

CITY OF BISBEE, ARIZONA

**Financial Statements,
Supplementary Information
and
Single Audit Reports**

Year Ended June 30, 2009

CITY OF BISBEE, ARIZONA
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Independent Auditors' Report

To the City Council
City of Bisbee, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2009, 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 U.S. generally accepted auditing standards 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, business-type activities, each major fund, and aggregate remaining fund information of the City of Bisbee, Arizona, as of June 30, 2009, and the respective changes in financial position (and cash flows, where applicable) thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 3 through 9, the Budgetary Comparison Schedule on page 39, and the Schedule of Agent Retirement Plans' Funding Progress on page 40, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the 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 basic financial

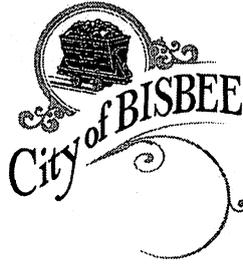
To The City Council
City of Bisbee, Arizona
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statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2009 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Fester & Chapman P.C.

November 20, 2009



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

This discussion and analysis of the City of Bisbee, Arizona's financial performance is offered by management to provide an easily readable overview of the City's financial activities for the fiscal year ended June 30, 2009. This is the sixth year of reporting in accordance with Statement No. 34 of the Governmental Accounting Standards Board. Please read this Management's Discussion and Analysis in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by \$1.383 million or 5.7%.
- The General Fund reported a fund balance this year of \$1.787 million or 29.8% of General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. Following the Management's Discussion and Analysis (MD&A), the government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund based financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. These are broken down further into Governmental Fund Statements and Proprietary Fund Statements. The Governmental Fund Statements include both the General Fund and Other Governmental Funds. These statements tell how these services were financed in the short term as well as what remains for future spending. The Proprietary Fund Statements offer short term and long term financial information about the activities the City operates like businesses such as wastewater, sanitation, and the Queen Mine.

Government-Wide Financial Statements

The analysis of the City begins with the Government-Wide Financial Statements. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The City's net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other non-financial factors, however, such as changes in the City's tax base (both property and sales) and the condition of the City's capital assets, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City reports on its *governmental activities* – These are the City's basic services, including public safety, public works, culture and recreation, community development, and general government and administration. Taxes, charges for services, and intergovernmental revenues such as state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements are next and provide detailed information about the most significant funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City's funds are divided into two categories, governmental and proprietary.

- *Governmental funds*– Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets increased from a year ago increasing from \$24.166 million to \$25.549 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's combined activities.

Table 1
Condensed Statement of Net Assets
(thousands)
June 30,

	<u>Primary Government</u>	
	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 6,221	\$ 5,839
Capital assets	<u>37,130</u>	<u>37,952</u>
Total assets	43,351	43,791
Current and other liabilities	1,145	2,078
Long-term debt outstanding	<u>16,657</u>	<u>17,547</u>
Total liabilities	17,802	19,625
Net assets:		
Invested in capital assets, net of related debt	20,718	20,672
Restricted net assets	2,045	1,350
Unrestricted net assets	<u>2,786</u>	<u>2,144</u>
Total net assets	<u>\$ 25,549</u>	<u>\$ 24,166</u>

Net assets of the City represent the difference between the City's resources and its obligations. As of June 30, 2009, the largest portion of the City's net assets, approximately 81%, reflects the investment in capital assets, less related debt outstanding used to acquire capital assets. These capital assets are used by the City to provide services to its citizens. A small portion of the City's net assets, approximately 8%, is restricted net assets, which may be used in accordance with external restrictions. The remainders of the City's net assets, approximately 11%, are unrestricted net assets – the part of assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Table 2
Condensed Statement of Activities
(thousands)
Year ended June 30,

	<u>Primary Government</u>	
	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues:		
Charges for services	\$ 4,763	\$ 4,546
Operating grants and contributions	827	1,457
Capital grants and contributions	1,208	2,783
General revenues:		
Property taxes	764	720
Sales taxes	1,653	1,777
State shared taxes	516	599
Urban revenue sharing	972	929
Vehicle license taxes	302	309
Bed taxes	120	129
Other general revenues and transfers	<u>1,363</u>	<u>240</u>
Total revenues	<u>12,488</u>	<u>13,489</u>
Expenses:		
Governmental activities:		
General government	1,882	2,846
Public safety	3,837	4,359
Transportation	1,105	801
Culture and recreation	557	624
Interest on long-term debt	27	23
Business type activities:		
Wastewater	2,431	2,624
Sanitation	745	755
Queen Mine	<u>541</u>	<u>574</u>
Total expenses	<u>11,125</u>	<u>12,606</u>
Increase in net assets	1,363	883
Net assets-beginning	<u>24,166</u>	<u>23,283</u>
Net assets-ending	<u>\$ 25,549</u>	<u>\$ 24,166</u>

The City's total revenues were \$12.5 million. The total cost of all programs and services was \$11.1 million.

Our analysis below separately considers the operations of governmental activities.

Governmental Activities

On the revenue side, charges for services were up from \$1.73 million to \$1.77 million, or 2.31%. Operating and capital grants and contributions were down from \$3.96 million to \$1.66 million, or 58.1%. This was due to the completion of a large airport project funded by a grant in Fiscal Year 2008.

On the expenditure side, governmental activities expenses decreased to \$7.40 million from \$8.65 million, or 14.4%, due in large part to a decrease in funds expended for public safety, which were funded through the Federal Department of Homeland Security.

Table 3 presents the cost of each of the City’s four largest programs – as well as each programs’ net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City’s taxpayers by each of these functions.

Table 3		
Governmental Activities		
(thousands)		
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2009</u>	<u>2009</u>
General government and administration	\$ 1,882	\$ 1,030
Public safety	3,837	2,414
Transportation	1,105	(35)
Culture and recreation	557	540
All others	<u>27</u>	<u>27</u>
Totals	<u><u>\$ 7,408</u></u>	<u><u>\$ 3,976</u></u>

CITY FUNDS FINANCIAL ANALYSIS

Governmental Funds

The City uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City operations in more detail than the government-wide statements.

The City’s governmental funds reported a combined fund balance of \$2.97 million, which is an increase from last year’s total of \$2.42 million. Included in this year’s total change in fund balances is an increase of \$496 thousand in the Other Governmental Funds.

Proprietary Funds

The City accounts for three funds in its Proprietary Funds – Wastewater, Sanitation, and the Queen Mine. Net assets for the proprietary funds decreased from \$15.36 million to \$14.88 million, or 3.2%. This decrease is attributable to a planned reduction in the fund balance for the wastewater fund.

