

CITY OF BISBEE, ARIZONA

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

Year Ended June 30, 2011

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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, 2011, 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.

As described in Note 1 to the financial statements, the City implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

Management's Discussion and Analysis on pages 3 through 9, the Budgetary Comparison Schedule on page 40, and the Schedule of Agent Retirement Plans' Funding Progress on page 41, 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.

To the City Council
City of Bisbee, Arizona
Page Two

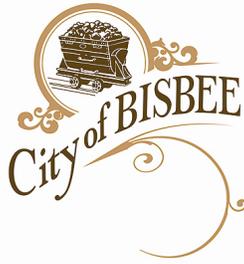
Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as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

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with *Government Auditing Standards*. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

December 1, 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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 \$10 thousand (.04%) to \$25.9 million. Of this amount, \$2.9 million is unrestricted net assets and may be used to meet the City's ongoing obligations to citizens and creditors. Net assets from governmental activities increased \$147 thousand (1.3%) to \$11.4 million. Net assets from business-type activities decreased \$137 thousand (.9%) to \$14.5 million.
- The City's revenues from governmental activities decreased \$521 thousand (6.4%). Revenues from business-type activities decreased \$3.1 thousand (.9%).
- Expenditures for governmental activities decreased \$152.7 thousand (2%). Expenditures for business-type activities decreased \$55.6 thousand (1.5%).
- The total outstanding non-current liabilities decreased \$758.3 thousand to \$15 million.
- The General Fund reported a fund balance this year of \$1.626 million or 28.2% of General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The analysis of the City begins with the Government-Wide Financial Statements, designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements (the Statement of Net Assets and the Statement of Activities) distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Government activities include the City's basic services such as 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. Business-type activities include the Queen Mine, Sewer and Sanitation services.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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.

Notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 19-39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets increased from a year ago increasing from \$25.903 million to \$25.912 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>2011</u>	<u>2010</u>
Current and other assets	\$ 5,898	\$ 5,948
Capital assets	<u>35,852</u>	<u>36,731</u>
Total assets	41,750	42,679
Current and other liabilities	823	1,003
Long-term debt outstanding	<u>15,015</u>	<u>15,773</u>
Total liabilities	15,838	16,776
Net assets:		
Invested in capital assets, net of related debt	21,013	21,151
Restricted net assets	1,969	2,440
Unrestricted net assets	<u>2,930</u>	<u>2,312</u>
Total net assets	<u>\$ 25,912</u>	<u>\$ 25,903</u>

Net assets of the City represent the difference between the City's resources and its obligations. As of June 30, 2011, 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 7.6%, is restricted net assets, which may be used in accordance with external restrictions. The remainders of the City's net assets, approximately 11.3%, 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	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 4,860	\$ 4,646
Operating grants and contributions	912	838
Capital grants and contributions	618	1,205
General revenues:		
Property taxes	833	809
Sales taxes	1,815	1,691
State shared taxes	492	481
Urban revenue sharing	625	831
Vehicle license taxes	286	292
Bed taxes	88	100
Other general revenues and transfers	<u>446</u>	<u>636</u>
Total revenues	<u>10,975</u>	<u>11,529</u>
Expenses:		
Governmental activities:		
General government	1,907	2,007
Public safety	4,071	3,777
Transportation	876	1,115
Culture and recreation	530	606
Interest on long-term debt	25	57
Business type activities:		
Wastewater	2,286	2,357
Sanitation	721	711
Queen Mine	<u>550</u>	<u>545</u>
Total expenses	<u>10,966</u>	<u>11,175</u>
Increase in net assets	9	354
Net assets-beginning	<u>25,903</u>	<u>25,549</u>
Net assets-ending	<u>\$ 25,912</u>	<u>\$ 25,903</u>

The City's total revenues were \$10.975 million. The total cost of all programs and services was \$10.966 million.

Our analysis below separately considers the operations of governmental activities.

Governmental Activities

On the revenue side, charges for services were up from \$1.48 million to \$1.60 million, or 7.5%. Operating and capital grants and contributions were down from \$1.79 million to \$1.41 million, or 27%. This was due in large part to the completion of grants from the preceding year.

On the expenditure side, governmental activities expenses decreased from \$7.50 million to \$7.41 million, or 2.0%, due to a general reduction in the personnel costs.

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		
<i>Governmental Activities</i>		
(thousands)		
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2011</u>	<u>2011</u>
General government and administration	\$ 1,907	\$ 882
Public safety	4,071	2,629
Transportation	876	362
Culture and recreation	530	493
All others	<u>25</u>	<u>25</u>
Totals	<u>\$ 7,409</u>	<u>\$ 4,391</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 \$3.19 million, which is an increase from last year’s total of \$3.08 million.

