

**CITY OF BISBEE, ARIZONA**

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

**Year Ended June 30, 2012**

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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, 2012, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the City Council  
City of Bisbee, Arizona

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 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 is the responsibility of the City's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

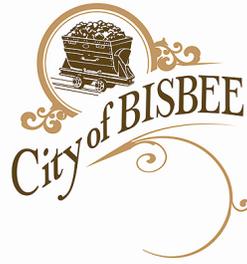
As required by Arizona Revised Statutes, we reviewed the City's financial records to evaluate whether the City used Highway User Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes as defined by the Arizona Attorney General's opinion about whether 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012 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.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the City Council, management and others within the City and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Fester & Chapman P.C.

November 26, 2012



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012. 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 \$47 thousand (.18%) to \$25.96 million. Of this amount, \$4.2 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 \$61 thousand (.5%) to \$11.46 million. Net assets from business-type activities decreased \$13.6 thousand (.09%) to \$14.5 million.
- The City's revenues from governmental activities decreased \$177 thousand (5.9%). Revenues from business-type activities decreased \$194 thousand (5.8%).
- Expenditures from governmental activities decreased \$581.6 thousand (7.8%). Expenditures from business-type activities increased \$78.8 thousand (2.2%).
- The total outstanding non-current liabilities decreased \$841.7 thousand to \$14.2 million.
- The General Fund reported a fund balance this year of \$1.692 million or 31.6% 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, from \$25.912 million to \$25.960 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

	<b>Primary Government</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Current and other assets	\$ 6,222	\$ 5,898
Capital assets	<u>34,736</u>	<u>35,852</u>
Total assets	40,958	41,750
Current and other liabilities	825	823
Long-term debt outstanding	<u>14,173</u>	<u>15,015</u>
Total liabilities	14,998	15,838
Net assets:		
Invested in capital assets, net of related debt	20,727	21,013
Restricted net assets	1,041	1,969
Unrestricted net assets	<u>4,192</u>	<u>2,930</u>
Total net assets	<u>\$ 25,960</u>	<u>\$ 25,912</u>

Net assets of the City represent the difference between the City's resources and its obligations. As of June 30, 2012, the largest portion of the City's net assets, approximately 80%, reflects the investment in capital assets, less related debt outstanding used to acquire capital assets. These capital assets are used by the City to provide services to its citizens. A small portion of the City's net assets, approximately 4%, is restricted net assets, which may be used in accordance with external restrictions. The remainders of the City's net assets, approximately 16.1%, 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

	<b>Primary Government</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Revenues:		
Program revenues:		
Charges for services	\$ 5,084	\$ 4,860
Operating grants and contributions	767	912
Capital grants and contributions	557	618
General revenues:		
Property taxes	874	833
Sales taxes	1,805	1,815
State shared taxes	437	492
Urban revenue sharing	479	625
Vehicle license taxes	259	286
Bed taxes	92	88
Other general revenues and transfers	<u>156</u>	<u>446</u>
Total revenues	<u>10,510</u>	<u>10,975</u>
Expenses:		
Governmental activities:		
General government	1,901	1,907
Public safety	3,817	4,071
Transportation	630	876
Culture and recreation	466	530
Interest on long-term debt	14	25
Business type activities:		
Wastewater	2,332	2,286
Sanitation	722	721
Queen Mine	<u>581</u>	<u>550</u>
Total expenses	<u>10,463</u>	<u>10,966</u>
Increase in net assets	47	9
Net assets-beginning	<u>25,912</u>	<u>25,903</u>
Net assets-ending	<u>\$ 25,960</u>	<u>\$ 25,912</u>

The City's total revenues were \$10.510 million. The total cost of all programs and services was \$10.463 million.

The analysis below separately considers the operations of governmental activities.

***Governmental Activities***

On the revenue side, charges for services were down from \$1.61 million to \$1.55 million, or 3.7%. Operating and capital grants and contributions were down from \$1.41 million to \$1.29 million, or 8.5%. This was due in large part to the reduction in grant funding from the preceding year.

On the expenditure side, governmental activities expenses decreased from \$7.41 million to \$6.83 million, or 7.9%. This was due in large part to reductions in personnel.

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.

<b>Table 3</b>		
<b><i>Governmental Activities</i></b>		
(thousands)		
	<u><b>Total Cost of Services</b></u>	<u><b>Net Cost of Services</b></u>
	<u><b>2012</b></u>	<u><b>2012</b></u>
General government and administration	\$ 1,900	\$ 763
Public safety	3,818	2,511
Transportation	630	254
Culture and recreation	465	445
All others	<u>14</u>	<u>14</u>
Totals	<u>\$ 6,827</u>	<u>\$ 3,987</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 \$3.16 million, which is a decrease from last year’s total of \$3.19 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 increased from \$14.51 million to \$14.99 million, or 3.3%. This decrease is attributable largely to a decrease in the investment in capital assets, net of related debt.