General Fund Budgetary Highlights

Over the course of the year, the City was faced with several budget issues. On the revenue side, shortfalls in tax revenues were partially offset by higher than anticipated revenues from charges for services. Actual total revenues for the year were \$35 thousand less than budgeted. However, expenditures were monitored closely throughout the year and kept well within budget, resulting in a net surplus of revenues over expenditures of \$46 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the City had \$37.1 million invested in a broad range of capital assets, including land, buildings, vehicles, equipment, and the new wastewater treatment facility. This amount represents a net decrease (including additions and deductions) of \$823 thousand or 2.2%, over last year, due mostly to depreciation.

Table 4
Capital Assets at Year-end
(thousands)

	Total Assets	
	2009	2008
Land	\$ 619	\$ 557
Buildings and improvements	17,035	16,787
Airport	3,707	1,923
Improvements other than buildings	3,658	3,224
Machinery and equipment	3,968	4,331
Infrastructure	17,344	17,461
Construction in progress	434	1,967
Less: accumulated depreciation	<u>(9,636)</u>	<u>(8,298)</u>
Totals	<u>\$ 37,129</u>	<u>\$ 37,952</u>

Long-term debt

At June 30, 2009, the City had \$16.7 million in long-term debt outstanding. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's total long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City continues to face major financial challenges in the years ahead. Some important issues that will influence the preparation of future budgets include:

- Maintain a reasonable level of services for the citizens of the City of Bisbee in these challenging economic times.
- Secure appropriate funding for City of Bisbee infrastructure repairs and improvements.

- Provide funding to continue to promote the City of Bisbee as a unique cultural and recreational destination.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, City of Bisbee, 118 Arizona Street, Bisbee, Arizona 85603.

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,621,004	\$ 708,867	\$ 2,329,871
Investments	911,379		911,379
Receivables (net of allowance for uncollectibles):			
Accounts	322,792	532,469	855,261
Other	750,000	377,369	1,127,369
Property taxes	28,342		28,342
Inventories		63,436	63,436
Due from other governments	873,141		873,141
Prepaid items	6,192	26,029	32,221
Capital assets, not being depreciated	1,005,848	47,660	1,053,508
Capital assets, being depreciated, net	<u>6,553,505</u>	<u>29,522,813</u>	<u>36,076,318</u>
Total assets	<u>12,072,203</u>	<u>31,278,643</u>	<u>43,350,846</u>
Liabilities			
Accounts payable	547,428	70,004	617,432
Accrued payroll and employee benefits	223,108	7,989	231,097
Accrued interest payable		271,462	271,462
Due to other governments	25,160		25,160
Noncurrent liabilities:			
Due within one year	172,365	682,000	854,365
Due in more than one year	<u>432,838</u>	<u>15,369,756</u>	<u>15,802,594</u>
Total liabilities	<u>1,400,899</u>	<u>16,401,211</u>	<u>17,802,110</u>
Net Assets			
Invested in capital assets, net of related debt	7,182,556	13,535,647	20,718,203
Restricted for:			
Capital projects	788,642		788,642
Debt service		789,391	789,391
Other purposes	466,196		466,196
Unrestricted	<u>2,233,910</u>	<u>552,394</u>	<u>2,786,304</u>
Total net assets	<u>\$ 10,671,304</u>	<u>\$ 14,877,432</u>	<u>\$ 25,548,736</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			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	
Governmental activities:							
General government	\$ 1,882,226	\$ 459,921	\$ 162,548	\$ 229,221	\$ (1,030,536)		\$ (1,030,536)
Public safety	3,836,633	1,290,133	125,271	7,521	(2,413,708)		(2,413,708)
Transportation	1,104,989	5,665	539,335	595,151	35,162		35,162
Culture and recreation	556,729	16,821			(539,908)		(539,908)
Interest on long-term debt	27,342				(27,342)		(27,342)
Total governmental activities	<u>7,407,919</u>	<u>1,772,540</u>	<u>827,154</u>	<u>831,893</u>	<u>(3,976,332)</u>		<u>(3,976,332)</u>
Business-Type activities:							
Wastewater	2,430,977	1,530,902		374,855		\$ (525,220)	(525,220)
Sanitation	745,541	808,236		1,553		64,248	64,248
Queen Mine	541,060	651,381				110,321	110,321
Total business-type activities	<u>3,717,578</u>	<u>2,990,519</u>		<u>376,408</u>		<u>(350,651)</u>	<u>(350,651)</u>
Total primary government	<u>\$ 11,125,497</u>	<u>\$ 4,763,059</u>	<u>\$ 827,154</u>	<u>\$ 1,208,301</u>	<u>(3,976,332)</u>	<u>(350,651)</u>	<u>(4,326,983)</u>
General Revenues:							
Taxes:							
Property taxes					763,878		763,878
Sales taxes					1,652,697		1,652,697
State shared taxes					515,868		515,868
Urban revenue sharing					972,242		972,242
Vehicle license taxes					302,488		302,488
Bed taxes					120,055		120,055
Investment earnings					10,364	1,847	12,211
Miscellaneous					1,363,315	6,693	1,370,008
Transfers					141,848	(141,848)	
Total general revenues and transfers					<u>5,842,755</u>	<u>(133,308)</u>	<u>5,709,447</u>
Change in net assets					1,866,423	(483,959)	1,382,464
Net assets, July 1, 2008					8,804,881	15,361,391	24,166,272
Net assets, June 30, 2009					<u>\$ 10,671,304</u>	<u>\$ 14,877,432</u>	<u>\$ 25,548,736</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 396,106	\$ 1,224,898	\$ 1,621,004
Investments	910,826	553	911,379
Receivables (net of allowance for uncollectibles):			
Accounts	315,460	7,332	322,792
Property taxes	28,342		28,342
Other		750,000	750,000
Due from other governments	518,959	354,182	873,141
Prepaid items	6,192		6,192
Total assets	<u>\$ 2,175,885</u>	<u>\$ 2,336,965</u>	<u>\$ 4,512,850</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	166,838	380,590	547,428
Accrued payroll and employee benefits	220,620	2,488	223,108
Deferred revenue		750,000	750,000
Due to other governments	1,020	24,140	25,160
Total liabilities	<u>388,478</u>	<u>1,157,218</u>	<u>1,545,696</u>
Fund balances:			
Reserved for prepaid items	6,192		6,192
Unreserved:			
Designated for airport	3,388		3,388
Designated for youth programs	124,688		124,688
Undesignated:			
General fund	1,653,139		1,653,139
Special revenue funds		391,105	391,105
Capital project fund		788,642	788,642
Total fund balances	<u>1,787,407</u>	<u>1,179,747</u>	<u>2,967,154</u>
Total liabilities and fund balances	<u>\$ 2,175,885</u>	<u>\$ 2,336,965</u>	<u>\$ 4,512,850</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2009

