

CITY OF BISBEE, ARIZONA

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

Year Ended June 30, 2010

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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, 2010, 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 38, and the Schedule of Agent Retirement Plans' Funding Progress on page 39, 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 statements.

To The City Council
City of Bisbee, Arizona
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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 22, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 22, 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

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, 2010. This is the seventh 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 \$354 thousand or 1.4%.
- The General Fund reported a fund balance this year of \$1.758 million or 30.5% 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 \$25.549 million to \$25.903 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)
Year ended June 30

	<u>Primary Government</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 5,948	\$ 6,221
Capital assets	<u>36,731</u>	<u>37,130</u>
Total assets	42,679	43,351
Current and other liabilities	1,003	1,145
Long-term debt outstanding	<u>15,773</u>	<u>16,657</u>
Total liabilities	16,776	17,802
Net assets:		
Invested in capital assets, net of related debt	21,151	20,718
Restricted net assets	2,440	2,045
Unrestricted net assets	<u>2,312</u>	<u>2,786</u>
Total net assets	<u>\$ 25,903</u>	<u>\$ 25,549</u>

Net assets of the City represent the difference between the City's resources and its obligations. As of June 30, 2010, the largest portion of the City's net assets, approximately 80%, 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 8.7%, 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

	Primary Government	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 4,646	\$ 4,763
Operating grants and contributions	838	827
Capital grants and contributions	1,205	1,208
General revenues:		
Property taxes	809	764
Sales taxes	1,691	1,653
State shared taxes	481	516
Urban revenue sharing	831	972
Vehicle license taxes	292	302
Bed taxes	100	120
Other general revenues and transfers	<u>636</u>	<u>1,363</u>
Total revenues	<u>11,529</u>	<u>12,488</u>
Expenses:		
Governmental activities:		
General government	2,007	1,882
Public safety	3,777	3,837
Transportation	1,115	1,105
Culture and recreation	606	557
Interest on long-term debt	57	27
Business type activities:		
Wastewater	2,357	2,431
Sanitation	711	745
Queen Mine	<u>545</u>	<u>541</u>
Total expenses	<u>11,175</u>	<u>11,125</u>
Increase in net assets	354	1,363
Net assets-beginning	<u>25,549</u>	<u>24,166</u>
Net assets-ending	<u>\$ 25,903</u>	<u>\$ 25,549</u>

The City's total revenues were \$11.5 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 down from \$1.77 million to \$1.48 million, or 16.25%. Operating and capital grants and contributions were up from \$1.66 million to \$1.79 million, or 8.0%. This was due in large part to the expansion of public safety grants.

On the expenditure side, governmental activities expenses increased to \$7.50 million from \$7.41 million, or 1.3%, due to a general increase in the costs of services and costs of insurance benefits for employees.

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.

	<u>Total Cost of Services</u> <u>2010</u>	<u>Net Cost of Services</u> <u>2010</u>
General government and administration	\$ 2,007	\$ 1,043
Public safety	3,777	2,381
Transportation	1,115	253
Culture and recreation	606	561
All others	<u>57</u>	<u>29</u>
Totals	\$ <u>7,562</u>	\$ <u>4,267</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 \$3.08 million, which is an increase from last year’s total of \$2.97 million. Included in this year’s total change in fund balances is an increase of \$141 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 \$14.88 million to \$14.65 million, or 1.5%. 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, tax revenues fell short by \$200 thousand and Charges for Services were \$150 thousand short, due mainly to less than anticipated Ambulance Fees. Overall total revenues for the year were \$400 thousand less than budgeted. However, expenditures were monitored closely throughout the year and kept well within budget, resulting in a net reduction of \$30 thousand in General Fund undesignated Fund Balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, 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 virtually no increase (including additions and deductions) over last year.