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 \$14.65 million to \$14.51 million, or 0.9%. 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, total revenues fell short by \$100 thousand, due mainly to less than anticipated Miscellaneous Revenues. However, expenditures were monitored closely throughout the year and kept well within budget, resulting in a net increase of \$1.9 thousand in General Fund's Fund Balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the City had \$35.9 million invested in a broad range of capital assets, including land, buildings, vehicles, equipment, and the new wastewater treatment facility. This amount represents a \$878 thousand decrease (including additions, reductions and depreciation) over last year.

Table 4
Capital Assets at Year-end
(thousands)

	Total Assets	
	2011	2010
Land	\$ 619	\$ 619
Buildings and improvements	17,231	17,076
Airport	3,833	3,656
Improvements other than buildings	3,658	3,658
Machinery and equipment	4,287	4,097
Infrastructure	17,881	17,556
Construction in progress	967	1,052
Less: accumulated depreciation	<u>(12,624)</u>	<u>(10,984)</u>
Totals	<u>\$ 35,852</u>	<u>\$ 36,730</u>

Long-term debt

At June 30, 2011, the City had \$15.0 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, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,290,329	\$ 1,393,870	\$ 3,684,199
Investments	516,473		516,473
Receivables (net of allowance for uncollectibles):			
Accounts	214,416	644,787	859,203
Other		72,591	72,591
Property taxes	33,506		33,506
Inventories		89,521	89,521
Due from other governments	617,696		617,696
Prepaid items	617	23,789	24,406
Capital assets, not being depreciated	1,533,134	53,360	1,586,494
Capital assets, being depreciated, net	<u>7,030,730</u>	<u>27,235,164</u>	<u>34,265,894</u>
Total assets	<u>12,236,901</u>	<u>29,513,082</u>	<u>41,749,983</u>
Liabilities			
Accounts payable	194,497	69,423	263,920
Accrued payroll and employee benefits	257,164	13,182	270,346
Other liabilities	1,700		1,700
Accrued interest payable		257,322	257,322
Due to other governments	25,160		25,160
Deposits held for others		4,327	4,327
Noncurrent liabilities:			
Due within one year	101,638	722,477	824,115
Due in more than one year	<u>256,396</u>	<u>13,934,290</u>	<u>14,190,686</u>
Total liabilities	<u>836,555</u>	<u>15,001,021</u>	<u>15,837,576</u>
Net Assets			
Invested in capital assets, net of related debt	8,355,086	12,657,481	21,012,567
Restricted for:			
Capital projects	509,760		509,760
Debt service		1,013,899	1,013,899
Other purposes	445,517		445,517
Unrestricted	<u>2,089,983</u>	<u>840,681</u>	<u>2,930,664</u>
Total net assets	<u>\$ 11,400,346</u>	<u>\$ 14,512,061</u>	<u>\$ 25,912,407</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

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	\$ 1,907,351	\$ 458,779	\$ 141,130	\$ 424,982	\$ (882,460)		\$ (882,460)
Public safety	4,071,164	1,118,759	299,238	24,233	(2,628,934)		(2,628,934)
Transportation	876,224	8,840	471,648	33,937	(361,799)		(361,799)
Culture and recreation	529,688	26,141		10,000	(493,547)		(493,547)
Interest on long-term debt	24,635				(24,635)		(24,635)
Total governmental activities	<u>7,409,062</u>	<u>1,612,519</u>	<u>912,016</u>	<u>493,152</u>	<u>(4,391,375)</u>		<u>(4,391,375)</u>
Business-type activities:							
Wastewater	2,285,422	1,795,305		124,960		\$ (365,157)	(365,157)
Sanitation	721,304	837,165				115,861	115,861
Queen Mine	549,736	615,461				65,725	65,725
Total business-type activities	<u>3,556,462</u>	<u>3,247,931</u>		<u>124,960</u>		<u>(183,571)</u>	<u>(183,571)</u>
Total primary government	<u>\$ 10,965,524</u>	<u>\$ 4,860,450</u>	<u>\$ 912,016</u>	<u>\$ 618,112</u>	<u>(4,391,375)</u>	<u>(183,571)</u>	<u>(4,574,946)</u>
General revenues:							
Taxes:							
Property taxes					833,359		833,359
Sales taxes					1,814,763		1,814,763
State shared taxes					491,717		491,717
Urban revenue sharing					625,399		625,399
Vehicle license taxes					285,501		285,501
Bed taxes					87,671		87,671
Investment earnings					2,329	807	3,136
Miscellaneous					400,141	42,779	442,920
Transfers					(2,849)	2,849	
Total general revenues and transfers					<u>4,538,031</u>	<u>46,435</u>	<u>4,584,466</u>
Change in net assets					146,656	(137,136)	9,520
Net assets, July 1, 2010					<u>11,253,690</u>	<u>14,649,197</u>	<u>25,902,887</u>
Net assets, June 30, 2011					<u>\$ 11,400,346</u>	<u>\$ 14,512,061</u>	<u>\$ 25,912,407</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 916,758	\$ 1,373,571	\$ 2,290,329
Investments	394,996	121,477	516,473
Receivables (net of allowance for uncollectibles):			
Accounts	205,938	8,478	214,416
Property taxes	33,506		33,506
Due from other governments	462,382	155,314	617,696
Prepaid items	<u>617</u>		<u>617</u>
Total assets	<u>\$ 2,014,197</u>	<u>\$ 1,658,840</u>	<u>\$ 3,673,037</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 131,389	\$ 63,108	\$ 194,497
Accrued payroll and employee benefits	254,350	2,814	257,164
Other liabilities	1,700		1,700
Due to other governments	<u>1,020</u>	<u>24,140</u>	<u>25,160</u>
Total liabilities	<u>388,459</u>	<u>90,062</u>	<u>478,521</u>
Fund balances:			
Nonspendable	617		617
Restricted		365,323	365,323
Committed	5,300	1,203,455	1,208,755
Assigned	210,033		210,033
Unassigned	<u>1,409,788</u>		<u>1,409,788</u>
Total fund balances	<u>1,625,738</u>	<u>1,568,778</u>	<u>3,194,516</u>
 Total liabilities and fund balances	 <u>\$ 2,014,197</u>	 <u>\$ 1,658,840</u>	 <u>\$ 3,673,037</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, 2011