Fund balances - total governmental funds	\$ 2,967,154
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	7,559,353
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	750,000
Some liabilities, including a note payable, capital leases payable, lease purchase agreements, and compensated absences are not due and payable in the current period and therefore, are not reported in the funds.	<u>(605,203)</u>
Net assets of governmental activities	<u>\$10,671,304</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2009

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 3,354,986		\$ 3,354,986
Fines and forfeitures	9,814		9,814
Licenses and permits	99,675		99,675
Intergovernmental	1,059,871	\$ 1,624,627	2,684,498
Charges for services	1,408,211	5,665	1,413,876
Investment earnings	10,357	7	10,364
Rent	76,235		76,235
Contributions	8,030	71,593	79,623
Miscellaneous	156,907	493,418	650,325
Total revenues	<u>6,184,086</u>	<u>2,195,310</u>	<u>8,379,396</u>
Expenditures:			
Current:			
General government	1,700,307	459,840	2,160,147
Public safety	3,559,829	99,445	3,659,274
Transportation	79,120	890,918	970,038
Culture and recreation	435,463	46,760	482,223
Capital outlay	12,195	535,503	547,698
Debt service:			
Principal	175,954		175,954
Interest	27,342		27,342
Total expenditures	<u>5,990,210</u>	<u>2,032,466</u>	<u>8,022,676</u>
Excess of revenues over expenditures	193,876	162,844	356,720
Other financing sources (uses):			
Proceeds from capital leases		41,202	41,202
Proceeds from sale of assets	3,096		3,096
Transfers in	433,050	499,852	932,902
Transfers out	(583,655)	(207,399)	(791,054)
Total other financing sources (uses)	<u>(147,509)</u>	<u>333,655</u>	<u>186,146</u>
Net change in fund balances	46,367	496,499	542,866
Fund balances, July 1, 2008	<u>1,741,040</u>	<u>683,248</u>	<u>2,424,288</u>
Fund balances, June 30, 2009	<u>\$ 1,787,407</u>	<u>\$ 1,179,747</u>	<u>\$ 2,967,154</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2009

Net changes in fund balances - total governmental funds	\$ 542,866						
<p>Amounts reported in the governmental activities in the Statement of Activities are different because:</p>							
<p>Proceeds from the sale of capital assets are reported in the Governmental Funds. However, in the Statement of Activities only the loss on the sale is recorded. This is the amount by which loss on the sale of capital assets exceeded the proceeds.</p>	(937)						
<p>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. This is the amount by which capital outlays exceeded depreciation in the current period.</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 40%;">Capital outlay</td> <td style="width: 20%; text-align: right;">\$ 831,197</td> <td style="width: 40%;"></td> </tr> <tr> <td>Depreciation expense</td> <td style="text-align: right;"><u>(430,688)</u></td> <td style="text-align: right;">400,509</td> </tr> </table>	Capital outlay	\$ 831,197		Depreciation expense	<u>(430,688)</u>	400,509	
Capital outlay	\$ 831,197						
Depreciation expense	<u>(430,688)</u>	400,509					
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	750,000						
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 40%;">Capital lease incurred</td> <td style="width: 20%; text-align: right;">\$ (41,202)</td> <td style="width: 40%;"></td> </tr> <tr> <td>Principal repaid</td> <td style="text-align: right;"><u>175,954</u></td> <td style="text-align: right;">134,752</td> </tr> </table>	Capital lease incurred	\$ (41,202)		Principal repaid	<u>175,954</u>	134,752	
Capital lease incurred	\$ (41,202)						
Principal repaid	<u>175,954</u>	134,752					
Some expenses reported on the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<u>39,233</u>						
Change in net assets of governmental activities	<u>\$ 1,866,423</u>						

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	
Assets				
Current assets:				
Cash and cash equivalents	\$ 477,895		\$ 230,972	\$ 708,867
Receivables (net of allowance for uncollectibles)				
Accounts	360,288	\$ 172,181		532,469
Other	377,369			377,369
Inventory			63,436	63,436
Prepaid items			26,029	26,029
Due from other funds	278,469			278,469
Total current assets	<u>1,494,021</u>	<u>172,181</u>	<u>320,437</u>	<u>1,986,639</u>
Noncurrent assets:				
Capital assets (net of accumulated depreciation)				
Land		47,660		47,660
Improvements other than buildings, net	1,645,665			1,645,665
Buildings, net	11,811,505		103,790	11,915,295
Equipment, net	275,013	354,544	7,855	637,412
Infrastructure, net	15,324,441			15,324,441
Total noncurrent assets	<u>29,056,624</u>	<u>402,204</u>	<u>111,645</u>	<u>29,570,473</u>
Total assets	<u>30,550,645</u>	<u>574,385</u>	<u>432,082</u>	<u>31,557,112</u>
Liabilities				
Current liabilities:				
Accounts payable	20,354	38,458	11,192	70,004
Accrued payroll and employee benefits	2,679	2,340	2,970	7,989
Accrued interest payable	271,462			271,462
Due to other funds		278,469		278,469
Current portion long-term debt	666,816	15,184		682,000
Total current liabilities	<u>961,311</u>	<u>334,451</u>	<u>14,162</u>	<u>1,309,924</u>
Noncurrent liabilities:				
Long-term debt	<u>15,167,783</u>	<u>191,190</u>	<u>10,783</u>	<u>15,369,756</u>
Total noncurrent liabilities	<u>15,167,783</u>	<u>191,190</u>	<u>10,783</u>	<u>15,369,756</u>
Total liabilities	<u>16,129,094</u>	<u>525,641</u>	<u>24,945</u>	<u>16,679,680</u>
Net Assets				
Invested in capital assets, net of related debt	13,223,370	200,632	111,645	13,535,647
Restricted for debt service	789,391			789,391
Unrestricted (deficit)	408,790	(151,888)	295,492	552,394
Total net assets	<u>\$ 14,421,551</u>	<u>\$ 48,744</u>	<u>\$ 407,137</u>	<u>\$ 14,877,432</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2009