Table 4
Capital Assets at Year-end
(thousands)

	Total Assets	
	2010	2009
Land	\$ 619	\$ 619
Buildings and improvements	17,076	17,035
Airport	3,656	3,707
Improvements other than buildings	3,658	3,658
Machinery and equipment	4,097	3,968
Infrastructure	17,556	17,344
Construction in progress	1,052	434
Less: accumulated depreciation	<u>(10,984)</u>	<u>(9,636)</u>
Totals	<u>\$ 36,730</u>	<u>\$ 37,129</u>

Long-term debt

At June 30, 2010, the City had \$15.8 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 continually 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, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,218,061	\$ 995,769	\$ 3,213,830
Investments	515,440		515,440
Receivables (net of allowance for uncollectibles):			
Accounts	279,017	595,158	874,175
Other	300,000	231,388	531,388
Property taxes	32,360		32,360
Inventories		74,018	74,018
Due from other governments	683,304		683,304
Prepaid items		23,875	23,875
Capital assets, not being depreciated	1,623,792	47,660	1,671,452
Capital assets, being depreciated, net	6,662,866	28,396,496	35,059,362
Total assets	12,314,840	30,364,364	42,679,204
Liabilities			
Accounts payable	432,526	71,633	504,159
Accrued payroll and employee benefits	192,943	11,676	204,619
Accrued interest payable		267,140	267,140
Due to other governments	25,160		25,160
Deposits held for others		2,127	2,127
Noncurrent liabilities:			
Due within one year	136,710	719,741	856,451
Due in more than one year	273,811	14,642,850	14,916,661
Total liabilities	1,061,150	15,715,167	16,776,317
Net Assets			
Invested in capital assets, net of related debt	8,050,397	13,100,343	21,150,740
Restricted for:			
Capital projects	939,517		939,517
Debt service		986,410	986,410
Other purposes	514,196		514,196
Unrestricted	1,749,580	562,444	2,312,024
Total net assets	\$ 11,253,690	\$ 14,649,197	\$ 25,902,887

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

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		
					Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 2,007,942	\$ 431,860	\$ 166,660	\$ 394,856	\$ (1,014,566)		\$ (1,014,566)
Public safety	3,776,841	1,001,957	146,705	247,492	(2,380,687)		(2,380,687)
Transportation	1,114,626	8,900	521,505	331,006	(253,215)		(253,215)
Culture and recreation	605,605	41,713	2,747		(561,145)		(561,145)
Interest on long-term debt	56,765				(56,765)		(56,765)
Total governmental activities	<u>7,561,779</u>	<u>1,484,430</u>	<u>837,617</u>	<u>973,354</u>	<u>(4,266,378)</u>		<u>(4,266,378)</u>
Business-type activities:							
Wastewater	2,356,579	1,673,651		231,388		\$ (451,540)	(451,540)
Sanitation	710,906	823,938				113,032	113,032
Queen Mine	544,554	664,166				119,612	119,612
Total business-type activities	<u>3,612,039</u>	<u>3,161,755</u>		<u>231,388</u>		<u>(218,896)</u>	<u>(218,896)</u>
Total primary government	<u>\$ 11,173,818</u>	<u>\$ 4,646,185</u>	<u>\$ 837,617</u>	<u>\$ 1,204,742</u>	<u>(4,266,378)</u>	<u>(218,896)</u>	<u>(4,485,274)</u>
General revenues:							
Taxes:							
Property taxes					808,860		808,860
Sales taxes					1,690,812		1,690,812
State shared taxes					481,186		481,186
Urban revenue sharing					830,860		830,860
Vehicle license taxes					291,924		291,924
Bed taxes					99,781		99,781
Loss on sale of capital assets					24,536		24,536
Investment earnings					3,860	1,091	4,951
Miscellaneous					552,795	53,720	606,515
Transfers					64,150	(64,150)	
Total general revenues and transfers					<u>4,848,764</u>	<u>(9,339)</u>	<u>4,839,425</u>
Change in net assets					582,386	(228,235)	354,151
Net assets, July 1, 2009					<u>10,671,304</u>	<u>14,877,432</u>	<u>25,548,736</u>
Net assets, June 30, 2010					<u>\$ 11,253,690</u>	<u>\$ 14,649,197</u>	<u>\$ 25,902,887</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 786,142	\$ 1,431,919	\$ 2,218,061
Investments	514,884	556	515,440
Receivables (net of allowance for uncollectibles):			
Accounts	278,347	670	279,017
Property taxes	32,360		32,360
Other		300,000	300,000
Due from other governments	<u>534,197</u>	<u>149,107</u>	<u>683,304</u>
Total assets	<u>\$ 2,145,930</u>	<u>\$ 1,882,252</u>	<u>\$ 4,028,182</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	195,222	237,304	432,526
Accrued payroll and employee benefits	191,411	1,532	192,943
Deferred revenue		300,000	300,000
Due to other governments	<u>1,020</u>	<u>24,140</u>	<u>25,160</u>
Total liabilities	<u>387,653</u>	<u>562,976</u>	<u>950,629</u>
Fund balances:			
Unreserved, reported in:			
Designated for airport	9,178		9,178
Designated for youth programs	125,262		125,262
Undesignated:			
General fund	1,623,837		1,623,837
Special revenue funds		379,759	379,759
Capital project fund		<u>939,517</u>	<u>939,517</u>
Total fund balances	<u>1,758,277</u>	<u>1,319,276</u>	<u>3,077,553</u>
Total liabilities and fund balances	<u>\$ 2,145,930</u>	<u>\$ 1,882,252</u>	<u>\$ 4,028,182</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, 2010