Fund balances - total governmental funds	\$ 3,194,516
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.	8,563,864
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>(358,034)</u>
Net assets of governmental activities	<u>\$11,400,346</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, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 3,513,012		\$ 3,513,012
Fines and forfeitures	300		300
Licenses and permits	83,916		83,916
Intergovernmental	695,193	\$ 1,470,656	2,165,849
Charges for services	1,211,333	38,880	1,250,213
Investment earnings	2,082	247	2,329
Rent	66,975	8,578	75,553
Contributions	6,239	3,811	10,050
Miscellaneous	112,886	344,459	457,345
Total revenues	<u>5,691,936</u>	<u>1,866,631</u>	<u>7,558,567</u>
Expenditures:			
Current:			
General government	1,459,008	361,571	1,820,579
Public safety	3,680,614	198,275	3,878,889
Transportation		738,743	738,743
Culture and recreation	412,516	40,478	452,994
Capital outlay	953	325,978	326,931
Debt service:			
Principal	195,984		195,984
Interest	24,635		24,635
Total expenditures	<u>5,773,710</u>	<u>1,665,045</u>	<u>7,438,755</u>
Excess (deficiency) of revenues over expenditures	(81,774)	201,586	119,812
Other financing sources (uses):			
Transfers in	526,209	106,850	633,059
Transfers out	<u>(442,534)</u>	<u>(193,374)</u>	<u>(635,908)</u>
Total other financing sources (uses)	<u>83,675</u>	<u>(86,524)</u>	<u>(2,849)</u>
Net change in fund balances	1,901	115,062	116,963
Fund balances, July 1, 2010 (See Note 2)	<u>1,623,837</u>	<u>1,453,716</u>	<u>3,077,553</u>
Fund balances, June 30, 2011	<u>\$ 1,625,738</u>	<u>\$ 1,568,778</u>	<u>\$ 3,194,516</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, 2011

Net changes in fund balances - total governmental funds \$ 116,963

Amounts reported in the governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 750,780	
Depreciation expense	<u>(473,574)</u>	277,206

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities. (300,000)

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.

Capital lease incurred	\$ (135,978)	
Principal repaid	<u>163,461</u>	27,483

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>25,004</u>
----------------------------------	--	---------------

Change in net assets of governmental activities \$ 146,656

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,154,111		\$ 239,759	\$ 1,393,870
Receivables (net of allowance for uncollectibles):				
Accounts	458,151	\$ 186,636		644,787
Other	72,591			72,591
Inventory			89,521	89,521
Prepaid items			23,789	23,789
Due from other funds	205,815			205,815
Total current assets	<u>1,890,668</u>	<u>186,636</u>	<u>353,069</u>	<u>2,430,373</u>
Noncurrent assets:				
Capital assets (net of accumulated depreciation):				
Land		47,660		47,660
Improvements other than buildings, net	1,492,365			1,492,365
Buildings, net	10,936,578		124,780	11,061,358
Equipment, net	226,781	262,245	3,118	492,144
Infrastructure, net	14,189,297			14,189,297
Construction in progress			5,700	5,700
Total noncurrent assets	<u>26,845,021</u>	<u>309,905</u>	<u>133,598</u>	<u>27,288,524</u>
Total assets	<u>28,735,689</u>	<u>496,541</u>	<u>486,667</u>	<u>29,718,897</u>
Liabilities				
Current liabilities:				
Accounts payable	19,820	41,169	8,434	69,423
Accrued payroll and employee benefits	3,923	4,256	5,003	13,182
Accrued interest payable	257,322			257,322
Due to other funds		205,815		205,815
Deposits held for others			4,327	4,327
Current portion long-term debt	697,680	24,797		722,477
Total current liabilities	<u>978,745</u>	<u>276,037</u>	<u>17,764</u>	<u>1,272,546</u>
Noncurrent liabilities:				
Long-term debt, net of current portion	13,802,944	122,119	9,227	13,934,290
Total noncurrent liabilities	<u>13,802,944</u>	<u>122,119</u>	<u>9,227</u>	<u>13,934,290</u>
Total liabilities	<u>14,781,689</u>	<u>398,156</u>	<u>26,991</u>	<u>15,206,836</u>
Net Assets				
Invested in capital assets, net of related debt	12,353,314	170,569	133,598	12,657,481
Restricted for debt service	1,013,899			1,013,899
Unrestricted (deficit)	586,787	(72,184)	326,078	840,681
Total net assets	<u>\$ 13,954,000</u>	<u>\$ 98,385</u>	<u>\$ 459,676</u>	<u>\$ 14,512,061</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, 2011