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	<u>Total</u>
Operating revenues:				
Charges for sales and services	\$ 1,500,733	\$ 808,236	\$ 651,381	\$ 2,960,350
Customer penalties and interest	30,169			30,169
Miscellaneous	6,693			6,693
Total operating revenues	<u>1,537,595</u>	<u>808,236</u>	<u>651,381</u>	<u>2,997,212</u>
Operating expenses:				
Cost of sales and services	919,204	681,566	529,868	2,130,638
Depreciation	1,110,079	43,069	11,192	1,164,340
Total operating expenses	<u>2,029,283</u>	<u>724,635</u>	<u>541,060</u>	<u>3,294,978</u>
Operating income (loss)	<u>(491,688)</u>	<u>83,601</u>	<u>110,321</u>	<u>(297,766)</u>
Nonoperating revenues (expenses):				
Investment earnings	1,847			1,847
Interest expense	(401,694)	(9,939)		(411,633)
Total nonoperating revenues (expenses)	<u>(399,847)</u>	<u>(9,939)</u>		<u>(409,786)</u>
Income (loss) before capital contributions and transfers	(891,535)	73,662	110,321	(707,552)
Capital contributions - intergovernmental	374,855	1,553		376,408
Loss on disposal of assets		(10,967)		(10,967)
Transfers in	337,367	5,876	3,075	346,318
Transfers out	<u>(383,778)</u>	<u>(53,608)</u>	<u>(50,780)</u>	<u>(488,166)</u>
Increase (decrease) in net assets	(563,091)	16,516	62,616	(483,959)
Total net assets, July 1, 2008	<u>14,984,642</u>	<u>32,228</u>	<u>344,521</u>	<u>15,361,391</u>
Total net assets, June 30, 2009	<u>\$14,421,551</u>	<u>\$ 48,744</u>	<u>\$ 407,137</u>	<u>\$14,877,432</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2009

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,462,951	\$ 785,110	\$ 649,870	\$ 2,897,931
Other operating receipts	6,693			6,693
Cash payments to employees	(521,686)	(393,984)	(336,519)	(1,252,189)
Cash payments to suppliers for goods and services	(474,993)	(298,003)	(213,646)	(986,642)
Net cash provided by operating activities	<u>472,965</u>	<u>93,123</u>	<u>99,705</u>	<u>665,793</u>
Cash flows from noncapital financing activities:				
Payments on advances from other funds	285,568	278,469		564,037
Payments on advances to other funds	(278,469)	(285,603)	(50,780)	(614,852)
Cash transfers from other funds	337,367	5,876	3,075	346,318
Cash transfers to other funds	(383,778)	(53,608)		(437,386)
Net cash used by noncapital financing activities	<u>(39,312)</u>	<u>(54,866)</u>	<u>(47,705)</u>	<u>(141,883)</u>
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(648,303)	(29,871)		(678,174)
Interest paid on long-term debt	(416,421)	(9,939)		(426,360)
Purchases of capital assets	(8,321)		(3,075)	(11,396)
Capital contributions	35	1,553		1,588
Net cash used by capital and related financing activities	<u>(1,073,010)</u>	<u>(38,257)</u>	<u>(3,075)</u>	<u>(1,114,342)</u>
Cash flows from investing activities:				
Sale of investments	16,599			16,599
Interest received on investment	1,847			1,847
Net cash provided by investing activities	<u>18,446</u>			<u>18,446</u>
Net increase (decrease) in cash and cash equivalents	(620,911)		48,925	(571,986)
Cash and cash equivalents, June 30, 2008	1,098,806		182,047	1,280,853
Cash and cash equivalents, June 30, 2009	<u>\$ 477,895</u>	<u>\$</u>	<u>\$ 230,972</u>	<u>\$ 708,867</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (491,688)	\$ 83,601	\$ 110,321	\$ (297,766)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	1,110,079	43,069	11,192	1,164,340
Changes in assets and liabilities:				
Accounts receivable	(67,951)	(23,126)		(91,077)
Prepaid items			1,558	1,558
Inventory			(19,984)	(19,984)
Accounts payable	(72,857)	(5,559)	(753)	(79,169)
Accrued payroll and employee benefits	42	743	252	1,037
Compensated absences payable	(4,660)	(5,605)	(1,370)	(11,635)
Deposits held for others			(1,511)	(1,511)
Net cash provided by operating activities	<u>\$ 472,965</u>	<u>\$ 93,123</u>	<u>\$ 99,705</u>	<u>\$ 665,793</u>
Noncash capital and related financing activities:				
Transfer of capital lease to another fund		<u>\$ 50,366</u>		

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Bisbee, Arizona (the City) conform to 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.

The City was incorporated under the laws of the State of Arizona. The City operates under a council-manager form of government and provides the following services as authorized by general law: public safety, highways and streets, parks and recreation, planning and zoning, and general administrative services. As required by generally accepted accounting principles, these financial statements present the City of Bisbee, Arizona (the primary government) and its component unit.

A. Financial Reporting Entity

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

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, and so data from these units are 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 statement to emphasize they are legally separate from the City. The City's blended component unit discussed below has a June 30 year-end. The City has no discretely presented component units.

The City of Bisbee Municipal Property Corporation (BMPC) is governed by a three-member board appointed by the City Council. Although it is legally separate from the City, the BMPC is reported as if it were part of the primary government because its sole purpose is to finance and construct two of the City's public buildings projects. The BMPC's debt is reported as part of the City's long-term debt. Separate financial statements for the BMPC are not prepared.

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. 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 Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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 services 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.

Fund financial statements - Provide information about the City's funds, including the blended component unit. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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 City reports the following major enterprise funds:

The *Wastewater Fund* accounts for operations, maintenance and construction of the City owned wastewater system.

The *Sanitation Fund* accounts for operations, maintenance and construction projects of the City owned sanitation system.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The *Queen Mine Fund* accounts for operations, maintenance and construction projects of the City owned Queen Mine.

C. Measurement Focus/Basis of Accounting

The government-wide and proprietary funds 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. 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 city sales tax, state sales tax, vehicle license tax, and property tax revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Those revenues susceptible to accrual prior to receipt are franchise taxes; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the City's behalf. Fines and forfeits and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The City applies grant resources to such programs before using general revenues.

D. Budgeting and Budgetary Control

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the third Monday in July, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to September 1, the budget is legally enacted through passage of a resolution.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Any revisions that alter the total expenditures of any fund or department must be approved by the City Council.
5. The budget is used as a management control device during the year for the general fund, special revenue funds and capital project fund.
6. Budgets for the general fund, special revenue funds, and capital project fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The level of budgetary control is at the department level for all governmental fund types, as reported in the Official Budget Forms prepared pursuant to guidelines established by the State of Arizona, Office of the Auditor General, and included as an attachment to the resolution adopting the annual City budget. The City Council may transfer appropriations between funds and departments.

Encumbrances - Encumbrance accounting is used for budgetary and control purposes; however, encumbrances outstanding at year-end do not constitute expenditures or liabilities, and are reversed before financial statements are prepared.

E. Pronouncements of GASB and FASB

Government Accounting Standards Board (GASB) Statement No. 20 states that the Financial Accounting Standards Board (FASB) and its predecessor body pronouncements issued before November 30, 1989, continue to be applicable to enterprise funds unless they conflict with or contradict GASB guidance.

