	492,800	8,511,037	12,890,572
Buildings, net	-	-	5,872,617	-	870,233	-	6,742,850
Equipment, net	9,669	46,995	62,514	-	137,387	2,468	259,033
Capital assets, net	<u>502,639</u>	<u>2,705,387</u>	<u>7,081,067</u>	<u>82,500</u>	<u>8,592,335</u>	<u>8,673,109</u>	<u>27,637,037</u>
<b>Total noncurrent assets</b>	<b>502,639</b>	<b>2,705,387</b>	<b>7,081,067</b>	<b>82,500</b>	<b>8,592,335</b>	<b>8,673,109</b>	<b>27,637,037</b>
<b>Total assets</b>	<b>2,092,205</b>	<b>2,835,708</b>	<b>7,157,368</b>	<b>252,613</b>	<b>8,615,646</b>	<b>8,673,109</b>	<b>29,626,649</b>
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable	26,401	27,844	15,318	51,484	105,759	984	227,790
Deferred revenue	-	-	-	-	2,081	-	2,081
Refundable deposits	42,453	15,098	-	-	-	-	57,551
Due to other funds	-	709,848	885,912	-	77,382	633,872	2,307,014
Compensated absences, current	17,948	22,669	31,390	-	10,194	-	82,201
<b>Total current liabilities</b>	<b>86,802</b>	<b>775,459</b>	<b>932,620</b>	<b>51,484</b>	<b>195,416</b>	<b>634,856</b>	<b>2,676,637</b>
Noncurrent liabilities							
Compensated absences	4,487	5,667	7,847	-	2,548	-	20,549
<b>Total liabilities</b>	<b>91,289</b>	<b>781,126</b>	<b>940,467</b>	<b>51,484</b>	<b>197,964</b>	<b>634,856</b>	<b>2,697,186</b>
Net assets							
Invested in capital assets, net of related debt	502,639	2,705,387	7,081,067	82,500	8,592,335	8,673,109	27,637,037
Unrestricted (deficit)	1,498,277	(650,805)	(864,166)	118,629	(174,653)	(634,856)	(707,574)
<b>Total net assets</b>	<b>\$ 2,000,916</b>	<b>\$ 2,054,582</b>	<b>\$ 6,216,901</b>	<b>\$ 201,129</b>	<b>\$ 8,417,682</b>	<b>\$ 8,038,253</b>	<b>26,929,463</b>

*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, 2012**

	Business-type Activities--Enterprise Funds						
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
<b>Operating revenue</b>							
Charges for services, net of bad debt	\$ 899,255	\$ 725,555	\$ 718,679	\$ 631,652	\$ 275,237	\$ 8,739	\$ 3,259,117
Sales	-	-	-	-	324,857	-	324,857
<b>Total operating revenue</b>	<u>899,255</u>	<u>725,555</u>	<u>718,679</u>	<u>631,652</u>	<u>600,094</u>	<u>8,739</u>	<u>3,583,974</u>
<b>Operating expenses</b>							
Personnel	377,059	318,846	350,712	-	500,499	-	1,547,116
Insurance	34,973	6,995	20,984	-	5,596	13,911	82,459
Professional services	13,002	16,339	145,102	651,742	18,279	13,433	857,897
Utilities	4,469	151,160	85,883	-	73,322	16,688	331,522
Repairs and maintenance	16,479	24,614	20,303	-	68,510	2,561	132,467
Materials and supplies	67,861	47,644	43,710	-	142,563	155	301,933
Cost of sales	366,175	-	-	-	181,824	-	547,999
Other	13,948	13,501	13,290	4,985	44,055	-	89,779
Depreciation	40,208	176,202	269,451	-	136,656	238,287	860,804
<b>Total operating expenses</b>	<u>934,174</u>	<u>755,301</u>	<u>949,435</u>	<u>656,727</u>	<u>1,171,304</u>	<u>285,035</u>	<u>4,751,976</u>
<b>Operating income (loss)</b>	<u>(34,919)</u>	<u>(29,746)</u>	<u>(230,756)</u>	<u>(25,075)</u>	<u>(571,210)</u>	<u>(276,296)</u>	<u>(1,168,002)</u>
<b>Nonoperating revenue (expenses)</b>							
Operating contribution	-	-	-	-	300,000	-	300,000
<b>Income (loss) before capital grants and transfers</b>	<u>(34,919)</u>	<u>(29,746)</u>	<u>(230,756)</u>	<u>(25,075)</u>	<u>(271,210)</u>	<u>(276,296)</u>	<u>(868,002)</u>
Capital grants	-	-	-	-	-	184,870	184,870
Transfers	51,932	422,872	17,950	-	-	-	492,754
<b>Increase (decrease) in net assets</b>	<u>17,013</u>	<u>393,126</u>	<u>(212,806)</u>	<u>(25,075)</u>	<u>(271,210)</u>	<u>(91,426)</u>	<u>(190,378)</u>
Total net assets, July 1, 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>
<b>Total net assets, June 30, 2012</b>	<u>\$ 2,000,916</u>	<u>\$ 2,054,582</u>	<u>\$ 6,216,901</u>	<u>\$ 201,129</u>	<u>\$ 8,417,682</u>	<u>\$ 8,038,253</u>	<u>\$ 26,929,463</u>