	<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	\$ 1,747,691	\$ 837,165	\$ 615,461	\$ 3,200,317
Customer penalties and interest	47,614			47,614
Miscellaneous	840	41,939		42,779
Total operating revenues	<u>1,796,145</u>	<u>879,104</u>	<u>615,461</u>	<u>3,290,710</u>
Operating expenses:				
Cost of sales and services	777,727	672,697	536,079	1,986,503
Depreciation	<u>1,103,668</u>	<u>48,607</u>	<u>13,657</u>	<u>1,165,932</u>
Total operating expenses	<u>1,881,395</u>	<u>721,304</u>	<u>549,736</u>	<u>3,152,435</u>
Operating income (loss)	(85,250)	157,800	65,725	138,275
Nonoperating revenues (expenses):				
Interest income	807			807
Interest expense	<u>(404,027)</u>			<u>(404,027)</u>
Total nonoperating revenues (expenses)	<u>(403,220)</u>			<u>(403,220)</u>
Income (loss) before capital contributions and transfers	(488,470)	157,800	65,725	(264,945)
Capital contributions - intergovernmental	124,960			124,960
Transfers in	351,682			351,682
Transfers out	<u>(167,413)</u>	<u>(129,832)</u>	<u>(51,588)</u>	<u>(348,833)</u>
Increase (decrease) in net assets	(179,241)	27,968	14,137	(137,136)
Total net assets, July 1, 2010	<u>14,133,241</u>	<u>70,417</u>	<u>445,539</u>	<u>14,649,197</u>
Total net assets, June 30, 2011	<u>\$ 13,954,000</u>	<u>\$ 98,385</u>	<u>\$ 459,676</u>	<u>\$ 14,512,061</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, 2011

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,752,817	\$ 830,025	\$ 617,660	\$ 3,200,502
Other operating receipts	840	41,939		42,779
Cash payments to employees	(432,075)	(335,809)	(344,878)	(1,112,762)
Cash payments to suppliers for goods and services	(351,826)	(312,572)	(218,519)	(882,917)
Net cash provided by operating activities	<u>969,756</u>	<u>223,583</u>	<u>54,263</u>	<u>1,247,602</u>
Cash flows from noncapital financing activities:				
Payments on advances from other funds	57,324	(57,324)		
Cash transfers from other funds	351,682			351,682
Cash transfers to other funds	(167,413)	(129,832)	(51,588)	(348,833)
Net cash provided (used) by noncapital financing activities	<u>241,593</u>	<u>(187,156)</u>	<u>(51,588)</u>	<u>2,849</u>
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(680,941)	(31,827)		(712,768)
Interest paid on long-term debt	(413,845)			(413,845)
Purchases of capital assets		(4,600)		(4,600)
Construction in progress			(5,700)	(5,700)
Capital contributions	<u>283,756</u>			<u>283,756</u>
Net cash used by capital and related financing activities	<u>(811,030)</u>	<u>(36,427)</u>	<u>(5,700)</u>	<u>(853,157)</u>
Cash flows from investing activities:				
Interest received on investment	<u>807</u>			<u>807</u>
Net cash provided by investing activities	<u>807</u>			<u>807</u>
Net increase (decrease) in cash and cash equivalents	401,126		(3,025)	398,101
Cash and cash equivalents, June 30, 2010	752,985		242,784	995,769
Cash and cash equivalents, June 30, 2011	<u>\$ 1,154,111</u>	<u>\$</u>	<u>\$ 239,759</u>	<u>\$ 1,393,870</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (85,250)	\$ 157,800	\$ 65,725	\$ 138,275
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,103,668	48,607	13,657	1,165,932
Changes in assets and liabilities:				
Accounts receivable	(42,490)	(7,139)		(49,629)
Prepaid items			(15,503)	(15,503)
Inventory			86	86
Accounts payable	(10,981)	19,723	(10,953)	(2,211)
Accrued payroll and employee benefits	(287)	1,075	(1,666)	(878)
Compensated absences payable	5,096	3,517	717	9,330
Deposits held for others			2,200	2,200
Net cash provided by operating activities	<u>\$ 969,756</u>	<u>\$ 223,583</u>	<u>\$ 54,263</u>	<u>\$ 1,247,602</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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.

