

**CITY OF BISBEE, ARIZONA**

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

**Year Ended June 30, 2013**

CITY OF BISBEE, ARIZONA  
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Independent Auditors' Report

To the City Council of  
City of Bisbee, Arizona

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9, budgetary comparison information on page 38, and schedule of agent retirement plans' funding progress on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information - Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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.

*Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies*

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to use highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they related to accounting matters.

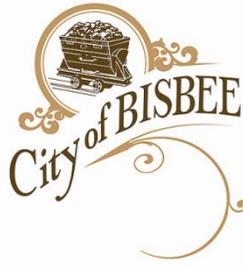
The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the City Council, management and other responsible parties within the City and is not intended to be and should not be used by anyone other than these specified parties.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



December 6, 2013



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013. Please read this Management's Discussion and Analysis in conjunction with the City's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The City's total net position decreased \$405 thousand (1.6%) to \$25.55 million. Of this amount, \$4.3 million is unrestricted net position and may be used to meet the City's ongoing obligations to its citizens and creditors. Net position from governmental activities decreased \$423 thousand (3.7%) to \$11.04 million. Net position from business-type activities increased \$17.3 thousand (.1%) to \$14.52 million.
- The City's program revenues from governmental activities decreased \$447 thousand (15.6%). Revenues from business-type activities increased \$166 thousand (4.6%).
- Expenditures from governmental activities increased \$180 thousand (2.6%). Expenditures from business-type activities increased \$45.6 thousand (1.2%).
- The total outstanding non-current liabilities decreased \$649.8 thousand to \$13.5 million.
- The General Fund reported a fund balance this year of \$1.882 million or 35.6% 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 businesses.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, and accrued but unused vacation time).

Both of the government-wide financial statements (the Statement of Net Position 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 position and the statement of activities) and governmental funds is described in reconciliations following 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 Position 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 19-37 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position decreased from a year ago from \$25.960 million to \$25.554 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's combined activities.

**Table 1**  
**Condensed Statement of Net Position**  
(thousands)  
Year ended June 30

	<u>Primary Government</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 6,332	\$ 6,222
Capital assets	<u>33,487</u>	<u>34,736</u>
Total assets	39,819	40,958
Current and other liabilities	742	825
Long-term debt outstanding	<u>13,523</u>	<u>14,173</u>
Total liabilities	14,265	14,998
Net position:		
Net investment in capital assets	20,167	20,727
Restricted net assets	1,068	1,041
Unrestricted net assets	<u>4,319</u>	<u>4,192</u>
Total net assets	<u>\$ 25,554</u>	<u>\$ 25,960</u>

Net position of the City represents the difference between the City's resources and its obligations. As of June 30, 2013, 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 remainder of the City's net position, approximately 17%, is unrestricted and 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>2013</b>	<b>2012</b>
Revenues:		
Program revenues:		
Charges for services	\$ 5,048	\$ 5,084
Operating grants and contributions	691	767
Capital grants and contributions	387	557
General revenues:		
Property taxes	877	874
Sales taxes	1,802	1,805
State shared taxes	458	437
Urban revenue sharing	574	479
Vehicle license taxes	242	259
Bed taxes	73	92
Other general revenues and transfers	<u>131</u>	<u>156</u>
Total revenues	<u>10,283</u>	<u>10,510</u>
Expenses:		
Governmental activities:		
General government	2,014	1,901
Public safety	3,850	3,817
Transportation	704	630
Culture and recreation	431	466
Interest on long-term debt	9	14
Business type activities:		
Wastewater	2,336	2,332
Sanitation	756	722
Queen Mine	<u>589</u>	<u>581</u>
Total expenses	<u>10,689</u>	<u>10,463</u>
(Decrease) increase in net position	(406)	47
Net position-beginning	<u>25,960</u>	<u>25,913</u>
Net position-ending	<u>\$ 25,554</u>	<u>\$ 25,960</u>

The City's total revenues were \$10.283 million. The total cost of all programs and services was \$10.689 million.

Our analysis below separately considers the operations of governmental activities.

### ***Governmental Activities***

On the revenue side, charges for services were down from \$1.55 million to \$1.42 million, or 9.1%. Operating and capital grants and contributions were down from \$1.29 million to \$976 thousand, or 24.5%. This was due in large part to the reduction in grant funding from the preceding year.