### ***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 of budget by \$152 thousand, excluding the budgeted use of reserves, due to a reduction in ambulance revenues and the elimination of funding for a School Resource Officer. However, expenditures were monitored closely throughout the year and kept well within budget, resulting in a net increase of \$63.6 thousand in the General Fund's uncommitted Fund Balance.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At June 30, 2012, 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 an \$878 thousand decrease (including additions and deductions) over last year.

**Table 4**  
***Capital Assets at Year-end***  
(thousands)

	<b>Total Assets</b>	
	<b>2012</b>	<b>2011</b>
Land	\$ 619	\$ 619
Buildings and improvements	17,236	17,231
Airport	3,833	3,833
Improvements other than buildings	3,658	3,658
Machinery and equipment	4,355	4,287
Infrastructure	18,216	17,881
Construction in progress	1,087	967
Less: accumulated depreciation	<u>(14,268)</u>	<u>(12,624)</u>
Totals	<u>\$ 34,736</u>	<u>\$ 35,852</u>

#### ***Long-term debt***

At June 30, 2012, the City had \$14.2 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, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,930,093	\$ 1,719,726	\$ 3,649,819
Investments	517,908		517,908
Receivables (net of allowance for uncollectibles):			
Accounts	250,566	750,922	1,001,488
Other		22,491	22,491
Property taxes	36,598		36,598
Inventory		88,551	88,551
Due from other governments	877,536		877,536
Prepaid items	3,320	23,863	27,183
Capital assets, not being depreciated	1,614,534	92,044	1,706,578
Capital assets, being depreciated, net	<u>6,933,837</u>	<u>26,096,021</u>	<u>33,029,858</u>
Total assets	<u>12,164,392</u>	<u>28,793,618</u>	<u>40,958,010</u>
<b>Liabilities</b>			
Accounts payable	315,503	101,544	417,047
Accrued payroll and employee benefits	118,138	17,716	135,854
Accrued interest payable		247,240	247,240
Due to other governments	25,160		25,160
Deposits held for others		27	27
Noncurrent liabilities:			
Due within one year	36,419	730,879	767,298
Due in more than one year	<u>208,102</u>	<u>13,197,744</u>	<u>13,405,846</u>
Total liabilities	<u>703,322</u>	<u>14,295,150</u>	<u>14,998,472</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	8,441,231	12,285,331	20,726,562
Restricted for:			
Debt service		1,041,091	1,041,091
Unrestricted	<u>3,019,839</u>	<u>1,172,046</u>	<u>4,191,885</u>
Total net assets	<u>\$ 11,461,070</u>	<u>\$ 14,498,468</u>	<u>\$ 25,959,538</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

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	
<b>Governmental activities:</b>							
General government	\$ 1,900,616	\$ 457,973	\$ 210,247	\$ 469,830	\$ (762,566)		\$ (762,566)
Public safety	3,817,707	1,062,886	218,228	25,120	(2,511,473)		(2,511,473)
Transportation	629,991	5,163	338,682	32,022	(254,124)		(254,124)
Culture and recreation	465,257	20,132			(445,125)		(445,125)
Interest on long-term debt	13,881				(13,881)		(13,881)
Total governmental activities	<u>6,827,452</u>	<u>1,546,154</u>	<u>767,157</u>	<u>526,972</u>	<u>(3,987,169)</u>		<u>(3,987,169)</u>
<b>Business-type activities:</b>							
Wastewater	2,332,185	2,009,041		29,814		\$ (293,330)	(293,330)
Sanitation	722,166	863,986				141,820	141,820
Queen Mine	580,954	664,331				83,377	83,377
Total business-type activities	<u>3,635,305</u>	<u>3,537,358</u>		<u>29,814</u>		<u>(68,133)</u>	<u>(68,133)</u>
Total primary government	<u>\$ 10,462,757</u>	<u>\$ 5,083,512</u>	<u>\$ 767,157</u>	<u>\$ 556,786</u>	<u>(3,987,169)</u>	<u>(68,133)</u>	<u>(4,055,302)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes					874,258		874,258
Sales taxes					1,805,014		1,805,014
State shared taxes					437,404		437,404
Urban revenue sharing					478,778		478,778
Vehicle license taxes					259,190		259,190
Bed taxes					91,836		91,836
Investment earnings					2,289	510	2,799
Miscellaneous					105,666	47,488	153,154
Transfers					(6,542)	6,542	
Total general revenues and transfers					<u>4,047,893</u>	<u>54,540</u>	<u>4,102,433</u>
Change in net assets					60,724	(13,593)	47,131
Net assets, July 1, 2011					<u>11,400,346</u>	<u>14,512,061</u>	<u>25,912,407</u>
Net assets, June 30, 2012					<u>\$ 11,461,070</u>	<u>\$ 14,498,468</u>	<u>\$ 25,959,538</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 762,358	\$ 1,167,735	\$ 1,930,093
Investments	396,094	121,814	517,908
Receivables (net of allowance for uncollectibles):			
Accounts	244,787	5,779	250,566
Property taxes	36,598		36,598
Due from other governments	510,311	367,225	877,536
Prepaid items		<u>3,320</u>	<u>3,320</u>
Total assets	<u>\$ 1,950,148</u>	<u>\$ 1,665,873</u>	<u>\$ 3,616,021</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 142,911	\$ 172,592	\$ 315,503
Accrued payroll and employee benefits	114,699	3,439	118,138
Due to other governments	<u>1,020</u>	<u>24,140</u>	<u>25,160</u>
Total liabilities	<u>258,630</u>	<u>200,171</u>	<u>458,801</u>
Fund balances:			
Nonspendable		3,320	3,320
Restricted		363,382	363,382
Committed	8,100	1,099,000	1,107,100
Assigned	167,865		167,865
Unassigned	<u>1,515,553</u>		<u>1,515,553</u>
Total fund balances	<u>1,691,518</u>	<u>1,465,702</u>	<u>3,157,220</u>
 Total liabilities and fund balances	 <u>\$ 1,950,148</u>	 <u>\$ 1,665,873</u>	 <u>\$ 3,616,021</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, 2012