During the year ended June 30, 2011, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions. Note 2 to the financial statements provides details of reclassification of beginning fund balances to comply with GASB Statement No. 54.

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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.
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.

For the year ended June 30, 2011, expenditures exceeded appropriations in the General Fund in the following departments:

General government:		
Personnel	\$	70
Public safety:		
Fire department		28,755
Culture and recreation:		
Senior citizens' center		1,912

The excesses were primarily due to the results of unexpected expenditures due to changes in personnel, expenditures made as a result of unanticipated revenues, or both.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Pronouncements of GASB and FASB

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.

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 30% 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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2011, 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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

O. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the uses of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balances classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as prepaid items, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the City Council, which is the highest level of decision-making authority within the City. The constraints placed on committed fund balances can only be removed or changed by the City Council.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has assigned the Finance Director and City Manager to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not reported in the other classifications.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the City's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the City's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

P. Subsequent Events

Subsequent events have been evaluated through December 1, 2011, which was the date the City's financial statements were issued.

NOTE 2 - BEGINNING FUND BALANCE RECLASSIFICATION

During the year ended June 30, 2011 the City implemented GASB Statement No. 54, which resulted in a reclassification of beginning fund balances previously included in the general fund, as special revenue funds included with other non-major governmental funds. Details of the reclassification follow:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Beginning fund balance, June 30, 2010	\$ 1,758,277	\$ 1,319,276	\$ 3,077,553
Reclassification from general fund to special revenue funds	<u>(134,440)</u>	<u>134,440</u>	
Fund balance, July 1, 2010	<u>\$ 1,623,837</u>	<u>\$ 1,453,716</u>	<u>\$ 3,077,553</u>

NOTE 3 - 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, 2011, the carrying amount of deposits was \$3,684,199 and the bank balance was \$3,615,007. At June 30, 2011, the City's deposits were fully insured by the Federal Deposit Insurance Corporation or covered by collateral held by the pledging financial institution's trust department in the City's name.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED

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, 2011, the City's investments were as follows:

	Amount	Maturities
State Treasurer's investment pool 5	\$ 516,473	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.

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.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED

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, 2011, 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, 2011, 100% of the City's investments were in the State Treasurer's investment pool 5.

Foreign currency risk

- Statutes do not allow foreign investments.

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2011, included the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Arizona State Treasurer:			
State sales tax	\$ 72,243		\$ 72,243
City sales tax	298,653		298,653
Highway user revenue fund		\$ 60,725	60,725
Vehicle license tax	46,000		46,000
Urban revenue sharing	39,213		39,213
Arizona Department of Transportation		19,622	19,622
Arizona Department of Homeland Security		24,941	24,941
Arizona Department of Justice		12,220	12,220
Arizona Department of Housing		6,173	6,173
Arizona Governor's Office of Economic Recovery		27,963	27,963
Other	6,273	3,670	9,943
Total	<u>\$ 462,382</u>	<u>\$ 155,314</u>	<u>\$ 617,696</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 571,670			\$ 571,670
Construction in progress	1,052,122	\$ 234,367	\$ (325,025)	961,464
Total capital assets not being depreciated	<u>1,623,792</u>	<u>234,367</u>	<u>(325,025)</u>	<u>1,533,134</u>
Capital assets being depreciated:				
Buildings	3,518,208	154,746		3,672,954
Improvements other than buildings	1,060,383			1,060,383
Airport	3,656,040	176,992		3,833,032
Machinery and equipment	2,953,033	184,675		3,137,708
Infrastructure	529,143	325,025		854,168
	<u>11,716,807</u>	<u>841,438</u>		<u>12,558,245</u>
Less: accumulated depreciation	<u>5,053,941</u>	<u>473,574</u>		<u>5,527,515</u>
Total capital assets being depreciated, net	<u>6,662,866</u>	<u>367,864</u>		<u>7,030,730</u>
Total capital assets, net	<u>\$ 8,286,658</u>	<u>\$ 602,231</u>	<u>\$ (325,025)</u>	<u>\$ 8,563,864</u>
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Construction in progress		\$ 5,700		5,700
Buildings	13,557,466			13,557,466
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	1,144,401	4,600		1,149,001
Infrastructure	17,027,156			17,027,156
	<u>34,374,765</u>	<u>10,300</u>		<u>34,385,065</u>
Less: accumulated depreciation	<u>5,930,609</u>	<u>1,165,932</u>		<u>7,096,541</u>
Net business-type assets	<u>\$ 28,444,156</u>	<u>\$ (1,155,632)</u>		<u>\$ 27,288,524</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 15,793
Public safety	192,275
Public works	51,331
Transportation	137,481
Culture and recreation	76,694
Total governmental activities depreciation	<u>\$ 473,574</u>
Business-type activities:	
Wastewater	\$ 1,103,668
Sanitation	48,607
Queen Mine	13,657
Total business-type activities depreciation	<u>\$ 1,165,932</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2011, was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases payable	\$ 146,698	\$ 135,978	\$ (119,921)	\$ 162,755	\$ 55,615
Lease purchase agreement	89,563		(43,540)	46,023	46,023
Compensated absences payable	<u>174,260</u>	<u>221,907</u>	<u>(246,911)</u>	<u>149,256</u>	
Total governmental activities	<u>\$ 410,521</u>	<u>\$ 357,885</u>	<u>\$ (410,372)</u>	<u>\$ 358,034</u>	<u>\$ 101,638</u>
Business-type activities:					
WIFA note payable	\$ 10,973,809		\$ (588,746)	\$ 10,385,063	\$ 600,521
USDA note payable	2,922,207		(64,170)	2,858,037	67,625
USDA note payable	<u>1,276,633</u>		<u>(28,025)</u>	<u>1,248,608</u>	<u>29,534</u>
Total notes payable	15,172,649		(680,941)	14,491,708	697,680
Capital leases payable	171,164		(31,827)	139,337	24,797
Compensated absences payable	<u>18,778</u>	<u>\$ 47,746</u>	<u>(40,802)</u>	<u>25,722</u>	
Total business-type activities	<u>\$ 15,362,591</u>	<u>\$ 47,746</u>	<u>\$ (753,570)</u>	<u>\$ 14,656,767</u>	<u>\$ 722,477</u>
Total	<u>\$ 15,773,112</u>	<u>\$ 405,631</u>	<u>\$ (1,163,942)</u>	<u>\$ 15,014,801</u>	<u>\$ 824,115</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, 2011, are as follows:

	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Year of Maturity</u>	<u>Outstanding Principal</u>
Business-type activities:				
WIFA	\$ 12,671,685	2.000% to 2.721%	2025	\$10,385,063
USDA, 2006	1,332,000	4.25%	2035	1,248,608
USDA, 2006	<u>3,050,000</u>	4.25%	2035	<u>2,858,037</u>
	<u>\$ 17,053,685</u>			<u>\$14,491,708</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 - 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>
2012	\$ 697,680	\$ 395,587
2013	713,699	377,991
2014	730,627	359,958
2015	747,489	350,453
2016	764,233	340,755
2017-2021	4,096,129	1,393,665
2022-2026	4,599,881	806,971
2027-2031	967,383	366,722
2032-2036	<u>1,174,587</u>	<u>150,045</u>
Total	<u>\$ 14,491,708</u>	<u>\$ 4,542,147</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	\$ 276,023	\$ 250,342	\$ 526,365
Less accumulated depreciation	<u>(20,741)</u>	<u>(95,389)</u>	<u>(116,130)</u>
Total	<u>\$ 255,282</u>	<u>\$ 154,953</u>	<u>\$ 410,235</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

Year ending June 30,	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
2012	\$ 55,615	\$ 24,797
2013	39,755	21,768
2014	29,752	21,768
2015	29,752	21,768
2016	14,876	21,768
2017-2018	<u>169,750</u>	<u>43,478</u>
Total minimum lease payments	169,750	155,347
Less amount representing interest	<u>(6,995)</u>	<u>(16,010)</u>
Present value of future minimum payments	<u>\$ 162,755</u>	<u>\$ 139,337</u>

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 6 - LONG-TERM DEBT - CONTINUED

C. Lease Purchase Agreement

The City of Bisbee Municipal Property Corporation has a lease purchase agreement for construction of a fire station. Payments totaling \$47,973, including interest of \$1,950 are due during the year ending June 30, 2012.

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

Interfund Receivables and Payables:

Interfund balances at June 30, 2011, were as follows:

<u>Payable from</u>	<u>Payable to</u>
Sanitation Fund	Wastewater Fund
	\$ 205,815

The Sanitation Fund maintained a negative cash balance at June 30, 2011. The negative cash balance was reduced by interfund borrowing from the Wastewater Fund.

Interfund Transfers:

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

Transfers In	Transfers Out					Total
	General Fund	Other Governmental Funds	Wastewater Fund	Sanitation Fund	Queen Mine Fund	
Governmental Funds:						
General Fund		\$ 193,374	\$ 167,413	\$ 129,832	\$ 35,590	\$ 526,209
Other Governmental Funds	\$ 90,852				15,998	106,850
Wastewater Fund	351,682					351,682
Total	\$ 442,534	\$ 193,374	\$ 167,413	\$ 129,832	\$ 51,588	\$ 984,741