Expenditures from governmental activities increased from \$6.83 million to \$7.01 million, or 2.6%. This was due in large to increased personnel costs.

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

	<u>Total Cost of Services</u> <u>2013</u>	<u>Net Cost of Services</u> <u>2013</u>
General government and administration	\$ 2,014	\$ 1,171
Public safety	3,850	2,712
Transportation	704	302
Culture and recreation	431	421
All others	<u>9</u>	<u>9</u>
Totals	<u>\$ 7,008</u>	<u>\$ 4,615</u>

## CITY FUNDS FINANCIAL ANALYSIS

### *Governmental Funds*

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

The City’s governmental funds reported a combined fund balance of \$3.01 million, which is a decrease from last year’s total of \$3.16 million.

### *Proprietary Funds*

The City accounts for three funds in its Proprietary Funds – Wastewater, Sanitation, and the Queen Mine. Net position for the proprietary funds increased from \$14.50 million to \$14.52 million, or 0.1%. This increase is attributable largely to an increase in the Queen Mine’s charges for sales and services.

### *General Fund Budgetary Highlights*

Over the course of the year, the City was faced with several budget issues. On the revenue side, we did receive an unanticipated insurance reimbursement of \$36 thousand for fire hydrant damage on Tombstone Canyon last year. However, total revenues still fell short by \$258 thousand, excluding the budgeted use of reserves, due to a reduction in ambulance revenues and actual taxes received. However, expenditures were monitored closely throughout the year and kept well within budget, resulting in a net increase of \$191 thousand in the General Fund’s fund balance.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

At June 30, 2013, the City had \$33.5 million invested in a broad range of capital assets, including land, buildings, vehicles, equipment, and the wastewater treatment facility. This amount represents a \$1.25 million decrease (including additions and deductions) over last year.

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

	<u>Total Assets</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 619	\$ 619
Buildings and improvements	17,225	17,236
Airport	3,833	3,833
Improvements other than buildings	3,658	3,658
Machinery and equipment	4,469	4,355
Infrastructure	18,216	18,216
Construction in progress	1,340	1,087
Less: accumulated depreciation	<u>(15,873)</u>	<u>(14,268)</u>
Totals	<u>\$ 33,487</u>	<u>\$ 34,736</u>

### *Long-term debt*

At June 30, 2013, the City had \$13.5 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:

- Maintaining a reasonable level of services for the citizens of the City of Bisbee in these continually challenging economic times.
- Increasing personnel costs due to escalating costs of fringe benefits, costs of implementing the Affordable Healthcare Act and funding PSPRS retirement obligations.
- Securing appropriate funding for the City's infrastructure repairs and improvements.
- Providing 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 POSITION  
June 30, 2013