Fund balances - total governmental funds	\$ 3,157,220
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.	8,548,371
Some liabilities, including capital leases payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(244,521)</u>
Net assets of governmental activities	<u>\$11,461,070</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, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 3,467,702		\$ 3,467,702
Fines and forfeitures	26,721		26,721
Licenses and permits	113,412		113,412
Intergovernmental	512,692	\$ 1,345,462	1,858,154
Charges for services	1,182,132	30,641	1,212,773
Investment earnings	1,952	337	2,289
Rent	66,905	11,071	77,976
Contributions	948	1,529	2,477
Miscellaneous	119,321	7,221	126,542
Total revenues	<u>5,491,785</u>	<u>1,396,261</u>	<u>6,888,046</u>
<b>Expenditures:</b>			
Current:			
General government	1,481,844	291,304	1,773,148
Public safety	3,374,530	234,854	3,609,384
Transportation		482,735	482,735
Culture and recreation	373,495	17,846	391,341
Capital outlay		546,673	546,673
Debt service:			
Principal	101,638		101,638
Interest	13,881		13,881
Total expenditures	<u>5,345,388</u>	<u>1,573,412</u>	<u>6,918,800</u>
Excess (deficiency) of revenues over expenditures	146,397	(177,151)	(30,754)
<b>Other financing sources (uses):</b>			
Transfers in	392,962	131,881	524,843
Transfers out	<u>(473,579)</u>	<u>(57,806)</u>	<u>(531,385)</u>
Total other financing sources (uses)	<u>(80,617)</u>	<u>74,075</u>	<u>(6,542)</u>
Net change in fund balances	65,780	(103,076)	(37,296)
Fund balances, July 1, 2011	<u>1,625,738</u>	<u>1,568,778</u>	<u>3,194,516</u>
Fund balances, June 30, 2012	<u>\$ 1,691,518</u>	<u>\$ 1,465,702</u>	<u>\$ 3,157,220</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, 2012

Net changes in fund balances - total governmental funds \$ (37,296)

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	\$ 492,448	
Depreciation expense	<u>(507,941)</u>	(15,493)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 101,638

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>11,875</u>
----------------------------------	--	---------------

Change in net assets of governmental activities \$ 60,724

City of Bisbee, Arizona  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,450,387		\$ 269,339	\$ 1,719,726
Receivables (net of allowance for uncollectibles):				
Accounts	550,610	\$ 200,312		750,922
Other	22,491			22,491
Inventory			88,551	88,551
Prepaid items			23,863	23,863
Due from other funds	158,978			158,978
Total current assets	<u>2,182,466</u>	<u>200,312</u>	<u>381,753</u>	<u>2,764,531</u>
Noncurrent assets:				
Capital assets (net of accumulated depreciation):				
Land		47,660		47,660
Improvements other than buildings, net	1,423,777			1,423,777
Buildings, net	10,499,115		119,191	10,618,306
Equipment, net	207,503	223,960	750	432,213
Infrastructure, net	13,621,725			13,621,725
Construction in progress	44,384			44,384
Total noncurrent assets	<u>25,796,504</u>	<u>271,620</u>	<u>119,941</u>	<u>26,188,065</u>
Total assets	<u>27,978,970</u>	<u>471,932</u>	<u>501,694</u>	<u>28,952,596</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	54,611	41,239	5,694	101,544
Accrued payroll and employee benefits	6,486	4,829	6,401	17,716
Accrued interest payable	247,240			247,240
Due to other funds		158,978		158,978
Deposits held for others			27	27
Current portion long-term debt	713,699	17,180		730,879
Total current liabilities	<u>1,022,036</u>	<u>222,226</u>	<u>12,122</u>	<u>1,256,384</u>
Noncurrent liabilities:				
Long-term debt, net of current portion	13,080,575	108,951	8,218	13,197,744
Total noncurrent liabilities	<u>13,080,575</u>	<u>108,951</u>	<u>8,218</u>	<u>13,197,744</u>
Total liabilities	<u>14,102,611</u>	<u>331,177</u>	<u>20,340</u>	<u>14,454,128</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	12,008,309	157,081	119,941	12,285,331
Restricted for debt service	1,041,091			1,041,091
Unrestricted (deficit)	826,959	(16,326)	361,413	1,172,046
Total net assets	<u>\$ 13,876,359</u>	<u>\$ 140,755</u>	<u>\$ 481,354</u>	<u>\$ 14,498,468</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, 2012