*See accompanying notes to financial statements.*

**CITY OF BENSON, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2012**

	Business-type Activities--Enterprise Funds						
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	Total
<b>Cash flows from operating activities:</b>							
Receipts from customers	\$ 906,029	\$ 701,003	\$ 761,098	\$ 620,887	\$ 569,276	\$ 8,739	\$ 3,567,032
Payments to suppliers and providers of goods and services	(623,728)	(326,379)	(416,922)	(658,480)	(570,208)	(47,327)	(2,643,044)
Payments to employees	(272,509)	(244,973)	(268,974)	-	(428,084)	-	(1,214,540)
<b>Net cash provided (used) by operating activities</b>	<u>9,792</u>	<u>129,651</u>	<u>75,202</u>	<u>(37,593)</u>	<u>(429,016)</u>	<u>(38,588)</u>	<u>(290,552)</u>
<b>Cash flows from noncapital financing activities:</b>							
Received from other funds	1,655	-	-	37,593	104,016	43,329	186,593
Paid to other funds	-	(125,477)	(75,201)	-	-	-	(200,678)
Transfers	51,932	422,872	17,950	-	-	-	492,754
Operating contribution received	-	-	-	-	300,000	-	300,000
<b>Net cash provided (used) by noncapital financing activities</b>	<u>53,587</u>	<u>297,395</u>	<u>(57,251)</u>	<u>37,593</u>	<u>404,016</u>	<u>43,329</u>	<u>778,669</u>
<b>Cash flows from capital and related financing activities:</b>							
Purchase of capital assets	(65,603)	(432,033)	(17,951)	-	-	(189,611)	(705,198)
Capital grant receipts	-	-	-	-	-	184,870	184,870
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(65,603)</u>	<u>(432,033)</u>	<u>(17,951)</u>	<u>-</u>	<u>-</u>	<u>(4,741)</u>	<u>(520,328)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(2,224)	(4,987)	-	-	(25,000)	-	(32,211)
Cash and cash equivalents, July 1, 2011	<u>44,677</u>	<u>20,085</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>89,762</u>
<b>Cash and cash equivalents, June 30, 2012</b>	<u>\$ 42,453</u>	<u>\$ 15,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,551</u>