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,766,475	\$ 844,924	\$ 2,611,399
Investments	528,223		528,223
Receivables (net of allowance for uncollectibles):			
Accounts	292,885	891,287	1,184,172
Property taxes	35,747		35,747
Restricted cash and cash equivalents		1,068,017	1,068,017
Inventory		91,444	91,444
Due from other governments	788,593		788,593
Prepaid items		24,201	24,201
Capital assets, not being depreciated	1,767,795	191,968	1,959,763
Capital assets, being depreciated, net	<u>6,578,986</u>	<u>24,948,256</u>	<u>31,527,242</u>
Total assets	<u>11,758,704</u>	<u>28,060,097</u>	<u>39,818,801</u>
<b>Liabilities</b>			
Accrued payroll and employee benefits	80,687	16,887	97,574
Accounts payable	320,643	83,836	404,479
Accrued interest payable	2,315	236,885	239,200
Deposits held for others		56	56
Noncurrent liabilities:			
Due within one year	42,457	748,025	790,482
Due in more than one year	<u>274,271</u>	<u>12,458,597</u>	<u>12,732,868</u>
Total liabilities	<u>720,373</u>	<u>13,544,286</u>	<u>14,264,659</u>
<b>Net Position</b>			
Net investment in capital assets	8,206,039	11,961,182	20,167,221
Restricted for:			
Public safety	32,812		32,812
Highways and streets	57,430		57,430
Transportation	80,391		80,391
Culture and recreation	66,896		66,896
Debt service		1,068,017	1,068,017
Other purposes	1,236		1,236
Unrestricted	<u>2,593,527</u>	<u>1,486,612</u>	<u>4,080,139</u>
Total net position	<u>\$ 11,038,331</u>	<u>\$ 14,515,811</u>	<u>\$ 25,554,142</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 2,013,992	\$ 451,053	\$ 164,503	\$ 227,554	\$ (1,170,882)		\$ (1,170,882)
Public safety	3,850,345	947,206	169,885	21,168	(2,712,086)		(2,712,086)
Transportation	703,811	8,250	356,699	36,687	(302,175)		(302,175)
Culture and recreation	430,769	10,048			(420,721)		(420,721)
Interest on long-term debt	8,860				(8,860)		(8,860)
Total governmental activities	<u>7,007,777</u>	<u>1,416,557</u>	<u>691,087</u>	<u>285,409</u>	<u>(4,614,724)</u>		<u>(4,614,724)</u>
Business-type activities:							
Wastewater	2,336,049	2,082,714		97,542		\$ (155,793)	(155,793)
Sanitation	755,934	849,985				94,051	94,051
Queen Mine	588,936	698,438		4,167		113,669	113,669
Total business-type activities	<u>3,680,919</u>	<u>3,631,137</u>		<u>101,709</u>		<u>51,927</u>	<u>51,927</u>
Total	<u>\$ 10,688,696</u>	<u>\$ 5,047,694</u>	<u>\$ 691,087</u>	<u>\$ 387,118</u>	<u>(4,614,724)</u>	<u>51,927</u>	<u>(4,562,797)</u>
General revenues:							
Taxes:							
Property taxes					877,205		877,205
Sales taxes					1,802,115		1,802,115
State shared taxes					458,303		458,303
Urban revenue sharing					573,849		573,849
Vehicle license taxes					241,970		241,970
Bed taxes					72,620		72,620
Investment earnings					11,198	243	11,441
Gain on disposal of capital assets					1,850		1,850
Miscellaneous					81,186	36,862	118,048
Transfers					<u>71,689</u>	<u>(71,689)</u>	
Total general revenues and transfers					<u>4,191,985</u>	<u>(34,584)</u>	<u>4,157,401</u>
Change in net assets					(422,739)	17,343	(405,396)
Net position, July 1, 2012					<u>11,461,070</u>	<u>14,498,468</u>	<u>25,959,538</u>
Net position, June 30, 2013					<u>\$ 11,038,331</u>	<u>\$ 14,515,811</u>	<u>\$ 25,554,142</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 853,865	\$ 912,610	\$ 1,766,475
Investments	406,298	121,925	528,223
Receivables (net of allowance for uncollectibles):			
Accounts	284,904	7,981	292,885
Property taxes	35,747		35,747
Due from other governments	<u>518,021</u>	<u>270,572</u>	<u>788,593</u>
Total assets	<u>\$ 2,098,835</u>	<u>\$ 1,313,088</u>	<u>\$ 3,411,923</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accrued payroll and employee benefits	\$ 76,825	\$ 3,862	\$ 80,687
Accounts payable	139,754	180,889	320,643
Accrued interest payable		<u>2,315</u>	<u>2,315</u>
Total liabilities	<u>216,579</u>	<u>187,066</u>	<u>403,645</u>
Fund balances:			
Restricted		238,765	238,765
Committed	12,100	887,257	899,357
Assigned	239,747		239,747
Unassigned	<u>1,630,409</u>		<u>1,630,409</u>
Total fund balances	<u>1,882,256</u>	<u>1,126,022</u>	<u>3,008,278</u>
Total liabilities and fund balances	<u>\$ 2,098,835</u>	<u>\$ 1,313,088</u>	<u>\$ 3,411,923</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 POSITION  
GOVERNMENTAL FUNDS  
June 30, 2013