Fund balances - total governmental funds	\$ 3,077,553
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.	8,286,658
Some receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.	300,000
Some liabilities, including 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>(410,521)</u>
Net assets of governmental activities	<u>\$11,253,690</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, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 3,372,564		\$ 3,372,564
Fines and forfeitures	448		448
Licenses and permits	82,025		82,025
Intergovernmental	906,608	\$ 1,780,005	2,686,613
Charges for services	1,169,488	8,900	1,178,388
Investment earnings	3,858	2	3,860
Rent	78,094		78,094
Contributions	585	5,100	5,685
Miscellaneous	84,635	508,012	592,647
Total revenues	<u>5,698,305</u>	<u>2,302,019</u>	<u>8,000,324</u>
Expenditures:			
Current:			
General government	1,643,840	353,137	1,996,977
Public safety	3,462,318	113,863	3,576,181
Transportation	45,860	896,320	942,180
Culture and recreation	407,588	101,676	509,264
Capital outlay	3,197	728,975	732,172
Debt service:			
Principal	140,536		140,536
Interest	56,765		56,765
Total expenditures	<u>5,760,104</u>	<u>2,193,971</u>	<u>7,954,075</u>
Excess (deficiency) of revenues over expenditures	(61,799)	108,048	46,249
Other financing sources (uses):			
Transfers in	494,804	489,001	983,805
Transfers out	(462,135)	(457,520)	(919,655)
Total other financing sources (uses)	<u>32,669</u>	<u>31,481</u>	<u>64,150</u>
Net change in fund balances	(29,130)	139,529	110,399
Fund balances, July 1, 2009	1,787,407	1,179,747	2,967,154
Fund balances, June 30, 2010	<u>\$ 1,758,277</u>	<u>\$ 1,319,276</u>	<u>\$ 3,077,553</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, 2010

Net changes in fund balances - total governmental funds	\$ 110,399
Amounts reported in the governmental activities in the Statement of Activities are different because:	
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.	(24,536)
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.	
Capital outlay	\$ 1,206,084
Depreciation expense	<u>(454,243)</u>
	751,841
Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities.	(450,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	140,536
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.	
Decrease in compensated absences	<u>54,146</u>
Change in net assets of governmental activities	<u>\$ 582,386</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 752,985		\$ 242,784	\$ 995,769
Receivables (net of allowance for uncollectibles)				
Accounts	415,661	\$ 179,497		595,158
Other	231,388			231,388
Inventory			74,018	74,018
Prepaid items			23,875	23,875
Due from other funds	263,140			263,140
Total current assets	<u>1,663,174</u>	<u>179,497</u>	<u>340,677</u>	<u>2,183,348</u>
Noncurrent assets:				
Capital assets (net of accumulated depreciation)				
Land		47,660		47,660
Improvements other than buildings, net	1,569,015			1,569,015
Buildings, net	11,374,041		136,069	11,510,110
Equipment, net	248,763	306,252	5,487	560,502
Infrastructure, net	14,756,869			14,756,869
Total noncurrent assets	<u>27,948,688</u>	<u>353,912</u>	<u>141,556</u>	<u>28,444,156</u>
Total assets	<u>29,611,862</u>	<u>533,409</u>	<u>482,233</u>	<u>30,627,504</u>
Liabilities				
Current liabilities:				
Accounts payable	30,803	21,445	19,385	71,633
Accrued payroll and employee benefits	4,209	3,180	4,287	11,676
Accrued interest payable	267,140			267,140
Due to other funds		263,140		263,140
Deposits held for others			2,127	2,127
Current portion long-term debt	680,932	38,809		719,741
Total current liabilities	<u>983,084</u>	<u>326,574</u>	<u>25,799</u>	<u>1,335,457</u>
Noncurrent liabilities:				
Long-term debt	14,495,537	136,418	10,895	14,642,850
Total noncurrent liabilities	<u>14,495,537</u>	<u>136,418</u>	<u>10,895</u>	<u>14,642,850</u>
Total liabilities	<u>15,478,621</u>	<u>462,992</u>	<u>36,694</u>	<u>15,978,307</u>
Net Assets				
Invested in capital assets, net of related debt	12,776,040	182,747	141,556	13,100,343
Restricted for debt service	986,410			986,410
Unrestricted (deficit)	370,791	(112,330)	303,983	562,444
Total net assets	<u>\$ 14,133,241</u>	<u>\$ 70,417</u>	<u>\$ 445,539</u>	<u>\$ 14,649,197</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, 2010