*See accompanying notes to financial statements.*

**CITY OF BENSON, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2012**  
*(Continued)*

	Business-type Activities--Enterprise Funds						Total
	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Municipal Airport Fund	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating income (loss)	\$ (34,919)	\$ (29,746)	\$ (230,756)	\$ (25,075)	\$ (571,210)	\$ (276,296)	\$ (1,168,002)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	40,208	176,202	269,451	-	136,656	238,287	860,804
(Increase) decrease in:							
Accounts receivable	8,998	(19,565)	42,419	(10,765)	(7,509)	-	13,578
Increase (decrease) in:							
Accounts payable	1,111	14,356	2,805	(1,753)	78,709	(579)	94,649
Deferred revenue	-	-	-	-	(23,309)	-	(23,309)
Accrued expenses	(2,069)	(8,083)	(8,905)	-	(46,597)	-	(65,654)
Refundable deposits	(2,224)	(4,987)	-	-	-	-	(7,211)
Compensated absences payable	(1,313)	1,474	188	-	4,244	-	4,593
<b>Net cash provided (used) by operating activities</b>	<u>\$ 9,792</u>	<u>\$ 129,651</u>	<u>\$ 75,202</u>	<u>\$ (37,593)</u>	<u>\$ (429,016)</u>	<u>\$ (38,588)</u>	<u>\$ (290,552)</u>

*See accompanying notes to financial statements.*

**CITY OF BENSON, ARIZONA**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2012**

	<u>Trust Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 601,706
Accounts receivable	<u>517</u>
<b>Total assets</b>	<u>602,223</u>
<b>NET ASSETS</b>	
Held in trust for investment trust participants	<u><u>\$ 602,223</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, 2012**

	Trust Fund
<b>Additions:</b>	
Contributions	\$ 10,000
Other income	6,375
Interest and dividends	12,077
<b>Total additions</b>	<b>28,452</b>
<b>Deductions:</b>	
Pension payments	26,400
<b>Total deductions</b>	<b>26,400</b>
Change in net assets	2,052
Net assets, July 1, 2011	600,171
Net assets, June 30, 2012	\$ 602,223

*See accompanying notes to financial statements.*

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

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

**A. Reporting Entity**

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

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

**The City of Benson Municipal Property Corporation** is a nonprofit corporation incorporated under the laws of the State of Arizona. The principal objective of the Corporation is to assist the City of Benson, Arizona, in acquiring, constructing, financing, operating, improving or modifying public facilities for the benefit of all City of Benson, Arizona, residents. The Corporation's board of directors consists of seven members. For the year ending June 30, 2012, there was no activity.

**B. Basis of Presentation**

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

Government-wide statements—provide information about the primary government (the City) and its component unit. The statements include a statement of net 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, 2012**

***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, 2012**

***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, 2012**

***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.

**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, 2012**

***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, 2012**

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

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

**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, 2012, the carrying amount of the City’s total nonpooled cash in bank was \$3,992,731 and the bank balance was \$4,417,155. Of the bank balance, \$2,543,702, was covered by federal depository insurance and \$1,873,453 backed by the U.S. government.

*Investments* – At June 30, 2012, the investments consisted of the following:

	Rating	Reported Amount	Fair Value
Investment in State Treasurer's investment pool			
Primary Government	Unrated	\$ 101,845	\$ 101,845
Investment in State Treasurer's investment pool			
Fiduciary Funds	Unrated	\$ 62,103	\$ 62,103

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

*Restricted cash* –\$57,551 is restricted for refundable customer deposits in the proprietary funds and \$61,459 of RICO funds is restricted for public safety.

**NOTE 3 – ACCOUNTS RECEIVABLES**

The following table summarizes that City’s receivables, net of allowance for uncollectible, for the proprietary funds as of June 30, 2012:

	Gas Fund	Water Fund	Liquid Waste Fund	Solid Waste Fund	Golf Course Fund	Total
Accounts receivable	\$ 20,503	\$ 55,634	\$ 34,664	\$ 30,526	\$ 16,648	\$ 157,975
Less Allowance	(10,796)	(5,972)	(2,067)	(4,135)	-	(22,970)
Accounts receivable - net	\$ 9,707	\$ 49,662	\$ 32,597	\$ 26,391	\$ 16,648	\$ 135,005

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 4 – DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments at June 30, 2012, included \$8,935 in county-shared revenue from auto lieu taxes, \$33,876 in state-shared revenue from sales taxes, \$30,549 in state-shared revenue from highway user revenue fund (HURF) taxes, \$109,718 from Arizona Department of Homeland Security, \$83,845 in federal-shared revenue from Homeland Security, \$7,182 in revenue from various governmental agencies, and \$25,135 in state-shared revenue from Arizona Department of Transportation.