Fund balances - total governmental funds	\$ 3,008,278
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.	8,346,781
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>(316,728)</u>
Net position of governmental activities	<u><u>\$ 11,038,331</u></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, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 3,452,213		\$ 3,452,213
Fines and forfeitures	80		80
Licenses and permits	95,526		95,526
Intergovernmental	575,394	\$ 1,010,784	1,586,178
Charges for services	1,149,941	45,656	1,195,597
Investment earnings	8,772	2,426	11,198
Rent	58,400	8,401	66,801
Contributions	375	8,955	9,330
Miscellaneous	<u>102,587</u>	<u>3,605</u>	<u>106,192</u>
Total revenues	<u>5,443,288</u>	<u>1,079,827</u>	<u>6,523,115</u>
<b>Expenditures:</b>			
Current:			
General government	1,359,042	351,952	1,710,994
Public safety	3,522,199	185,187	3,707,386
Transportation		558,911	558,911
Culture and recreation	351,443	6,240	357,683
Capital outlay		447,124	447,124
Debt service:			
Principal	43,764		43,764
Interest	<u>8,860</u>		<u>8,860</u>
Total expenditures	<u>5,285,308</u>	<u>1,549,414</u>	<u>6,834,722</u>
Excess (deficiency) of revenues over expenditures	157,980	(469,587)	(311,607)
<b>Other financing sources (uses):</b>			
Capital lease agreements	77,366		77,366
Proceeds from sale of assets	13,610		13,610
Transfers in	341,081	151,855	492,936
Transfers out	<u>(399,299)</u>	<u>(21,948)</u>	<u>(421,247)</u>
Total other financing sources (uses)	<u>32,758</u>	<u>129,907</u>	<u>162,665</u>
Net change in fund balances	190,738	(339,680)	(148,942)
Fund balances, July 1, 2012	<u>1,691,518</u>	<u>1,465,702</u>	<u>3,157,220</u>
Fund balances, June 30, 2013	<u>\$ 1,882,256</u>	<u>\$ 1,126,022</u>	<u>\$ 3,008,278</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, 2013

Net changes in fund balances - total governmental funds \$ (148,942)

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

In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets sold. (11,760)

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	\$ 329,777	
Depreciation expense	<u>(519,607)</u>	(189,830)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Debt incurred	\$ (77,366)	
Principal payments	<u>43,764</u>	(33,602)

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.

Increase in compensated absences		<u>(38,605)</u>
----------------------------------	--	-----------------

Change in net position of governmental activities \$ (422,739)

City of Bisbee, Arizona  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	<u>Total</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 499,261		\$ 345,663	\$ 844,924
Accounts receivable, net of allowance for uncollectibles	658,960	\$ 232,327		891,287
Restricted cash and cash equivalents, current	823,260			823,260
Inventory			91,444	91,444
Prepaid items			24,201	24,201
Due from other funds	171,200			171,200
Total current assets	<u>2,152,681</u>	<u>232,327</u>	<u>461,308</u>	<u>2,846,316</u>
Noncurrent assets:				
Restricted cash and cash equivalents, noncurrent	244,757			244,757
Capital assets (net of accumulated depreciation):				
Land		47,660		47,660
Improvements other than buildings, net	1,355,189			1,355,189
Buildings, net	10,061,652		102,202	10,163,854
Equipment, net	191,259	179,374	4,427	375,060
Infrastructure, net	13,054,153			13,054,153
Construction in progress	138,608		5,700	144,308
Total capital assets, net	<u>24,800,861</u>	<u>227,034</u>	<u>112,329</u>	<u>25,140,224</u>
Total noncurrent assets	<u>25,045,618</u>	<u>227,034</u>	<u>112,329</u>	<u>25,384,981</u>
Total assets	<u>27,198,299</u>	<u>459,361</u>	<u>573,637</u>	<u>28,231,297</u>
<b>Liabilities</b>				
Current liabilities:				
Accrued payroll and employee benefits	5,657	6,113	5,117	16,887
Accounts payable	36,112	41,819	5,905	83,836
Accrued interest payable	236,885			236,885
Due to other funds		171,200		171,200
Deposits held for others			56	56
Current portion of long-term debt	730,123	17,902		748,025
Total current liabilities	<u>1,008,777</u>	<u>237,034</u>	<u>11,078</u>	<u>1,256,889</u>
Noncurrent liabilities:				
Long-term debt, net of current portion	12,359,025	90,940	8,632	12,458,597
Total noncurrent liabilities	<u>12,359,025</u>	<u>90,940</u>	<u>8,632</u>	<u>12,458,597</u>
Total liabilities	<u>13,367,802</u>	<u>327,974</u>	<u>19,710</u>	<u>13,715,486</u>
<b>Net Position</b>				
Net investment in capital assets	11,719,178	129,675	112,329	11,961,182
Restricted for debt service	1,068,017			1,068,017
Unrestricted	1,043,302	1,712	441,598	1,486,612
Total net position	<u>\$ 13,830,497</u>	<u>\$ 131,387</u>	<u>\$ 553,927</u>	<u>\$ 14,515,811</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
Year Ended June 30, 2013