	<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	\$ 1,632,625	\$ 823,938	\$ 664,166	\$ 3,120,729
Customer penalties and interest	41,026			41,026
Miscellaneous	22,289	30,407	1,024	53,720
Total operating revenues	<u>1,695,940</u>	<u>854,345</u>	<u>665,190</u>	<u>3,215,475</u>
Operating expenses:				
Cost of sales and services	831,131	662,614	533,465	2,027,210
Depreciation	1,104,959	48,292	11,089	1,164,340
Total operating expenses	<u>1,936,090</u>	<u>710,906</u>	<u>544,554</u>	<u>3,191,550</u>
Operating income (loss)	<u>(240,150)</u>	<u>143,439</u>	<u>120,636</u>	<u>23,925</u>
Nonoperating revenues (expenses):				
Interest income	1,091			1,091
Interest expense	(417,513)			(417,513)
Total nonoperating revenues (expenses)	<u>(416,422)</u>			<u>(416,422)</u>
Income (loss) before capital contributions and transfers	(656,572)	143,439	120,636	(392,497)
Capital contributions - intergovernmental	231,388			231,388
Loss on disposal of assets	(2,976)			(2,976)
Transfers in	354,723			354,723
Transfers out	<u>(214,873)</u>	<u>(121,766)</u>	<u>(82,234)</u>	<u>(418,873)</u>
Increase (decrease) in net assets	(288,310)	21,673	38,402	(228,235)
Total net assets, July 1, 2009	<u>14,421,551</u>	<u>48,744</u>	<u>407,137</u>	<u>14,877,432</u>
Total net assets, June 30, 2010	<u>\$14,133,241</u>	<u>\$ 70,417</u>	<u>\$ 445,539</u>	<u>\$14,649,197</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, 2010

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,618,278	\$ 816,622	\$ 666,293	\$ 3,101,193
Other operating receipts	22,289	30,407	1,024	53,720
Cash payments to employees	(471,860)	(365,852)	(333,817)	(1,171,529)
Cash payments to suppliers for goods and services	<u>(344,816)</u>	<u>(313,674)</u>	<u>(198,453)</u>	<u>(856,943)</u>
Net cash provided by operating activities	<u>823,891</u>	<u>167,503</u>	<u>135,047</u>	<u>1,126,441</u>
Cash flows from noncapital financing activities:				
Payments on advances from other funds	278,469	263,140		541,609
Payments on advances to other funds	(263,923)	(278,469)		(542,392)
Cash transfers from other funds	354,723			354,723
Cash transfers to other funds	<u>(214,873)</u>	<u>(121,766)</u>	<u>(82,235)</u>	<u>(418,874)</u>
Net cash used by noncapital financing activities	<u>154,396</u>	<u>(137,095)</u>	<u>(82,235)</u>	<u>(64,934)</u>
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(660,606)	(30,408)		(691,014)
Interest paid on long-term debt	(419,960)			(419,960)
Purchases of capital assets			(41,000)	(41,000)
Capital contributions	<u>377,369</u>			<u>377,369</u>
Net cash used by capital and related financing activities	<u>(703,197)</u>	<u>(30,408)</u>	<u>(41,000)</u>	<u>(774,605)</u>
Net increase in cash and cash equivalents	275,090		11,812	286,902
Cash and cash equivalents, June 30, 2009	477,895		230,972	708,867
Cash and cash equivalents, June 30, 2010	<u>\$ 752,985</u>	<u>\$</u>	<u>\$ 242,784</u>	<u>\$ 995,769</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (240,150)	\$ 143,439	\$ 120,636	\$ 23,925
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	1,104,959	48,292	11,089	1,164,340
Changes in assets and liabilities:				
Accounts receivable	(55,373)	(7,316)		(62,689)
Prepaid items			2,154	2,154
Inventory			(10,582)	(10,582)
Accounts payable	10,449	(17,013)	8,193	1,629
Accrued payroll and employee benefits	1,530	840	1,318	3,688
Compensated absences payable	2,476	(739)	112	1,849
Deposits held for others			2,127	2,127
Net cash provided by operating activities	<u>\$ 823,891</u>	<u>\$ 167,503</u>	<u>\$ 135,047</u>	<u>\$ 1,126,441</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for 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, 2010