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 474,013	49,255	-	\$ 523,268
<b>Total capital assets not       being depreciated</b>	<u>474,013</u>	<u>49,255</u>	<u>-</u>	<u>523,268</u>
Capital assets being depreciated:				
Buildings	3,048,214	142,483	-	3,190,697
Equipment/Recreation	3,969,413	561,940	-	4,531,353
Infrastructure	4,030,783	299,470	-	4,330,253
<b>Total</b>	<u>11,048,410</u>	<u>1,003,893</u>	<u>-</u>	<u>12,052,303</u>
Less accumulated depreciation for:				
Buildings	(1,668,300)	(74,536)	-	(1,742,836)
Equipment/Recreation	(1,951,068)	(371,840)	-	(2,322,908)
Infrastructure	(1,636,820)	(171,667)	-	(1,808,487)
<b>Total</b>	<u>(5,256,188)</u>	<u>(618,043)</u>	<u>-</u>	<u>(5,874,231)</u>
<b>Total capital assets being depreciated, net</b>	<u>5,792,222</u>	<u>385,850</u>	<u>-</u>	<u>6,178,072</u>
Governmental activities capital assets, net	<u>\$ 6,266,235</u>	<u>\$ 435,105</u>	<u>\$ -</u>	<u>\$ 6,701,340</u>

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 5 – CAPITAL ASSETS – Continued**

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 7,744,582	\$ -	\$ -	\$ 7,744,582
<b>Total capital assets not       being depreciated</b>	<u>7,744,582</u>	<u>-</u>	<u>-</u>	<u>7,744,582</u>
Capital assets being depreciated:				
Utility systems	16,871,934	705,198	-	17,577,132
Buildings	9,894,642	-	-	9,894,642
Equipment	945,530	-	-	945,530
<b>Total</b>	<u>27,712,106</u>	<u>705,198</u>	<u>-</u>	<u>28,417,304</u>
Less accumulated depreciation for:				
Utility systems	(4,178,187)	(510,418)	-	(4,688,605)
Buildings	(2,892,961)	(256,786)	-	(3,149,747)
Equipment	(592,897)	(93,600)	-	(686,497)
<b>Total</b>	<u>(7,664,045)</u>	<u>(860,804)</u>	<u>-</u>	<u>(8,524,849)</u>
<b>Total capital assets being depreciated, net</b>	<u>20,048,061</u>	<u>(155,606)</u>	<u>-</u>	<u>19,892,455</u>
Business-type activities capital assets, net	<u>\$ 27,792,643</u>	<u>\$ (155,606)</u>	<u>\$ -</u>	<u>\$ 27,637,037</u>

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

***NOTE 5 – CAPITAL ASSETS – Continued***

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 77,627
Public safety	196,825
Highways and streets	172,862
Welfare	39,823
Culture and recreation	115,999
Public works	<u>14,907</u>
 Total governmental activities depreciation expense	 <u><u>\$ 618,043</u></u>
 Business-type activities:	
Gas	\$ 40,208
Water	176,202
Liquid waste	269,451
Golf Course	136,656
Airport	<u>238,287</u>
 Total business-type activities depreciation expense	 <u><u>\$ 860,804</u></u>

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 6 – LONG-TERM LIABILITIES**

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2012.