Enterprise funds may take either of the following approaches to FASB guidance issued subsequent to November 30, 1989.

1. An entity may elect to continue to follow FASB guidance that does not conflict with or contradict GASB guidance. If this election is made, it must be followed consistently. It would not be appropriate to follow some FASB pronouncements, issued subsequent to the cutoff date, but not others.
2. An entity may elect not to subject itself to FASB guidance issued subsequent to the cutoff date. In that case, even FASB amendments of guidance issued prior to the cutoff date would not be applicable to proprietary operations.

The City of Bisbee has elected to subject itself to FASB guidance issued subsequent to November 30, 1989.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Cash and Cash Equivalents

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.

G. Allowance for Doubtful Accounts

The allowance for doubtful accounts in the proprietary funds is estimated at approximately 31% of the year-end accounts receivable balance.

H. Inventories

The City records its inventory in the Queen Mine fund as an asset when purchased and it is expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

I. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at cost. Donated assets are recorded at the estimated fair market value at the time received. Capital assets are reported on the government-wide financial statements for both governmental activities and business-type activities and on the proprietary fund financial statements for business-type activities. No long-term assets or depreciation are shown in the governmental fund financial statements. The capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) are \$3,000 for all assets.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings	5-50 years
Improvements other than buildings	5-30 years
Airport	5-40 years
Machinery and equipment	3-20 years
Infrastructure	5-40 years

J. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures (or expenses) during the reporting period. Actual results could differ from those estimates.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Compensated Absences

Compensated absences consist of paid time off which can be used as vacation or sick leave. Fire Department employees may accumulate up to 312 hours of paid time off depending on years of service, and all other city employees may accumulate up to 208 hours of vacation depending on years of service, but any paid time off in excess of the maximum amount that is unused at year-end is forfeited. An employee may be allowed to carry forward paid time off to the first six months of the following year if staffing shortages prevented the employee from utilizing their paid time off. An employee taking leave for a serious illness of a family member under the Family Medical Leave Act may use the paid time off as part of the unpaid twelve week period allowed by law.

The amounts of compensated absences expected to be paid by available financial resources in the governmental funds is immaterial, and therefore no amounts are recorded as an expenditure and a current liability at June 30, 2009 in those funds. Amounts of compensated absences that are not expected to be liquidated with expendable available financial resources of the governmental funds are recorded in the governmental activities column of the government-wide statements. Vested compensated absences of the enterprise funds are recorded as expenses and liabilities of those funds as the benefits accrue to employees.

L. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

M. Property Tax Revenues

Property tax revenues are recognized as revenue in the year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues. However, these amounts were not material to the financial statements and therefore, were not deferred.

N. Investment Earnings

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance. In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned.

As of June 30, 2009, the carrying amount of deposits was \$2,318,118 and the bank balance was \$1,677,251. The Federal Deposit Insurance Corporation protects the City against loss on the first \$250,000 on deposit with each separate financial institution. The remaining bank balance was covered by collateral held by the pledging financial institution's trust department in the City's name.

B. Investments

Arizona Revised Statutes authorize the City to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States.

The City has few investments and chooses to disclose its investments by specifically identifying each. The City has adopted a formal investment policy that is aligned with Arizona Revised Statutes; however, it does not allow investments in bonds, debentures, and notes issued by corporations organized and doing business in the United States. At June 30, 2009, the City's investments were as follows:

	<u>Amount</u>	<u>Maturities</u>
State Treasurer's investment pool 5	\$ 911,379	n/a

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 and the participant's shares are not identified with specific investments.

Custodial Credit Risk

- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

Interest Rate Risk

- Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.
- The City has a formal investment policy that limits investment maturities in accordance to Arizona Revised Statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

- Statutes have the following requirements for credit risk:
 1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
 2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
 3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.
- At June 30, 2009, credit risk for the City's investments being held by the State Treasurer's investment pool 5 was not rated.

Concentration of Credit Risk

- Statutes do not include requirements for concentration of credit risk.
- The City places no limit on the amount the City may invest in any one issuer. At June 30, 2009, 100% of the City's investments were in the State Treasurer's investment pool 5.

Foreign currency risk

- Statutes do not allow foreign investments.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2009 included the following:

	General Fund	Other Governmental Funds	Total
Arizona State Treasurer:			
State sales tax	\$ 83,149		\$ 83,149
City sales tax	287,411		287,411
Highway user revenue fund		\$ 75,987	75,987
Vehicle license tax	56,200		56,200
Urban revenue sharing	70,685		70,685
Arizona Department of Transportation		147,993	147,993
Arizona Office of Tourism		20,569	20,569
Arizona Department of Commerce		55,742	55,742
Arizona Department of Homeland Security		17,013	17,013
Other	21,514	36,878	58,392
Total	<u>\$ 518,959</u>	<u>\$ 354,182</u>	<u>\$ 873,141</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 508,750	\$ 62,920		\$ 571,670
Construction in progress	1,967,182	66,195	\$(1,599,199)	434,178
Total capital assets not being depreciated	<u>2,475,932</u>	<u>129,115</u>	<u>(1,599,199)</u>	<u>1,005,848</u>
Capital assets being depreciated:				
Buildings	3,270,249	247,959		3,518,208
Improvements other than buildings	626,257	434,126		1,060,383
Airport	1,922,620	1,784,564		3,707,184
Machinery and equipment	3,088,479	7,450	(344,583)	2,751,346
Infrastructure	434,126		(117,544)	316,582
	<u>9,341,731</u>	<u>2,474,099</u>	<u>(462,127)</u>	<u>11,353,703</u>
Less: accumulated depreciation	<u>4,657,883</u>	<u>430,688</u>	<u>(288,373)</u>	<u>4,800,198</u>
Total capital assets being depreciated, net	<u>4,683,848</u>	<u>2,043,411</u>	<u>(173,754)</u>	<u>6,553,505</u>
 Total capital assets, net	 <u>\$ 7,159,780</u>	 <u>\$ 2,172,526</u>	 <u>\$(1,772,953)</u>	 <u>\$ 7,559,353</u>
	Balance July 01, 2008	Additions	Deletions	Balance June 30, 2009
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Buildings	13,516,466			13,516,466
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	1,242,783	\$ 11,396	\$ (37,301)	1,216,878
Infrastructure	17,027,156			17,027,156
	<u>34,432,147</u>	<u>11,396</u>	<u>(37,301)</u>	<u>34,406,242</u>
Less: accumulated depreciation	<u>3,640,258</u>	<u>1,164,340</u>	<u>31,171</u>	<u>4,835,769</u>
Net business-type assets	<u>\$ 30,791,889</u>	<u>\$ (1,152,944)</u>	<u>\$ (68,472)</u>	<u>\$ 29,570,473</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 14,504
Public safety	202,403
Transportation	136,443
Culture and recreation	77,338
Total governmental activities depreciation	<u>\$ 430,688</u>
Business-type activities:	
Wastewater	\$ 1,110,079
Sanitation	43,069
Queen Mine	11,192
Total business-type activities depreciation	<u>\$ 1,164,340</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Governmental activities:					
Capital leases payable	\$ 341,830	\$ 41,202	\$ (136,987)	\$ 246,045	\$ 96,915
Lease purchase agreement	169,719		(38,967)	130,752	41,189
Compensated absences payable	<u>267,638</u>		<u>(39,233)</u>	<u>228,406</u>	<u>34,261</u>
Total governmental activities	<u>\$ 779,187</u>	<u>\$ 41,202</u>	<u>\$ (215,187)</u>	<u>\$ 605,203</u>	<u>\$ 172,365</u>
Business-type activities:					
WIFA note payable	\$ 12,116,896		\$ (565,885)	\$ 11,551,011	\$ 577,202
USDA note payable	3,041,175		(60,917)	2,980,258	62,374
USDA note payable	<u>1,328,146</u>		<u>(26,161)</u>	<u>1,301,985</u>	<u>27,240</u>
Total notes payable	16,486,217		(652,963)	15,833,254	666,816
Capital leases payable	281,809		(80,237)	201,572	15,184
Compensated absences payable	<u>28,565</u>		<u>(11,635)</u>	<u>16,930</u>	
Total business-type activities	<u>\$ 16,796,591</u>		<u>\$ (744,835)</u>	<u>\$ 16,051,756</u>	<u>\$ 682,000</u>
Total	<u>\$ 17,575,778</u>	<u>\$ 41,202</u>	<u>\$ (960,022)</u>	<u>\$ 16,656,959</u>	<u>\$ 854,365</u>