	<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	\$ 1,930,134	\$ 863,986	\$ 664,331	\$ 3,458,451
Customer penalties and interest	78,907			78,907
Miscellaneous	<u>22,565</u>	<u>24,798</u>	<u>125</u>	<u>47,488</u>
Total operating revenues	2,031,606	888,784	664,456	3,584,846
Operating expenses:				
Cost of sales and services	859,637	672,808	567,297	2,099,742
Depreciation	<u>1,092,901</u>	<u>49,358</u>	<u>13,657</u>	<u>1,155,916</u>
Total operating expenses	<u>1,952,538</u>	<u>722,166</u>	<u>580,954</u>	<u>3,255,658</u>
Operating income	79,068	166,618	83,502	329,188
Nonoperating revenues (expenses):				
Interest income	510			510
Interest expense	<u>(379,647)</u>			<u>(379,647)</u>
Total nonoperating revenues (expenses)	<u>(379,137)</u>			<u>(379,137)</u>
(Loss) income before capital contributions and transfers	(300,069)	166,618	83,502	(49,949)
Capital contributions - intergovernmental	29,814			29,814
Transfers in	366,231			366,231
Transfers out	<u>(173,617)</u>	<u>(124,248)</u>	<u>(61,824)</u>	<u>(359,689)</u>
(Decrease) increase in net assets	(77,641)	42,370	21,678	(13,593)
Total net assets, July 1, 2011	<u>13,954,000</u>	<u>98,385</u>	<u>459,676</u>	<u>14,512,061</u>
Total net assets, June 30, 2012	<u>\$ 13,876,359</u>	<u>\$ 140,755</u>	<u>\$ 481,354</u>	<u>\$ 14,498,468</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, 2012

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,916,582	\$ 850,310	\$ 660,031	\$ 3,426,923
Other operating receipts	74	24,798	125	24,997
Cash payments to employees	(421,794)	(330,800)	(359,072)	(1,111,666)
Cash payments to suppliers for goods and services	<u>(403,326)</u>	<u>(337,352)</u>	<u>(209,680)</u>	<u>(950,358)</u>
Net cash provided by operating activities	1,091,536	206,956	91,404	1,389,896
Cash flows from noncapital financing activities:				
Payments on advances from other funds	46,837	(46,837)		
Cash transfers from other funds	366,231			366,231
Cash transfers to other funds	<u>(173,617)</u>	<u>(124,248)</u>	<u>(61,824)</u>	<u>(359,689)</u>
Net cash provided (used) by noncapital financing activities	239,451	(171,085)	(61,824)	6,542
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(703,513)	(24,798)		(728,311)
Interest paid on long-term debt	(389,729)			(389,729)
Cash contributions for capital projects	72,591			72,591
Purchases of capital assets		(11,073)		(11,073)
Construction in progress	(44,384)			(44,384)
Capital contributions	<u>29,814</u>			<u>29,814</u>
Net cash used by capital and related financing activities	(1,035,221)	(35,871)		(1,071,092)
Cash flows from investing activities:				
Interest received on investment	<u>510</u>			<u>510</u>
Net cash provided by investing activities	<u>510</u>			<u>510</u>
Net increase in cash and cash equivalents	296,276		29,580	325,856
Cash and cash equivalents, June 30, 2011	<u>1,154,111</u>		<u>239,759</u>	<u>1,393,870</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 1,450,387</u>	<u>\$</u>	<u>\$ 269,339</u>	<u>\$ 1,719,726</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 79,068	\$ 166,618	\$ 83,502	\$ 329,188
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,092,901	49,358	13,657	1,155,916
Changes in assets and liabilities:				
Accounts receivable	(114,950)	(13,676)		(128,626)
Prepaid items			(74)	(74)
Inventory			970	970
Accounts payable	34,791	70	(2,740)	32,121
Accrued payroll and employee benefits	2,563	573	1,398	4,534
Compensated absences payable	(2,837)	4,013	(1,009)	167
Deposits held for others			<u>(4,300)</u>	<u>(4,300)</u>
Net cash provided by operating activities	<u>\$ 1,091,536</u>	<u>\$ 206,956</u>	<u>\$ 91,404</u>	<u>\$ 1,389,896</u>
<u>Supplemental disclosure of noncash financing activities:</u>				
Capital contribution from Other Governmental Fund to Wastewater Fund				\$ 29,814

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

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

The accounting policies of the City of Bisbee, Arizona (the City) conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

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

**A. Financial Reporting Entity**

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

Component units are legally separate entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations, and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statement to emphasize they are legally separate from the City. The City's blended component unit discussed below has a June 30 year-end. The City has no discretely presented component units.