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, 2010

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, 2010

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 25% 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 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, 2010

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, 2010 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, 2010

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, 2010, the carrying amount of deposits was \$3,198,786 and the bank balance was \$3,239,212. 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, 2010, the City's investments were as follows:

	<u>Amount</u>	<u>Maturities</u>
State Treasurer's investment pool 5	\$ 515,440	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, 2010

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 with 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, 2010, 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, 2010, 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, 2010

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2010, included the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Arizona State Treasurer:			
State sales tax	\$ 80,848		\$ 80,848
City sales tax	297,274		297,274
Highway user revenue fund		\$ 79,793	79,793
Vehicle license tax	53,463		53,463
Urban revenue sharing	53,290		53,290
Arizona Department of Transportation	40,792	5,736	46,528
Arizona Office of Tourism		3,415	3,415
Arizona Department of Homeland Security		14,212	14,212
Arizona Department of Justice		13,801	13,801
Arizona Department of Housing		9,495	9,495
Federal Aviation Agency		13,733	13,733
Other	8,530	8,922	17,452
Total	<u>\$ 534,197</u>	<u>\$ 149,107</u>	<u>\$ 683,304</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 571,670			\$ 571,670
Construction in progress	<u>434,178</u>	\$ 626,099	\$ (8,155)	<u>1,052,122</u>
Total capital assets not being depreciated	<u>1,005,848</u>	<u>626,099</u>	<u>(8,155)</u>	<u>1,623,792</u>
Capital assets being depreciated:				
Buildings	3,518,208			3,518,208
Improvements other than buildings	1,060,383			1,060,383
Airport	3,707,184	4,130	(55,274)	3,656,040
Machinery and equipment	2,751,346	403,556	(201,869)	2,953,033
Infrastructure	<u>316,582</u>	<u>212,561</u>		<u>529,143</u>
	11,353,703	620,247	(257,143)	11,716,807
Less: accumulated depreciation	<u>4,800,198</u>	<u>454,243</u>	<u>(200,500)</u>	<u>5,053,941</u>
Total capital assets being depreciated, net	<u>6,553,505</u>	<u>166,004</u>	<u>(56,643)</u>	<u>6,662,866</u>
Total capital assets, net	<u>\$ 7,559,353</u>	<u>\$ 792,103</u>	<u>\$ (64,798)</u>	<u>\$ 8,286,658</u>
	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Buildings	13,516,466	\$ 41,000		13,557,466
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	1,216,877		\$ (72,476)	1,144,401
Infrastructure	<u>17,027,156</u>			<u>17,027,156</u>
	34,406,241	41,000	(72,476)	34,374,765
Less: accumulated depreciation	<u>4,835,769</u>	<u>1,164,340</u>	<u>(69,500)</u>	<u>5,930,609</u>
Net business-type assets	<u>\$ 29,570,472</u>	<u>\$ (1,123,340)</u>	<u>\$ (2,976)</u>	<u>\$ 28,444,156</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 24,012
Public safety	182,947
Transportation	157,384
Culture and recreation	89,900
Total governmental activities depreciation	<u>\$ 454,243</u>
Business-type activities:	
Wastewater	\$ 1,104,959
Sanitation	48,292
Queen Mine	11,089
Total business-type activities depreciation	<u>\$ 1,164,340</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Governmental activities:					
Capital leases payable	\$ 246.045		\$ (99,347)	\$ 146,698	\$ 93,170
Lease purchase agreement	130,752		(41,189)	89,563	43,540
Compensated absences payable	<u>228,406</u>	\$ 229,125	<u>(283,271)</u>	<u>174,260</u>	
Total governmental activities	<u>\$ 605,203</u>	<u>\$ 229,125</u>	<u>\$ (423,807)</u>	<u>\$ 410,521</u>	<u>\$ 136,710</u>
Business-type activities:					
WIFA note payable	\$ 11,551,011		\$ (577,202)	\$ 10,973,809	\$ 588,746
USDA note payable	2,980,258		(58,051)	2,922,207	64,946
USDA note payable	<u>1,301,985</u>		<u>(25,352)</u>	<u>1,276,633</u>	<u>27,240</u>
Total notes payable	15,833,254		(660,605)	15,172,649	680,932
Capital leases payable	201,572		(30,408)	171,164	38,809
Compensated absences payable	<u>16,930</u>	\$ 53,325	<u>(51,477)</u>	<u>18,778</u>	
Total business-type activities	<u>\$ 16,051,756</u>	<u>\$ 53,325</u>	<u>\$ (742,490)</u>	<u>\$ 15,362,591</u>	<u>\$ 719,741</u>
Total	<u>\$ 16,656,959</u>	<u>\$ 282,450</u>	<u>\$ (1,166,297)</u>	<u>\$ 15,773,112</u>	<u>\$ 856,451</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, 2010 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	\$10,973,809
USDA, 2006	1,332,000	4.25%	2035	2,922,207
USDA, 2006	<u>3,050,000</u>	4.25%	2035	<u>1,276,633</u>
	<u>\$ 17,053,685</u>			<u>\$15,172,649</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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>
2011	\$ 680,932	\$ 412,310
2012	697,680	395,587
2013	713,699	377,991
2014	730,627	359,958
2015	747,489	350,453
2016-2020	4,005,866	1,561,360
2021-2025	4,497,512	940,313
2026-2030	1,730,194	415,825
2031-2035	1,142,603	196,953
2036	<u>226,047</u>	<u>10,448</u>
Total	<u>\$ 15,172,649</u>	<u>\$ 5,021,198</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:

Asset:	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Machinery and equipment	\$ 496,288	\$ 250,342	\$ 746,630
Less accumulated depreciation	<u>(162,264)</u>	<u>(70,355)</u>	<u>(232,619)</u>
Total	<u>\$ 334,024</u>	<u>\$ 179,987</u>	<u>\$ 514,011</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 were as follows:

Year ending June 30,	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
2011	\$ 93,170	\$ 38,809
2012	58,119	30,289
2013	11,744	21,768
2014		21,768
2015		21,768
2016-2019		<u>65,244</u>
Total minimum lease payments	163,033	199,646
Less amount representing interest	<u>(16,335)</u>	<u>(28,482)</u>
Present value of future minimum payments	<u>\$ 146,698</u>	<u>\$ 171,164</u>

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

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, 2010, the amount to buy out the remaining lease contains a premium of \$58,287.

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, 2010 were as follows:

	Governmental Activities
Year ending June 30,	
2011	\$ 47,973
2012	47,973
Total minimum lease payments	95,946
Less amount representing interest	(6,383)
Present value of future minimum payments	\$ 89,563

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

Interfund Receivables and Payables:

Interfund balances at June 30, 2010 were as follows:

	Payable to
Payable from	Wastewater Fund
Sanitation Fund	\$ 263,140

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 6 - INTERFUND BALANCES AND ACTIVITY - CONTINUED

The Sanitation Fund maintained a negative cash balance at June 30, 2010. The negative cash balance was reduced by interfund borrowing from the Wastewater Fund.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2010 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		\$ 129,044	\$ 333,091			\$ 462,135
Other Governmental Funds	\$ 131,990	325,530				457,520
Wastewater Fund	193,241		21,632			214,873
Sanitation Fund	121,766					121,766
Queen Mine Fund	47,807	34,427				82,234
Total	<u>\$ 494,804</u>	<u>\$ 489,001</u>	<u>\$ 354,723</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,338,528</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, 2010

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, 2010

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, 2010, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.4 percent (9.0 percent for retirement and 0.4 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 9.4 percent (9.0 percent for retirement and health insurance premium, and 0.4 percent for long-term disability) of the members' annual covered payroll.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

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 and Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2010	\$214,789	\$9,546
2009	222,862	12,450
2008	229,364	12,602

Agent plans - For the year ended June 30, 2010, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 34.07 percent (Police) and 37.77 percent (Fire Fighters), which are the actuarially required amounts. The health insurance premium portion of the contribution rate was actuarially set at .69 percent (Police) and .79 percent (Fire Fighters) of covered payroll.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2010 were established by the June 30, 2008 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, 2010

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 2010 contribution requirements are as follows:

Actuarial valuation date	6/30/08
Actuarial cost method	Projected unit credit
Amortization method	Level percent-of-pay closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for underfunded 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, 2010, 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	\$222,048	\$4,590	\$299,733	\$6,403
Contributions made	222,048	4,590	299,733	6,403

Trend Information - Annual pension and OPEB cost information for the current and 2 preceding years follows for the agent plan.