A. Notes Payable

The City received loans from the Water Infrastructure Financing Authority (WIFA) and the United States Department of Agriculture (USDA) for the rehabilitation of wastewater collection lines and facilities. The debt is secured by, and to be repaid from, amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are received. Notes payable at June 30, 2009 are as follows:

	Original Amount	Interest Rates	Year of Maturity	Outstanding Principal
Business-type activities:				
WIFA	\$ 12,671,685	2.000% to 2.721%	2025	\$11,551,011
USDA, 2006	1,332,000	4.25%	2035	2,980,258
USDA, 2006	<u>3,050,000</u>	4.25%	2035	<u>1,301,985</u>
	<u>\$ 17,053,685</u>			<u>\$15,833,254</u>

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 5 - LONG-TERM DEBT - CONTINUED

Annual debt service requirements to maturity for the notes payable are as follows:

Year ending June 30,	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 666,816	\$ 415,638
2011	682,056	412,757
2012	697,680	395,587
2013	713,699	377,991
2014	730,122	359,958
2015-2019	3,903,172	1,585,928
2020-2024	4,390,572	1,065,319
2025-2029	2,461,467	484,756
2030-2034	1,092,103	242,002
2035-2036	495,567	31,131
Total	<u>\$ 15,833,254</u>	<u>\$ 5,371,067</u>

B. Capital leases

The City acquired equipment under the provisions of long-term lease agreements classified as capital leases. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Asset:			
Machinery and equipment	\$ 496,288	\$ 250,342	\$ 746,630
Less accumulated depreciation	<u>(112,636)</u>	<u>(45,229)</u>	<u>(157,865)</u>
Total	<u>\$ 383,652</u>	<u>\$ 205,113</u>	<u>\$ 588,765</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Year ending June 30,		
2010	\$ 109,995	\$ 38,809
2011	93,170	38,809
2012	58,119	30,289
2013	11,744	21,768
2014		21,768
2015-2018		<u>87,013</u>
Total minimum lease payments	273,028	238,456
Less amount representing interest	<u>(26,983)</u>	<u>(36,884)</u>
Present value of future minimum payments	<u>\$ 246,045</u>	<u>\$ 201,572</u>

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 5 - LONG-TERM DEBT - CONTINUED

During the year ended June 30, 2008, the City acquired nine police vehicles under the provisions of a capital lease. RICO funds were used to pay for two of the vehicles. The difference between the amount due to the lender and the amount paid from the RICO funds was applied to reduce the outstanding principal. At June 30, 2009, the amount to buy out the remaining lease contains a premium of \$53,469.

C. Lease Purchase Agreement

The City of Bisbee Municipal Property Corporation has a lease purchase agreement for construction of a fire station. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009 were as follows:

	Governmental Activities
Year ending June 30,	
2010	\$ 47,973
2011	47,973
2012	47,973
Total minimum lease payments	143,919
Less amount representing interest	(13,167)
Present value of future minimum payments	\$ 130,752

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

Interfund Receivables and Payables:

Interfund balances at June 30, 2009 were as follows:

	Payable to
Payable from	Wastewater Fund
Sanitation Fund	\$ 278,469

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6 - INTERFUND BALANCES AND ACTIVITY - CONTINUED

The Sanitation Fund maintained a negative cash balance at June 30, 2009. The negative cash balance was reduced by interfund borrowing from the Wastewater Fund.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2009 were as follows:

<u>Transfers out</u>	<u>Transfers in</u>					Total
	General Fund	Other Governmental Funds	Wastewater Fund	Sanitation Fund	Queen Mine Fund	
Governmental Funds:						
General Fund		\$ 243,213	\$ 337,367		\$ 3,075	\$ 583,655
Other Governmental Funds	\$ 152,694	48,829		\$ 5,876		207,399
Wastewater Fund	191,395	192,383				383,778
Sanitation Fund	53,608					53,608
Queen Mine Fund	35,353	15,427				50,780
Total	<u>\$ 433,050</u>	<u>\$ 499,852</u>	<u>\$ 337,367</u>	<u>\$ 5,876</u>	<u>\$ 3,075</u>	<u>\$1,279,220</u>

The principal purpose of transfers was to move resources from one fund to the other in order to properly report resources in appropriate funds.

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 is a member of the Arizona Municipal Risk Retention Pool (AMRRP), a public entity risk pool currently operating as a common risk management and insurance program for Arizona municipalities. The City pays an annual premium to AMRRP for its general insurance coverage. The Agreement for Formation of the AMRRP provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for excess claims for each insured event.