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Governmental activities:					
Compensated absences	\$ 216,040	\$ 46,583	\$ 81,605	\$ 181,018	\$ 144,814
Capital leases payable	253,534	-	59,492	194,042	62,014
Bond payable-refunding	2,525,000	-	100,000	2,425,000	100,000
Bond payable	2,715,000	-	105,000	2,610,000	110,000
Bond discount	(43,262)	2,403	-	(40,859)	(2,403)
Notes payable	24,961	-	5,226	19,735	5,603
Governmental activities long-term liabilities	<u>\$ 5,691,273</u>	<u>\$ 48,986</u>	<u>\$ 351,323</u>	<u>\$ 5,388,936</u>	<u>\$ 420,028</u>
Business-type activities:					
Compensated absences	<u>\$ 98,157</u>	<u>\$ 23,068</u>	<u>\$ 18,475</u>	<u>\$ 102,750</u>	<u>\$ 82,201</u>

The following schedule details debt service requirements to maturity for the City’s bonds and notes payable at June 30, 2012.

Year Ending June 30	Governmental Activities					
	Notes Payable		Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 5,603	\$ 1,204	\$ 210,000	\$ 187,588	\$ 215,603	\$ 188,792
2014	6,008	799	215,000	183,288	221,008	184,087
2015	6,443	364	220,000	177,788	226,443	178,152
2016	1,681	20	225,000	172,163	226,681	172,183
2017	-	-	230,000	165,263	230,000	165,263
2018-22	-	-	1,270,000	688,438	1,270,000	688,438
2023-27	-	-	1,560,000	389,463	1,560,000	389,463
2028-30	-	-	1,105,000	51,075	1,105,000	51,075
Total	<u>\$ 19,735</u>	<u>\$ 2,387</u>	<u>\$ 5,035,000</u>	<u>\$ 2,015,066</u>	<u>\$ 5,054,735</u>	<u>\$ 2,017,453</u>

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 6 – LONG-TERM LIABILITIES – Continued**

*Bonds Payable* – The City’s bonded debt consists of a 2010 Excise Tax Revenue Bond issuance of \$5,240,000. The Excise Tax Revenue Bond requires repayments of interest only due semi-annually starting January 1, 2011, with annual principal payments starting on July 1, 2011. Bonds outstanding at June 30, 2012, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
<u>Governmental Activities</u>				
Excise tax revenue bond	\$ 2,525,000	2030	3.70%	\$ 2,610,000
Excise tax revenue refunding bond	<u>2,715,000</u>	2030	3.70%	<u>2,425,000</u>
Total excise tax revenue bonds	<u>\$ 5,240,000</u>			5,035,000
			Amortized bond discount	<u>(40,859)</u>
			Revenue bonds, net	<u>\$ 4,994,141</u>

*Notes Payable* – Notes payable consisted of the following:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
<u>Governmental Activities</u>				
Note payable - Individual	<u>\$ 60,000</u>	2015	7.00%	<u>\$ 19,735</u>

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

The following schedule details debt service requirements to maturity for the City’s capital leases payable at June 30, 2012.

Year Ending June 30	Governmental Activities		
	<u>Leases Payable</u>		Total
	Principal	Interest	Minimum Lease Pmts
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>\$ 194,042</u>	<u>\$ 16,681</u>	<u>\$ 210,723</u>

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

***NOTE 6 – LONG-TERM LIABILITIES – Continued***

The asset acquired through a capital lease is as follows:

	Governmental Activities
Equipment	\$ 516,602
Less: accumulated depreciation	(346,336)
Carrying value	\$ 170,266

***NOTE 7 – RISK MANAGEMENT***

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

***NOTE 8 – RETIREMENT PLANS***

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

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

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

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 8 – RETIREMENT PLANS – Continued**

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

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

*Cost-sharing plans* – For the year ended June 30, 2012, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent retirement and 0.24 percent long-term disability) of the members’ annual covered payroll. The City’s contributions to ASRS for the years ended June 30, 2012, 2011, and 2010, were \$254,213, \$210,803, \$233,785, and respectively, which were equal to the required contributions for the year.

*Agent plans* – For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rate of 17.29 and 20.67 percent for police and fire personnel, respectively.

Annual Pension Cost – The City’s pension cost for the agent plan for the year ended June 30, 2012, and related information follows.