	PSPRS			
<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension/OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net Pension/OPEB Obligation</u>
<u>Police</u>				
Pension	2010	\$ 222,048	100.0%	\$0
Health insurance	2010	4,590	100.0%	0
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
<u>Fire Fighters</u>				
Pension	2010	\$ 299,733	100.0%	\$0
Health insurance	2010	6,403	100.0%	0
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

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 10 - RETIREMENT PLANS - CONTINUED

Funded Status - The funded status of the plan as of the most recent valuation date, June 30, 2009, 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)	\$5,553,145	\$114,787	\$7,783,417	\$166,276
Actuarial value of assets (b)	2,498,884	0	2,857,083	0
Unfunded actuarial accrued liability (funding excess) (a) - (b)	3,054,261	114,787	4,926,334	166,276
Funded ratio (b)/(a)	45.0%	0.00%	36.7%	0.00%
Covered payroll (c)	\$682,735	\$682,735	\$854,086	\$854,086
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b))/(c)	447.4%	16.8%	576.8%	19.5%

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

PSPRS

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent-of-pay closed
Remaining amortization period	27 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market value
Actuarial assumptions	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50%
includes inflation at	3.00%

SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,573,212	\$ 3,573,212	\$ 3,372,564	\$ (200,648)
Fines and forfeitures			448	448
Licenses and permits	104,200	104,200	82,025	(22,175)
Intergovernmental	987,482	987,482	906,608	(80,874)
Charges for services	1,328,150	1,328,150	1,169,488	(158,662)
Investment earnings	10,500	10,500	3,858	(6,642)
Rent	74,100	74,100	78,094	3,994
Miscellaneous	115,050	115,050	85,220	(29,830)
Total revenues	<u>6,192,694</u>	<u>6,192,694</u>	<u>5,698,305</u>	<u>(494,389)</u>
Expenditures				
General government				
Mayor and council	53,053	53,053	39,367	13,686
City manager	129,333	129,333	126,239	3,094
Finance department	380,287	380,287	364,847	15,440
City clerk	151,956	151,956	135,563	16,393
Community development	194,068	194,068	139,056	55,012
Administrative and general government	223,930	223,930	167,345	56,585
Personnel	66,423	66,423	64,730	1,693
Legal services	126,805	126,805	107,756	19,049
Water systems	10,500	10,500	5,663	4,837
Information systems	40,300	40,300	32,313	7,987
Cemetery	19,130	19,130	3,170	15,960
Building maintenance	88,171	88,171	55,937	32,234
Public works administration	175,293	175,293	180,291	(4,998)
Garage	143,548	143,548	88,338	55,210
Building inspector	69,004	69,004	57,407	11,597
Youth	26,500	26,500	652	25,848
Contingency	165,000	165,000	66,457	98,543
Total general government	<u>2,063,301</u>	<u>2,063,301</u>	<u>1,635,131</u>	<u>428,170</u>
Public safety				
Police department	1,897,472	1,897,472	1,755,257	142,215
Fire department	1,713,355	1,713,355	1,661,377	51,978
City magistrate	48,000	48,000	45,696	2,304
Total public safety	<u>3,658,827</u>	<u>3,658,827</u>	<u>3,462,330</u>	<u>196,497</u>
Transportation				
Airport	77,350	77,350	45,875	31,475
Culture and recreation				
Parks	157,148	157,148	146,968	10,180
Swimming pool	58,412	58,412	47,045	11,367
Library	227,442	227,442	205,797	21,645
Senior citizens center	18,642	18,642	19,657	(1,015)
Total culture and recreation	<u>461,644</u>	<u>461,644</u>	<u>419,467</u>	<u>42,177</u>
Total expenditures	<u>6,261,122</u>	<u>6,261,122</u>	<u>5,562,803</u>	<u>698,319</u>
Excess of revenues over (under) expenditures	(68,428)	(68,428)	135,502	(1,192,708)
Other financing sources (uses)				
Transfers in	436,496	436,496	494,804	58,308
Transfers out	(519,820)	(519,820)	(462,135)	(57,685)
Total other financing sources (uses)	<u>(83,324)</u>	<u>(83,324)</u>	<u>32,669</u>	<u>115,993</u>
Net change in fund balances	(151,752)	(151,752)	168,171	319,923
Fund balance, July 1, 2009	1,621,548	1,621,548	1,787,407	165,859
Fund balance, June 30, 2010	<u>\$ 1,469,796</u>	<u>\$ 1,469,796</u>	<u>1,955,578</u>	<u>\$ 485,782</u>
Less debt service payments not budgeted for			(197,301)	
Fund balances - statement of revenues, expenditures, and changes in fund balances			<u>\$ 1,758,277</u>	