The City is also a member of the Arizona Municipal Workers Compensation Pool (AMWCP), a public entity risk pool. The pool provides member cities with workers' compensation coverage, as required by law, and risk management services. The City is responsible for paying premiums based on an experience rating formula that allocates pool expenditures and liabilities among the members.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 8 - COMMITMENTS

Lease Purchase Agreements - The City leases a fire station from the BMPC (see Note 1) under a lease purchase agreement that transfers ownership to the City at the conclusion of the lease on June 1, 2012. This lease stipulates that the City has the option to purchase the property held by the BMPC before the term of the lease is concluded, by paying the Prepayment Price (the total of all unpaid principal amounts).

The BMPC obtained the funds for the construction of the fire station from investors. In return, the BMPC has assigned the lease payments from the City for the fire station directly to the investors. As a result, lease payments from the City are paid to the investors through the underwriter, which acts as a fiduciary agent.

Also, to secure the lease payments to the investors, the City has pledged excise, transaction, privilege, franchise and income taxes which the City now collects and may collect in the future or which are allocated or apportioned to the City by the State. This includes any amounts received from any political subdivision or governmental unit or agency of the State, except those amounts which by law must be expended for other purposes.

NOTE 9 - CONTINGENT LIABILITIES

Federal grants - In the normal course of operations, the City receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grant funds is not believed by City officials to be material.

Litigation - Each year the City receives notices of claims for damages occurring generally from negligence, bodily injury, breach of contract, and other legal matters. The filing of such claims commences a statutory period for initiating a lawsuit against the City arising therefrom. The City has comprehensive general liability insurance with the Arizona Municipal Risk Retention Pool and separate liability insurance for its Queen Mine Tour. The City is not aware of any litigation that might result in a materially adverse outcome.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 10 - RETIREMENT PLANS

Plan Descriptions - The City contributes to the two plans described below. Benefits are established by state statute and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The Arizona State Retirement System (ASRS) administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

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

ASRS
3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2200 or (800) 621-3778

PSPRS
3010 East Camelback Road, Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

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

Cost-sharing plans - For the year ended June 30, 2009, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 10 - RETIREMENT PLANS - CONTINUED

The City's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

<u>Year Ended June 30th,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2009	\$198,957	\$23,905	\$12,450
2008	202,899	26,465	12,602
2007	172,673	24,014	11,435

Agent plans - For the year ended June 30, 2009, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 34.86 percent (Police) and 37.13 percent (Fire Fighters), which are the actuarially required amounts. The health insurance premium portion of the contribution rate was actuarially set at 0.78 percent (Police) and 0.81 percent (Fire Fighters) of covered payroll.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2009 were established by the June 30, 2007 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

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

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 10 - RETIREMENT PLANS - CONTINUED

The significant actuarial methods and assumptions used are the same for both plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2009 contribution requirements are as follows:

Actuarial valuation date	6/30/07
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	29 years for unfunded actuarial accrued liability, 20 years for excess
Actuarial assumptions:	Smoothed market value
Investment rate of return	8.50%
Projected salary increases	5.50%-8.50%
Includes inflation at	5.00%

Annual Pension Cost - The City's pension/OPEB cost for the agent plan for the year ended June 30, 2009, and related information follows:

	PSPRS			
	<u>Police</u>		<u>Fire Fighters</u>	
	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>
Annual pension/OPEB cost	\$243,916	\$5,583	\$305,181	\$6,806
Contributions made	243,916	5,583	305,181	6,806

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 10 - RETIREMENT PLANS - CONTINUED

Trend Information - Annual pension and OPEB cost information for the current and 2 preceding years follows for the agent plan. Separately reported OPEB cost information for the last year of the required trend information will be reported next year when it becomes available.

<u>Plan</u>	<u>Year Ended June 30</u>	<u>PSPRS Annual Pension/OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net Pension/ OPEB Obligation</u>
<u>Police</u>				
Pension	2009	\$ 243,916	100.0%	\$0
Health insurance	2009	5,583	100.0%	0
Pension	2008	233,774	100.0%	0
Health insurance	2008	11,597	100.0%	0
Pension and health insurance	2007	201,446	100.0%	0
<u>Fire Fighters</u>				
Pension	2009	\$ 305,181	100.0%	\$0
Health insurance	2009	6,806	100.0%	0
Pension	2008	234,681	100.0%	0
Health insurance	2008	2,909	100.0%	0
Pension and health insurance	2007	224,316	100.0%	0

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 10 - RETIREMENT PLANS - CONTINUED

Funded Status - The funded status of the plan as of the most recent valuation date, June 30, 2008, along with the actuarial assumptions and methods used in that valuation follow.

PSPRS

	<u>Bisbee Police</u>		<u>Bisbee Fire Fighters</u>	
	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>
Actuarial accrued liability (a)	\$6,126,827	\$233,678	\$7,218,926	\$133,578
Actuarial value of assets (b)	2,357,263	0	2,908,099	0
Unfunded actuarial accrued liability (funding excess) (a) - (b)	3,769,564	233,678	4,310,827	133,578
Funded ratio (b)/(a)	38.5%	0.00%	40.3%	0.00%
Covered payroll (c)	\$931,586	\$931,586	\$828,688	\$828,688
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b))/(c)	404.6%	25.08%	520.2%	16.12%

The actuarial methods and assumptions used for the most recent valuation date are as follows:

PSPRS

Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for unfunded actuarial liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions	
Investment rate of return	8.50%
Projected salary increases includes inflation at	5.50% - 8.50%
	5.00%