	PSPRS	
	Police	Fire
Contribution rates:		
City	17.29%	20.67%
Plan members	8.65%	8.65%
Annual pension cost	\$ 170,345	\$ 9,166
Contributions made	\$ 170,345	\$ 9,166

The current-year annual required contributions for the PSPRS were determined as part of its June 30, 2012, actuarial valuation using the individual entry-age actuarial cost method. The actuarial assumptions included (a) 8.0 percent investment rate of return and (b) projected salary increases ranging from 5.0 percent to 9.0 percent per year. Both (a) and (b) included an inflation component of 5.0 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 7-year period. The unfunded actuarial accrued liability is being

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 8 – RETIREMENT PLANS – Continued**

amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years.

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS - Police	2012	170,345	100 %	-
	2011	169,083	100	-
	2010	111,980	100	-
PSPRS - Fire	2012	9,166	100 %	-
	2011	5,597	100	-
	2010	4,525	100	-

**NOTE 9 – INTERFUND BALANCES AND ACTIVITY**

Interfund receivables and payables—Interfund balances at June 30, 2012, were as follows:

Payable from	Payable to			Total
	General Fund	Gas Fund	Solid Waste Fund	
HURF/LTAF Fund	\$ 558,258	\$ -	\$ -	\$ 558,258
Capital Projects Fund	161,733	-	-	161,733
Grants Fund (nonmajor)	171,424	-	-	171,424
Transit Fund (nonmajor)	90,042	-	-	90,042
Water Fund	-	709,848	-	709,848
Liquid Waste Fund	-	827,558	58,354	885,912
Golf Course Fund	-	-	77,382	77,382
Municipal Airport Fund	625,886	-	7,986	633,872
	<u>\$ 1,607,343</u>	<u>\$ 1,537,406</u>	<u>\$ 143,722</u>	<u>\$ 3,288,471</u>

**CITY OF BENSON, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2012**

***NOTE 9 – INTERFUND BALANCES AND ACTIVITY – Continued***

Interfund transfers—Interfund transfers for the fiscal year ended June 30, 2012, were as follows:

Transfer to	Transfer from		Total
	General Fund	Capital Projects Fund	
HURF/LTAF Fund	\$ 182,936	\$ -	\$ 182,936
Gas Fund	51,932	-	51,932
Water Fund	150,916	271,956	422,872
Capital Projects Fund	17,950	-	17,950
	\$ 403,734	\$ 271,956	\$ 675,690

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

***NOTE 10 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY***

At June 30, 2012, the Transit Fund reported a deficit fund balance of \$68,177.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF BENSON, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedules**  
**General Fund**  
**June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Taxes	\$ 2,956,000	\$ 2,956,000	\$ 2,884,313	\$ (71,687)
Intergovernmental	1,559,981	1,559,981	1,166,721	(393,260)
Licenses and permits	171,400	171,400	136,524	(34,876)
Charges for services	53,100	53,100	55,521	2,421
Other revenue	980,600	980,600	52,339	(928,261)
Fines and forfeitures	31,400	31,400	18,999	(12,401)
Interest	5,000	5,000	11,441	6,441
<b>Total revenue</b>	<b>5,757,481</b>	<b>5,757,481</b>	<b>4,325,858</b>	<b>(1,431,623)</b>
<b>Expenditures</b>				
Current				
Public safety	2,583,784	2,583,784	1,997,692	586,092
General government	1,444,373	1,444,373	1,357,736	86,637
Culture and recreation	758,614	758,614	764,082	(5,468)
Public works	118,313	118,313	118,612	(299)
Welfare	17,700	17,700	25,555	(7,855)
Debt service				
Principal	269,717	269,717	269,717	-
Interest	206,681	206,681	206,681	-
Capital outlay	1,654,299	1,654,299	268,503	1,385,796
<b>Total expenditures</b>	<b>7,053,481</b>	<b>7,053,481</b>	<b>5,008,578</b>	<b>2,044,903</b>
Excess (deficiency) of revenue over (under) expenditures	(1,296,000)	(1,296,000)	(682,720)	613,280
<b>Other financing sources</b>				
Sale of assets	6,000	6,000	-	(6,000)
Transfers in (out)	-	-	(403,734)	(403,734)
<b>Total other financing sources</b>	<b>6,000</b>	<b>6,000</b>	<b>(403,734)</b>	<b>(409,734)</b>
<b>Net changes in fund balances</b>	<b>(1,290,000)</b>	<b>(1,290,000)</b>	<b>(1,086,454)</b>	<b>203,546</b>
Fund balances, July 1, 2011	6,828,900	6,828,900	6,828,900	-
<b>Fund balances, June 30, 2012</b>	<b>\$ 5,538,900</b>	<b>\$ 5,538,900</b>	<b>\$ 5,742,446</b>	<b>\$ 203,546</b>