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
 Year Ended June 30, 2010

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
<u>POLICE</u>						
Pension 6/30/09	\$2,498,884	\$5,553,145	(\$3,054,261)	45.0%	\$682,735	447.4%
Health insurance 6/30/09	0	114,787	0	0%	682,735	16.8%
Pension 6/30/08	2,357,263	6,126,827	(3,769,564)	38.7%	931,586	404.6%
Health insurance 6/30/08	0	233,678	(233,678)	0%	931,586	25.1%
Pension and health insurance 6/30/07	2,244,478	5,793,309	(3,548,831)	38.7%	765,463	463.60%
<u>FIRE FIGHTERS</u>						
Pension 6/30/09	\$2,857,083	\$7,783,417	(\$4,926,334)	36.7%	\$854,086	576.8%
Health insurance 6/30/09	0	166,276	(166,276)	0%	854,086	19.5%
Pension 6/30/08	\$2,908,099	\$7,218,926	(\$4,310,827)	40.3%	\$828,688	520.2%
Health insurance 6/30/08	0	133,578	(133,578)	0%	828,688	16.1%
Pension and health insurance 6/30/07	3,269,996	7,680,630	(4,410,634)	42.6%	832,557	529.8%

City of Bisbee, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantors' Number	Expenditures
U.S. Department of Housing and Urban Development Passed through: Arizona Department of Housing: Community Development Block Grants - State Programs	14.228	131-08, 129-10	\$ 305,356
U.S. Department of Interior Passed through: Arizona Bureau of Land Management: Historic Preservation Fund Grants-in-Aid	15.224	09.012	15,258
U.S. Department of Transportation Passed through: Federal Aviation Administration Airport Improvement Program	20.106	3-04-0004-09	159,809
Passed through: Arizona Department of Transportation: Formula Grants for Other Than Urbanized Areas	20.509	KR06-0924TRN	123,109
ARRA -Formula Grants for Other Than Urbanized Areas	20.509	KR06-0924TRN	<u>20,612</u>
Total Formula Grants for Other Than Urbanized Areas			<u>143,721</u>
Total Department of Transportation			<u>303,530</u>
U.S. Department of Homeland Security Passed through: Arizona Division of Emergency Management: Homeland Security Grant Program	97.067	2008-SCG-T8-0007	<u>327,754</u>
Total Expenditures of Federal Awards			<u>\$ 951,898</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, 2010

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 2010 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - SUBRECIPIENTS

The City did not award any federal funds to subrecipients during the year ended June 30, 2010.

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, 2010 was \$4,198,840. (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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 22, 2010. 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

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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*. We noted certain matters that we will report to the City's management in a separate letter dated November 22, 2010.

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.

Foster & Chapman P.C.

November 22, 2010

Independent Auditors' Report on Compliance with Requirements that
Could Have a Direct and Material Effect on Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133

To the City Council
City of 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of 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

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

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

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 22, 2010

City of Bisbee, Arizona
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2010

A. Summary of Audit Results

Financial Statements:

Type of auditors' report issued:

Unqualified

	<u>Yes</u>	<u>No</u>
Internal control over financial reporting:		
Material weakness(es) identified?	_____	_____X_____
Significant deficiency(ies) identified?	_____	_____X_____
		(None reported)
Noncompliance material to the financial statements noted?	_____	_____X_____

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?	_____	_____X_____
Significant deficiency(ies) identified?	_____	_____X_____
		(None reported)

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:

CFDA Number

14.228

97.067

Name of Federal Program or Cluster

Community Development Block

Grants - State Programs

Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____X_____

Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?

_____X_____

B. Findings - Financial Statement Audit

None

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

None