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

Details of governmental fund balance classifications at June 30, 2011, are as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Fund balances:</u>			
Nonspendable - prepaid items	\$ 617		\$ 617
Restricted for:			
Public safety		\$ 15,227	15,227
Highways and streets		157,196	157,196
Transportation		92,853	92,853
Culture and recreation		99,940	99,940
Other		107	107
Total restricted		<u>365,323</u>	<u>365,323</u>
Committed to:			
Cemetery maintenance	5,300		5,300
Bisbee Arts		45,630	45,630
Save Our Stairs		12,835	12,835
Airport maintenance		25	25
Youth programs		124,063	124,063
Donor designated contributions		4,004	4,004
Capital improvements		1,016,898	1,016,898
Total committed	<u>5,300</u>	<u>1,203,455</u>	<u>1,208,755</u>
Assigned - contingency reserves	210,033		210,033
Unassigned	<u>1,409,788</u>		<u>1,409,788</u>
Total fund balances	<u>\$ 1,625,738</u>	<u>\$ 1,568,778</u>	<u>\$ 3,194,516</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 - 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.

NOTE 10 - 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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 - 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.

NOTE 12 - 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.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 12 - RETIREMENT PLANS - CONTINUED

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

<p>ASRS 3300 N. Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2200 or (800) 621-3778</p>	<p>PSPRS 3010 East Camelback Road, Suite 200 Phoenix, AZ 85016-4416 (602) 255-5575</p>
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Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates for the ASRS and PSPRS.

Cost-sharing plans - For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent for retirement and 0.25 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 9.85 percent (9.6 percent for retirement and health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll.

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>
2011	\$204,321	\$5,321
2010	214,789	9,546
2009	222,862	12,450

Agent plans - For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 32.41 percent (Police) and 39.08 percent (Fire Fighters), which are the actuarially required amounts. The health insurance premium portion of the contribution rate was actuarially set at 2.26 percent (Police) and 1.58 percent (Fire Fighters) of covered payroll.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2011 were established by the June 30, 2009 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 12 - RETIREMENT PLANS - CONTINUED

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.

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 2011 contribution requirements are as follows:

Actuarial valuation date	6/30/09
Actuarial cost method	Projected unit credit
Amortization method	Level percent-of-pay closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	27 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, 2011, and related information follows:

	PSPRS			
	<u>Police</u>		<u>Fire Fighters</u>	
	<u>Pension</u>	Health <u>Insurance</u>	<u>Pension</u>	Health <u>Insurance</u>
Annual pension/OPEB cost	\$232,512	\$17,429	\$311,784	\$13,136
Contributions made	232,512	17,429	311,784	13,136

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 12 - RETIREMENT PLANS - CONTINUED

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	2011	\$ 232,512	100.0%	\$0
Health insurance	2011	17,429	100.0%	0
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
<u>Fire Fighters</u>				
Pension	2011	\$ 311,784	100.0%	\$0
Health insurance	2011	13,136	100.0%	0
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

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 12 - RETIREMENT PLANS - CONTINUED

Funded Status - The funded status of the plan as of the most recent valuation date, June 30, 2010, 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)	\$6,198,124	\$165,394	\$8,307,003	\$138,869
Actuarial value of assets (b)	2,301,290	0	2,565,809	0
Unfunded actuarial accrued liability (funding excess) (a) - (b)	3,896,834	165,394	5,741,194	138,869
Funded ratio (b)/(a)	37.1%	0.0%	30.9%	0.0%
Covered payroll (c)	676,953	676,953	786,618	786,618
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b))/(c)	575.6%	24.4%	729.9%	17.7%

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

PSPRS

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent-of-pay closed
Remaining amortization period	26 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 includes inflation at	5.50% - 8.50%
	3.00%

SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 3,442,842	\$ 3,442,842	\$ 3,513,012	\$ 70,170
Fines and forfeitures			300	300
Licenses and permits	94,200	94,200	83,916	(10,284)
Intergovernmental	639,380	639,380	695,193	55,813
Charges for services	1,286,450	1,286,450	1,211,333	(75,117)
Investment earnings	6,000	6,000	2,082	(3,918)
Rent	67,400	67,400	66,975	(425)
Use of reserves	378,460	378,460		(378,460)
Miscellaneous	274,680	274,680	119,125	(155,555)
Total revenues	<u>6,189,412</u>	<u>6,189,412</u>	<u>5,691,936</u>	<u>(497,476)</u>
Expenditures:				
General government:				
Mayor and council	40,672	40,672	33,880	6,792
City manager	128,138	128,138	125,194	2,944
Finance department	384,592	384,592	363,250	21,342
City clerk	168,082	168,082	122,366	45,716
Community development	195,375	195,375	128,374	67,001
Administrative and general government	211,050	211,050	137,780	73,270
Personnel	66,366	66,366	66,436	(70)
Legal services	124,038	124,038	98,157	25,881
Water systems	4,700	4,700	1,024	3,676
Information systems	38,500	38,500	34,987	3,513
Cemetery	6,800	6,800	2,832	3,968
Building maintenance	44,540	44,540	33,138	11,402
Public works administration	97,017	97,017	87,487	9,530
Garage	143,467	143,467	84,202	59,265
Building inspector	66,051	66,051	59,515	6,536
Contingency	100,000	100,000	75,117	24,883
Total general government	<u>1,819,388</u>	<u>1,819,388</u>	<u>1,453,739</u>	<u>365,649</u>
Public safety:				
Police department	1,871,090	1,871,090	1,842,090	29,000
Fire department	1,763,022	1,763,022	1,791,777	(28,755)
City magistrate	48,000	48,000	46,747	1,253
Total public safety	<u>3,682,112</u>	<u>3,682,112</u>	<u>3,680,614</u>	<u>1,498</u>
Culture and recreation:				
Parks	161,165	161,165	155,618	5,547
Swimming pool	54,912	54,912	41,495	13,417
Library	220,093	220,093	200,993	19,100
Senior citizens center	18,720	18,720	20,632	(1,912)
Total culture and recreation	<u>454,890</u>	<u>454,890</u>	<u>418,738</u>	<u>36,152</u>
Total expenditures	<u>5,956,390</u>	<u>5,956,390</u>	<u>5,553,091</u>	<u>403,299</u>
Excess of revenues over (under) expenditures	233,022	233,022	138,845	(900,775)
Other financing sources (uses):				
Transfers in	310,025	310,025	526,209	216,184
Transfers out	(543,047)	(543,047)	(442,534)	(100,513)
Total other financing sources (uses)	<u>(233,022)</u>	<u>(233,022)</u>	<u>83,675</u>	<u>316,697</u>
Net change in fund balances			222,520	222,520
Fund balance, July 1, 2010	1,469,796	1,469,796	1,623,837	154,041
Fund balance, June 30, 2011	<u>\$ 1,469,796</u>	<u>\$ 1,469,796</u>	1,846,357	<u>\$ 376,561</u>
Less debt service payments not budgeted for			(220,619)	
Fund balances: statement of revenues, expenditures, and changes in fund balances			<u>\$ 1,625,738</u>	

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
 Year Ended June 30, 2011

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 6/30/10	\$2,301,290	\$6,198,124	(\$3,896,834)	37.1%	\$676,953	575.6%
Health insurance 6/30/10	0	165,394	(165,394)	0%	676,953	24.4%
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	(114,787)	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%
<u>FIRE FIGHTERS</u>						
Pension 6/30/10	\$2,565,809	\$8,307,003	(\$5,741,194)	30.9%	\$786,618	729.9%
Health insurance 6/30/10	0	138,869	(138,869)	0%	786,618	17.7%
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%

City of Bisbee, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

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	129-10	\$ 30,217
U.S. Department of Transportation			
Passed through:			
Federal Aviation Administration			
Airport Improvement Program	20.106	(3-04-0004-2009/ 3-04-0004-2010)	199,761
Passed through:			
Arizona Department of Transportation:			
Formula Grants for Other Than Urbanized Areas	20.509	KR06-0977TRN	121,145
ARRA -Formula Grants for Other Than Urbanized Areas	20.509	AZ-85-x001	<u>24,400</u>
Total Formula Grants for Other Than Urbanized Areas			<u>145,545</u>
Total Department of Transportation			<u>345,306</u>
U.S. Department of Energy			
Passed through:			
Arizona Department of Commerce			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	RFI 016-10-03	73,531
U.S. Department of Education			
Passed through:			
Arizona Governor's Office of Economic Recovery			
ARRA - State Fiscal Stabilization Fund - Government Services	84.397	OER-11-1GA-GS-02	127,233
U.S. Department of Homeland Security			
Passed through:			
Arizona Division of Emergency Management			
Homeland Security Grant Program	97.067	none	<u>121,116</u>
Total Expenditures of Federal Awards			<u>\$ 697,403</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, 2011

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 2011 *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, 2011.

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, 2011 was \$4,106,645, however there were no significant ongoing compliance requirements. (See Financial Statement Note 6).

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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 1, 2011. Our report was modified because of the implementation of Governmental Accounting Standards Board Statement No. 54. 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.



December 1, 2011

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, 2011. 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, 2011.

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

Page Two

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.

Handwritten signature in cursive script that reads "Lester & Chapman P.C."

December 1, 2011

City of Bisbee, Arizona
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2011

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?	_____	<u> X </u>
Significant deficiency(ies) identified?	_____	<u> X </u>
		(None reported)
Noncompliance material to the financial statements noted?	_____	<u> X </u>

Federal Awards:

Internal control over major programs:

 Material weakness(es) identified?

 Significant deficiency(ies) identified?

	_____	<u> X </u>
	_____	<u> X </u>
		(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

20.509

84.397

Name of Federal Program or Cluster

Formula Grants for Other than
 Urbanized Areas
 ARRA - Formula Grant for Other than
 Urbanized Areas
 ARRA - State Fiscal Stabilization
 Fund - Government Services

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