*See accompanying notes to budgetary comparison schedule.*

**CITY OF BENSON, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedules**  
**HURF/LTAF Fund**  
**Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 355,852	\$ 355,852	\$ 304,165	\$ (51,687)
<b>Expenditures</b>				
Current				
Highways and streets	555,852	555,852	428,136	127,716
Capital outlay	-	-	182,936	(182,936)
<b>Total expenditures</b>	<u>555,852</u>	<u>555,852</u>	<u>611,072</u>	<u>(55,220)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(200,000)</u>	<u>(200,000)</u>	<u>(306,907)</u>	<u>(106,907)</u>
<b>Other financing sources</b>				
Transfers in (out)	-	-	182,936	182,936
<b>Net changes in fund balances</b>	(200,000)	(200,000)	(123,971)	76,029
Fund balances, July 1, 2011	<u>(367,586)</u>	<u>(367,586)</u>	<u>(367,586)</u>	-
<b>Fund balances, June 30, 2012</b>	<u><u>\$ (567,586)</u></u>	<u><u>\$ (567,586)</u></u>	<u><u>\$ (491,557)</u></u>	<u><u>\$ 76,029</u></u>

*See accompanying notes to budgetary comparison schedule.*

**CITY OF BENSON, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedules**  
**Capital Projects Fund**  
**Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Taxes	\$ 400,000	\$ 400,000	\$ 376,580	\$ (23,420)
Intergovernmental	415,000	415,000	-	(415,000)
Impact fees	100,000	100,000	76,730	(23,270)
<b>Total revenue</b>	<u>915,000</u>	<u>915,000</u>	<u>453,310</u>	<u>(461,690)</u>
<b>Expenditures</b>				
Capital outlay	<u>1,660,000</u>	<u>1,660,000</u>	<u>279,629</u>	<u>1,380,371</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(745,000)</u>	<u>(745,000)</u>	<u>173,681</u>	<u>918,681</u>
<b>Other financing sources</b>				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>(271,956)</u>	<u>(271,956)</u>
<b>Net changes in fund balances</b>	(745,000)	(745,000)	(98,275)	646,725
Fund balances, July 1, 2011	<u>(79,118)</u>	<u>(79,118)</u>	<u>(79,118)</u>	<u>-</u>
<b>Fund balances, June 30, 2012</b>	<u>\$ (824,118)</u>	<u>\$ (824,118)</u>	<u>\$ (177,393)</u>	<u>\$ 646,725</u>

*See accompanying notes to budgetary comparison schedule.*

**CITY OF BENSON, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2012**

***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.

**CITY OF BENSON, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Agent Retirement Plans' Funding Process**  
**June 30, 2012**

Public Safety Personnel Retirement System – Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/12	\$1,978,329	\$ 3,334,699	\$1,356,370	59.3 %	\$ 739,731	183.4 %
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
06/30/08	1,451,860	2,306,240	854,380	63.0	776,761	110.0
06/30/07	1,486,103	2,399,757	913,654	61.9	722,158	126.5

Public Safety Personnel Retirement System – Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/12	\$ 369,108	\$ 435,891	\$ 66,783	84.7 %	\$ 69,095	96.7 %
06/30/11	323,435	381,068	57,633	84.9	66,536	86.6
06/30/10	292,677	341,254	48,577	85.8	66,536	73.0
06/30/09	273,523	327,205	53,682	83.6	66,475	80.8
06/30/08	225,815	130,958	(94,857)	172.4	61,822	-
06/30/07	-	-	-	-	-	-