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

**B. Basis of Presentation**

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

**Government-wide statements** - Provide information about the primary government (the City) and its component unit. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government's financial activities, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

- charges to customers or applicants for 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 levied or imposed by the City, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities.

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

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

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

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

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

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**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, 2012

**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, 2012, expenditures exceeded appropriations in the General Fund in the following departments:

General government:	
Personnel	\$ 2,547
Water systems	4,206
Information systems	4,167
Public works administration	21,141
Culture and recreation:	
Senior citizens' center	1,290

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, 2012

**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 33% 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, 2012

**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 prevent 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, 2012, 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, 2012

**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, 2012

**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 November 26, 2012, which was the date the City's financial statements were issued.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

Custodial Credit Risk

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

As of June 30, 2012, the carrying amount of deposits was \$3,649,819 and the bank balance was \$3,671,554. At June 30, 2012, 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.

**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, 2012, the City's investments were as follows:

	<u>Amount</u>	<u>Maturities</u>
State Treasurer's investment pool 5	\$ 517,908	n/a

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED**

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.

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, 2012, 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, 2012, 100% of the City's investments were in the State Treasurer's investment pool 5.

Foreign currency risk

- Statutes do not allow foreign investments.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments at June 30, 2012, included the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Arizona State Treasurer:			
State sales tax	\$ 74,076		\$ 74,076
City sales tax	319,890		319,890
Highway user revenue fund		\$ 60,485	60,485
Vehicle license tax	43,031		43,031
Urban revenue sharing	47,456		47,456
Arizona Department of Transportation		27,379	27,379
Arizona Department of Homeland Security	7,202	106,701	113,903
Arizona Department of Justice		12,220	12,220
Arizona Department of Housing		9,000	9,000
Federal Aviation Administration		94,270	94,270
Water Infrastructure Financing Authority		29,814	29,814
Other	<u>18,656</u>	<u>27,356</u>	<u>46,012</u>
Total	<u>\$ 510,311</u>	<u>\$ 367,225</u>	<u>\$ 877,536</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 571,670			\$ 571,670
Construction in progress	<u>961,464</u>	\$ 415,513	\$ (334,113)	<u>1,042,864</u>
Total capital assets not being depreciated	<u>1,533,134</u>	<u>415,513</u>	<u>(334,113)</u>	<u>1,614,534</u>
Capital assets being depreciated:				
Buildings	3,672,954			3,672,954
Improvements other than buildings	1,060,383			1,060,383
Airport	3,833,032			3,833,032
Machinery and equipment	3,137,708	76,935	(20,137)	3,194,506
Infrastructure	<u>854,168</u>	<u>334,113</u>		<u>1,188,281</u>
	12,558,245	411,048	(20,137)	12,949,156
Less: accumulated depreciation	<u>5,527,515</u>	<u>507,941</u>	<u>(20,137)</u>	<u>6,015,319</u>
Total capital assets being depreciated, net	<u>7,030,730</u>	<u>(96,893)</u>		<u>6,933,837</u>
Total capital assets, net	<u>\$ 8,563,864</u>	<u>\$ 318,620</u>	<u>\$ (334,113)</u>	<u>\$ 8,548,371</u>
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Construction in progress	5,700	\$ 44,384	\$ (5,700)	44,384
Buildings	13,557,466	5,700		13,563,166
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	1,149,001	11,073		1,160,074
Infrastructure	<u>17,027,156</u>			<u>17,027,156</u>
	34,385,065	61,157	(5,700)	34,440,522
Less: accumulated depreciation	<u>7,096,541</u>	<u>1,155,916</u>		<u>8,252,457</u>
Net business-type assets	<u>\$ 27,288,524</u>	<u>\$ (1,094,759)</u>	<u>\$ (5,700)</u>	<u>\$ 26,188,065</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 19,661
Public safety	208,323
Public works	58,785
Transportation	147,256
Culture and recreation	<u>73,916</u>
Total governmental activities depreciation	<u>\$ 507,941</u>
Business-type activities:	
Wastewater	\$ 1,092,901
Sanitation	49,358
Queen Mine	<u>13,657</u>
Total business-type activities depreciation	<u>\$ 1,155,916</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 5 - LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Governmental activities:					
Capital leases payable	\$ 162,755		\$ (55,615)	\$ 107,140	\$ 36,419
Lease purchase agreement	46,023		(46,023)		
Compensated absences payable	<u>149,256</u>	<u>\$ 192,476</u>	<u>(204,351)</u>	<u>137,381</u>	
Total governmental activities	<u>\$ 358,034</u>	<u>\$ 192,476</u>	<u>\$ (305,989)</u>	<u>\$ 244,521</u>	<u>\$ 36,419</u>
Business-type activities:					
WIFA note payable	\$ 10,385,063		\$ (600,521)	\$ 9,784,542	\$ 612,532
USDA note payable	2,858,037		(71,685)	2,786,352	70,415
USDA note payable	<u>1,248,608</u>		<u>(31,307)</u>	<u>1,217,301</u>	<u>30,752</u>
Total notes payable	14,491,708		(703,513)	13,788,195	713,699
Capital leases payable	139,337		(24,798)	114,539	17,180
Compensated absences payable	<u>25,722</u>	<u>\$ 46,210</u>	<u>(46,043)</u>	<u>25,889</u>	
Total business-type activities	<u>\$ 14,656,767</u>	<u>\$ 46,210</u>	<u>\$ (774,354)</u>	<u>\$ 13,928,623</u>	<u>\$ 730,879</u>
Total	<u>\$ 15,014,801</u>	<u>\$ 238,686</u>	<u>\$ (1,080,343)</u>	<u>\$ 14,173,144</u>	<u>\$ 767,298</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, 2012, are as follows:

	Original Amount	Interest Rates	Year of Maturity	Outstanding Principal
Business-type activities:				
WIFA	\$ 12,671,685	2.000% to 2.721%	2025	\$ 9,784,542
USDA, 2006	1,332,000	4.25%	2035	1,217,301
USDA, 2006	<u>3,050,000</u>	4.25%	2035	<u>2,786,352</u>
	<u>\$ 17,053,685</u>			<u>\$13,788,195</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 5 - LONG-TERM DEBT - CONTINUED**

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

Year ending June 30,	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 713,699	\$ 377,991
2014	730,627	359,958
2015	747,489	350,453
2016	764,233	340,755
2017	781,945	319,759
2018-2022	4,191,774	1,288,859
2023-2027	3,900,452	680,649
2028-2032	1,007,288	326,817
2033-2036	950,688	101,288
Total	<u>\$ 13,788,195</u>	<u>\$ 4,146,529</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>(92,297)</u>	<u>(120,424)</u>	<u>(212,721)</u>
Total	<u>\$ 183,726</u>	<u>\$ 129,918</u>	<u>\$ 313,644</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Year ending June 30,	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
2013	\$ 39,755	\$ 21,768
2014	29,752	21,768
2015	29,752	21,768
2016	14,876	21,768
2017		21,768
2018		<u>21,768</u>
Total minimum lease payments	114,135	130,608
Less amount representing interest	<u>(6,995)</u>	<u>(16,069)</u>
Present value of future minimum payments	<u>\$ 107,140</u>	<u>\$ 114,539</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 6 - INTERFUND BALANCES AND ACTIVITY**

Interfund Receivables and Payables:

Interfund balances at June 30, 2012, were as follows:

	<u>Payable to</u>
<u>Payable from</u>	<u>Wastewater Fund</u>
Sanitation Fund	<u>\$ 158,978</u>

The Sanitation Fund maintained a negative cash balance at June 30, 2012. The negative cash balance was reduced by interfund borrowing from the Wastewater Fund.

Interfund Transfers:

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

Transfers In	Transfers Out					Total
	General Fund	Other Governmental Funds	Wastewater Fund	Sanitation Fund	Queen Mine Fund	
Governmental Funds:						
General Fund		\$ 57,806	\$ 173,617	\$ 124,248	\$ 37,291	\$ 392,962
Other Governmental Funds	\$ 107,348				24,533	131,881
Wastewater Fund	<u>366,231</u>					<u>366,231</u>
Total	<u>\$ 473,579</u>	<u>\$ 57,806</u>	<u>\$ 173,617</u>	<u>\$ 124,248</u>	<u>\$ 61,824</u>	<u>\$ 891,074</u>

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

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 7 - GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

Details of governmental fund balance classifications at June 30, 2012, are as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Fund balances:</u>			
Nonspendable - prepaid items	<u>                    </u>	<u>\$      3,320</u>	<u>\$      3,320</u>
Restricted for:			
Public safety		3,938	3,938
Highways and streets		159,699	159,699
Transportation		80,391	80,391
Culture and recreation		100,396	100,396
Other		<u>18,958</u>	<u>18,958</u>
Total restricted		<u>363,382</u>	<u>363,382</u>
Committed to:			
Cemetery maintenance	\$      8,100		8,100
Bisbee Arts		45,875	45,875
Airport maintenance		3,920	3,920
Youth programs		125,135	125,135
Donor designated contributions		5,583	5,583
Capital improvements		<u>918,487</u>	<u>918,487</u>
Total committed	<u>8,100</u>	<u>1,099,000</u>	<u>1,107,100</u>
Assigned - contingency reserves	167,865		167,865
Unassigned	<u>1,515,553</u>		<u>1,515,553</u>
Total fund balances	<u>\$ 1,691,518</u>	<u>\$ 1,465,702</u>	<u>\$ 3,157,220</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 8 - 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 9 - CONTINGENT LIABILITIES**