REQUIRED SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 3,635,937	\$ 3,635,937	\$ 3,354,986	\$ (280,951)
Fines and forfeitures			9,814	9,814
Licenses and permits	105,700	105,700	99,675	(6,025)
Intergovernmental	968,514	968,514	1,059,871	91,357
Charges for services	1,231,550	1,231,550	1,408,211	176,661
Investment earnings	40,000	40,000	10,357	(29,643)
Rent	59,628	59,628	76,235	16,607
Miscellaneous	178,100	178,100	164,937	(13,163)
Total revenues	<u>6,219,429</u>	<u>6,219,429</u>	<u>6,184,086</u>	<u>(35,343)</u>
Expenditures:				
General government:				
Mayor and council	58,703	58,703	50,754	7,949
City manager	131,341	131,341	128,019	3,322
Finance department	375,242	375,242	369,269	5,973
City clerk	168,069	158,069	141,009	17,060
Community development	236,625	211,625	163,582	48,043
Administrative and general government	211,630	211,630	176,837	34,793
Personnel	71,900	71,900	64,289	7,611
Legal services	126,560	136,560	131,761	4,799
Water systems	16,500	16,500	8,223	8,277
Information systems	39,300	39,300	30,930	8,370
Cemetery	22,830	22,830	4,877	17,953
Building maintenance	85,309	85,309	80,887	4,422
Public works administration	175,856	175,856	121,917	53,939
Garage	155,677	152,677	87,294	65,383
Building inspector	71,752	71,752	62,532	9,220
Youth	15,000	15,000	2,375	12,625
Contingency	100,000	100,000	76,410	23,590
Total general government	<u>2,062,294</u>	<u>2,034,294</u>	<u>1,700,965</u>	<u>333,329</u>
Public safety:				
Police department	1,947,575	1,947,575	1,871,886	75,689
Fire department	1,681,902	1,706,902	1,666,907	39,995
City magistrate	30,000	30,000	28,486	1,514
Total public safety	<u>3,659,477</u>	<u>3,684,477</u>	<u>3,567,279</u>	<u>117,198</u>
Transportation:				
Airport	104,492	104,492	79,586	24,906
Culture and recreation:				
Parks	157,033	157,033	151,291	5,742
Swimming pool	82,108	82,108	60,632	21,476
Library	225,521	225,521	208,734	16,787
Senior citizens center	17,250	20,250	18,427	1,823
Total culture and recreation	<u>481,912</u>	<u>484,912</u>	<u>439,084</u>	<u>45,828</u>
Total expenditures	<u>6,308,175</u>	<u>6,308,175</u>	<u>5,786,914</u>	<u>521,261</u>
Excess of revenues over (under) expenditures	(88,746)	(88,746)	397,172	(556,604)
Other financing sources (uses):				
Proceeds from sale of assets			3,096	3,096
Transfers in	645,199	645,199	433,050	(212,149)
Transfers out	(675,945)	(675,945)	(583,655)	(92,290)
Total other financing sources (uses)	<u>(30,746)</u>	<u>(30,746)</u>	<u>(147,509)</u>	<u>(116,763)</u>
Net change in fund balances	(119,492)	(119,492)	249,663	369,155
Fund balance, July 1, 2008	1,741,040	1,741,040	1,741,040	
Fund balance, June 30, 2009	<u>\$ 1,621,548</u>	<u>\$ 1,621,548</u>	1,990,703	<u>\$ 369,155</u>
Less debt service payments not budgeted for			(203,296)	
Fund balances: statement of revenues, expenditures, and changes in fund balances			<u>\$ 1,787,407</u>	

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
 Year Ended June 30, 2009

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
<u>POLICE</u>						
Pension 6/30/08	\$2,357,263	\$6,126,827	(\$3,769,564)	38.7%	\$931,586	404.60%
Health insurance 6/30/08	0	233,678	(233,678)	0%	931,586	25.08%
Pension and health insurance 6/30/07	2,244,478	5,793,309	(3,548,831)	38.7%	765,463	463.60%
Pension and health insurance 6/30/06	2,348,362	4,973,092	(2,624,730)	47.2%	696,546	376.8%
<u>FIRE FIGHTERS</u>						
Pension 6/30/08	\$2,908,099	\$7,218,926	(\$4,310,827)	40.30%	\$828,688	520.20%
Health insurance 6/30/08	0	133,578	(133,578)	0%	828,688	16.12%
Pension and health insurance 6/30/07	3,269,996	7,680,630	(4,410,634)	42.60%	832,557	529.80%
Pension and health insurance 6/30/06	3,472,159	6,822,950	(3,350,791)	50.9%	826,464	405.4%

SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through:			
Arizona Department of Housing:			
Community Development Block Grants - State Programs	14.228	111-06, 131-08	<u>\$ 294,571</u>
U.S. Department of Transportation			
Passed through:			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-04-0004-08	156,415
Passed through:			
Arizona Department of Transportation:			
Formula Grants for Other Than Urbanized Areas	20.509	KR06-0924TRN	202,002
ARRA -Formula Grants for Other Than Urbanized Areas	20.509	KR06-0924TRN	<u>73,997</u>
Total Formula Grants for Other Than Urbanized Areas			<u>275,999</u>
Total Department of Transportation			<u>432,414</u>
U.S. Department of Homeland Security			
Homeland Security Grant Program Cluster:			
Passed through:			
Arizona Division of Emergency Management:			
Homeland Security Grant Program	97.067	2008-SCG-T8-0007	<u>80,140</u>
Total Expenditures of Federal Awards			<u>\$ 807,125</u>

The accompanying notes are an integral part of this schedule.

City of Bisbee, Arizona
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Bisbee, Arizona, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB 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 basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2009 Catalog of Federal Domestic Assistance Update.

NOTE 3 - SUBRECIPIENTS

The City did not award any federal funds to subrecipients.

NOTE 4 - U.S. DEPARTMENT OF AGRICULTURE LOAN AGREEMENT

The City of Bisbee Municipal Property Corporation received two loans from the U.S. Department of Agriculture (USDA) to assist in the funding of the rehabilitation of the City's wastewater infrastructure. The outstanding balance of the loans as of June 30, 2009 was \$4,282,243. (See Financial Statement Note 5).

SINGLE AUDIT REPORTS

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards*

To the City Council
City of Bisbee, Arizona

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the City Council
City of Bisbee, Arizona

Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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*.

Highway User Revenue Fund Compliance

As required by Arizona Revised Statutes, we reviewed the City's financial records to evaluate whether the City used Highway User Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes as defined by the Arizona Attorney General's opinion about whether certain types of city transportation department expenditures are for transportation purposes authorized by the Constitution and state laws. 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 Highway User Fund monies and any other dedicated state transportation monies being spent on unauthorized purposes.

This report is intended solely for the information and use of the Mayor, City Council, management, federal awarding agencies, and pass-through entities 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.

Fester & Chapman P.C.

November 20, 2009

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the City Council
City of Bisbee, Arizona

Compliance

We have audited the compliance of City of Bisbee, Arizona (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2009. The City's major federal programs are identified in the Summary of Auditors' 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's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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'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's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The City's management 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's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

To the City Council
City of Bisbee, Arizona

Page Two

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of the Mayor, City Council, management, federal awarding agencies, and pass-through entities 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.

Fester & Chapman P.C.

November 20, 2009

City of Bisbee, Arizona
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2009

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	YES	NO
Material weakness identified in internal control over financial reporting?	_____	___X___
Significant deficiency identified not considered to be material weakness?	_____	___X___
Noncompliance material to the financial statements noted?	_____	___X___

Federal Awards

Material weakness identified in internal control over major programs?	_____	___X___
Significant deficiency identified not considered to be material weakness?	_____	___X___
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	_____	___X___

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants - States Program
20.509	Formula Grants for Other Than Urbanized Areas

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?	_____	___X___
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Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	_____	___X___
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City of Bisbee, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None