**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, 2012, which collectively comprise the City of Benson, Arizona's basic financial statements and have issued our report thereon dated March 22, 2013. 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**

Management of the City of Benson, Arizona is responsible for establishing and maintaining effective 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 opinion 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 previously. However, we identified a certain 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 **2012-1**. A *significant deficiency* is a deficiency, or a

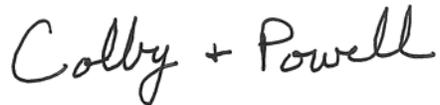
combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

### **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*.

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

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.

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

March 22, 2013



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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, 2012. 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.

In our opinion, the City of Benson, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control Over Compliance

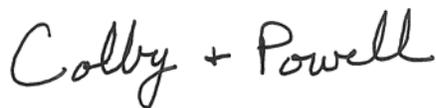
Management of the City of Benson, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Benson, 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 certain 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 **2012-2**. *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 response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Benson, Arizona's response and, accordingly, we express no opinion on the response.

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.



March 22, 2013

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**CITY OF BENSON, ARIZONA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through Grantor's Number	Disbursements/ Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed through Arizona Department of Commerce			
Community Development Block Grant	14.228	105-11	\$ 36,306
Community Development Block Grant	14.228	106-11	<u>76,801</u>
Total U.S. Department of Housing and Urban Development			<u>113,107</u>
<b><u>U.S. Department of Homeland Security</u></b>			
Passed through Arizona Department of Homeland Security			
Homeland Security Grant Program	97.067	11-HSGP-888419-01	105,999
Homeland Security Grant Program	97.067	11-OPSG-888419-02	67,862
Homeland Security Grant Program	97.067	10-OPSG-777419-02	<u>30,423</u>
Total U.S. Department of Homeland Security			<u>204,284</u>
<b><u>U.S. Department of Transportation</u></b>			
Airport Improvement Program	20.106	--	180,130
State and Community Highway Safety	20.600	--	9,215
Passed through Arizona Department of Transportation			
Formula Grants for Other Than Urbanized Areas	20.509	200-002356	<u>101,872</u>
Total U.S. Department of Transportation			<u>291,217</u>
<b>Total Federal Assistance</b>			<u>\$ 608,608</u>

**CITY OF BENSON, ARIZONA**  
**Notes to Schedule of Expenditures of Federal Awards-continued**  
**For the Year Ended June 30, 2012**

***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 2012 *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, 2012**

**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> |
| Community Development Block Grant  | 14.228             |
| Homeland Security Grant Program  | 97.067             |
| 5. Dollar threshold used to distinguish between Type A and Type B programs:  | \$ 300,000         |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?  | No                 |

**CITY OF BENSON, ARIZONA**  
**Schedule of Findings and Questioned Costs-continued**  
**For the Year Ended June 30, 2012**

**Financial Statement Findings**

**2012-1 - 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, 2012**

**Federal Award Program Findings**

**2012-2 - Improve Internal Controls over monitoring**

Program Name: Formula Grants for Other Than Urbanized Areas  
CFDA Number: 20.509  
Grant 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, 2012**

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

**Item: 11-01 - Improve Financial Statement Close Process**

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

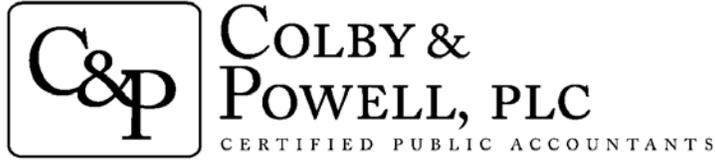
*Status:* A similar finding was noted for 2012 as item **2012-1**

**Item: 11-02 - Improve Internal Controls over monitoring**

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

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

*Status:* A similar finding was noted for 2012 as item **2012-2**.



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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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 22, 2013.

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*

March 22, 2013