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

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

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 10 - RETIREMENT PLANS**

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

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

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

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

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

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

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

*Cost-sharing plans* - For the year ended June 30, 2012, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 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 10.74 percent (10.5 percent for retirement and health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 10 - RETIREMENT PLANS - CONTINUED**

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

<u>Year Ended June 30th.</u>	<u>Retirement and Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2012	\$ 202,603	\$ 4,631
2011	204,321	5,321
2010	214,789	9,546

*Agent plans* - For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll and the City was required to contribute 40.70 percent (Police) and 47.38 percent (Fire Fighters), which are the actuarially required amounts. The health insurance premium portion of the contribution rate was actuarially set at 2.08 percent (Police) and 1.63 percent (Fire Fighters) of covered payroll.

*Actuarial methods and assumptions* - The contribution requirements for the year ended June 30, 2012 were established by the June 30, 2010 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

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

City of Bisbee, Arizona  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2012

**NOTE 10 - RETIREMENT PLANS - CONTINUED**

The significant actuarial methods and assumptions used are the same for both plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal-year 2012 contribution requirements are as follows:

Actuarial valuation date	6/30/10
Actuarial cost method	Projected unit credit
Amortization method	Level percent-of-pay closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	26 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, 2012, and related information follows:

	<b>PSPRS</b>			
	<u>Police</u>		<u>Fire Fighters</u>	
	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>
Annual pension/OPEB cost	\$261,028	\$14,058	\$368,136	\$13,116
Contributions made	261,028	14,058	368,136	13,116

City of Bisbee, Arizona  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2012

**NOTE 10 - RETIREMENT PLANS - CONTINUED**

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

**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>
<b><u>Police</u></b>				
Pension	2012	\$ 261,028	100.0%	\$0
Health insurance	2012	14,058	100.0%	0
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
<b><u>Fire Fighters</u></b>				
Pension	2012	\$ 368,136	100.0%	\$0
Health insurance	2012	13,116	100.0%	0
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

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 10 - RETIREMENT PLANS - CONTINUED**

**Funded Status** - The funded status of the plan as of the most recent valuation date, June 30, 2011, 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)	\$7,090,863	\$196,266	\$9,261,560	\$169,285
Actuarial value of assets (b)	2,234,527	0	2,301,687	0
Unfunded actuarial accrued liability (funding excess) (a) - (b)	4,856,336	196,266	6,959,873	169,285
Funded ratio (b)/(a)	31.5%	0.0%	24.9%	0.0%
Annual covered payroll (c)	675,996	675,996	952,079	952,079
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b))/(c)	718.4%	29.0%	731.0%	17.8%

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

**PSPRS**

Actuarial valuation date	June 30, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent-of-pay closed
Remaining amortization period	25 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market value
Actuarial assumptions	
Investment rate of return	8.25%
Projected salary increases	5.00% - 8.00%
Includes inflation at	5.00%

SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona  
 REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 3,477,942	\$ 3,477,942	\$ 3,467,702	\$ (10,240)
Fines and forfeitures			26,721	26,721
Licenses and permits	87,200	87,200	113,412	26,212
Intergovernmental	470,554	470,554	512,692	42,138
Charges for services	1,310,250	1,310,250	1,182,132	(128,118)
Investment earnings			1,952	1,952
Rent			66,905	66,905
Contributions and transfers			948	948
Miscellaneous	498,128	498,128	119,321	(378,807)
Total revenues	<u>5,844,074</u>	<u>5,844,074</u>	<u>5,491,785</u>	<u>(352,289)</u>
<b>Expenditures:</b>				
<b>General government:</b>				
Mayor and council	32,635	32,635	31,142	1,493
City manager	129,541	129,541	128,087	1,454
Finance department	382,469	382,469	367,013	15,456
City clerk	112,167	112,167	110,656	1,511
Community development	173,658	173,658	127,114	46,544
Administrative and general government	767,470	767,470	145,507	621,963
Personnel	69,642	69,642	72,189	(2,547)
Legal services	100,000	100,000	48,503	51,497
Water systems	9,000	9,000	13,206	(4,206)
Information systems	44,167	44,167	48,334	(4,167)
Cemetery	7,850	7,850	2,604	5,246
Building maintenance	55,400	55,400	52,477	2,923
Public works administration	91,587	91,587	112,728	(21,141)
Garage	108,965	108,965	92,254	16,711
Building inspector	65,584	65,584	58,324	7,260
Contingency	140,000	140,000	71,706	68,294
Total general government	<u>2,290,135</u>	<u>2,290,135</u>	<u>1,481,844</u>	<u>808,291</u>
<b>Public safety:</b>				
Police department	1,718,264	1,718,264	1,617,717	100,547
Fire department	1,724,074	1,724,074	1,710,066	14,008
City magistrate	48,000	48,000	46,747	1,253
Total public safety	<u>3,490,338</u>	<u>3,490,338</u>	<u>3,374,530</u>	<u>115,808</u>
<b>Culture and recreation:</b>				
Parks	160,068	160,068	133,556	26,512
Swimming pool	54,912	54,912	41,958	12,954
Library	187,455	187,455	174,398	13,057
Senior citizens' center	22,293	22,293	23,583	(1,290)
Total culture and recreation	<u>424,728</u>	<u>424,728</u>	<u>373,495</u>	<u>51,233</u>
Total expenditures	<u>6,205,201</u>	<u>6,205,201</u>	<u>5,229,869</u>	<u>975,332</u>
Excess of revenues over (under) expenditures	(361,127)	(361,127)	261,916	(1,327,621)
<b>Other financing sources (uses):</b>				
Principal payments on leases	(125,539)	(125,539)	(101,638)	23,901
Interest payments on leases	(13,896)	(13,896)	(13,881)	15
Transfers in	402,828	402,828	392,962	(9,866)
Transfers out	(97,734)	(97,734)	(473,579)	375,845
Total other financing sources (uses)	<u>165,659</u>	<u>165,659</u>	<u>(196,136)</u>	<u>(361,795)</u>
Net change in fund balances	(195,468)	(195,468)	65,780	261,248
Fund balance, July 1, 2011	1,469,796	1,469,796	1,625,738	155,942
Fund balance, June 30, 2012	<u>\$ 1,274,328</u>	<u>\$ 1,274,328</u>	<u>\$ 1,691,518</u>	<u>\$ 417,190</u>

City of Bisbee, Arizona  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS  
 Year Ended June 30, 2012

**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)
<b><u>POLICE</u></b>						
Pension 6/30/11	\$2,234,527	\$7,090,863	(\$4,856,336)	31.5%	\$675,996	718.4%
Health insurance 6/30/11	0	196,266	(196,266)	0%	675,996	29.0%
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%
<b><u>FIRE FIGHTERS</u></b>						
Pension 6/30/11	\$2,301,687	\$9,261,560	(\$6,959,873)	24.9%	\$952,079	731.0%
Health insurance 6/30/11	0	169,285	(169,285)	0%	952,079	17.8%
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%

City of Bisbee, Arizona  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Numbers	Expenditures
U.S. Department of Housing and Urban Development			
Passed through:			
Arizona Department of Housing:			
Community Development Block Grants - State Programs	14.228	(129-10/129-12)	\$ 295,771
U.S. Department of Transportation			
Passed through:			
Federal Aviation Administration			
Airport Improvement Program	20.106	(3-04-0004-010-2010/ 3-04-0004-011-2011)	100,118
Passed through:			
Arizona Department of Transportation:			
Formula Grants for Other Than Urbanized Areas	20.509	KR06-0977TRN	<u>135,300</u>
Total Department of Transportation			<u>235,418</u>
Environmental Protection Agency			
Passed through:			
Water Infrastructure Finance Authority			
ARRA - Capitalization Grants for Drinking Water	66.468	TA CW-011-2012	29,814
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-IGA-GS-02	31,267
U.S. Department of Homeland Security			
Passed through:			
Arizona Division of Emergency Management			
Homeland Security Grant Program	97.067	888406-01	<u>244,880</u>
Total Expenditures of Federal Awards			<u>\$ 837,150</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, 2012

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 2012 *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, 2012.

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, 2012 was \$4,003,653, however there were no significant ongoing compliance requirements. (See Financial Statement Note 5).

## SINGLE AUDIT REPORTS

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

To the City Council  
City of Bisbee, Arizona

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 26, 2012. 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

The City's management is responsible for establishing and maintaining effective 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 City's basic 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

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*.

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 "Fester & Chapman P.C." with a stylized ampersand.

November 26, 2012

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 the 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, 2012. 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, 2012.

To the City Council  
City of Bisbee, Arizona

### 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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.

*Foster & Chapman P.C.*

November 26, 2012

City of Bisbee, Arizona  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2012

**A. Summary of Audit Results**

Financial Statements:

Type of auditors' report issued:

Unqualified

Yes

No

Internal control over financial reporting:

Material weakness(es) identified?

X

Significant deficiency(ies) identified?

X

(None reported)

Noncompliance material to the financial statements noted?

X

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?

X

Significant deficiency(ies) identified?

X

(None reported)

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?

X

Identification of major programs:

CFDA Number

14.228

Name of Federal Program or Cluster

Community Development Block Grants - State Programs

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