	<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	\$ 1,982,965	\$ 849,985	\$ 698,438	\$ 3,531,388
Customer penalties and interest	99,749			99,749
Miscellaneous	<u>24,034</u>		<u>12,828</u>	<u>36,862</u>
Total operating revenues	2,106,748	849,985	711,266	3,667,999
Operating expenses:				
Cost of sales and services	868,052	707,448	577,157	2,152,657
Depreciation	<u>1,093,184</u>	<u>48,486</u>	<u>11,779</u>	<u>1,153,449</u>
Total operating expenses	<u>1,961,236</u>	<u>755,934</u>	<u>588,936</u>	<u>3,306,106</u>
Operating income	145,512	94,051	122,330	361,893
Nonoperating revenues (expenses):				
Interest income	243			243
Interest expense	<u>(374,813)</u>			<u>(374,813)</u>
Total nonoperating revenues (expenses)	<u>(374,570)</u>			<u>(374,570)</u>
(Loss) income before capital contributions and transfers	(229,058)	94,051	122,330	(12,677)
Capital contributions	97,542		4,167	101,709
Transfers in	326,679			326,679
Transfers out	<u>(241,025)</u>	<u>(103,419)</u>	<u>(53,924)</u>	<u>(398,368)</u>
(Decrease) increase in net position	(45,862)	(9,368)	72,573	17,343
Total net position, July 1, 2012	<u>13,876,359</u>	<u>140,755</u>	<u>481,354</u>	<u>14,498,468</u>
Total net position, June 30, 2013	<u>\$ 13,830,497</u>	<u>\$ 131,387</u>	<u>\$ 553,927</u>	<u>\$ 14,515,811</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, 2013

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,974,364	\$ 817,970	\$ 698,467	\$ 3,490,801
Other operating receipts	24,034		12,828	36,862
Cash payments to employees	(410,940)	(346,246)	(346,915)	(1,104,101)
Cash payments to suppliers for goods and services	<u>(475,055)</u>	<u>(359,447)</u>	<u>(234,132)</u>	<u>(1,068,634)</u>
Net cash provided by operating activities	1,112,403	112,277	130,248	1,354,928
Cash flows from noncapital financing activities:				
(Payments to) advances from other funds	(12,222)	12,222		
Cash transfers from other funds	326,679			326,679
Cash transfers to other funds	<u>(241,025)</u>	<u>(103,419)</u>	<u>(53,924)</u>	<u>(398,368)</u>
Net cash provided (used) by noncapital financing activities	73,432	(91,197)	(53,924)	(71,689)
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(706,510)	(17,180)		(723,690)
Interest paid on long-term debt	(385,169)			(385,169)
Cash contributions for capital projects	22,492			22,492
Purchases of capital assets		<u>(3,900)</u>		<u>(3,900)</u>
Net cash used by capital and related financing activities	(1,069,187)	(21,080)		(1,090,267)
Cash flows from investing activities:				
Interest income	<u>243</u>			<u>243</u>
Net cash provided by investing activities	<u>243</u>			<u>243</u>
Net increase in cash and cash equivalents	116,891		76,324	193,215
Cash and cash equivalents, June 30, 2012	<u>1,450,387</u>		<u>269,339</u>	<u>1,719,726</u>
Cash and cash equivalents, June 30, 2013	<u>\$ 1,567,278</u>	<u>\$</u>	<u>\$ 345,663</u>	<u>\$ 1,912,941</u>
Cash and cash equivalents consisted of the following at June 30, 2013:				
Unrestricted cash and cash equivalents	\$ 499,261		\$ 345,663	\$ 844,924
Restricted cash and cash equivalents, current	823,260			823,260
Restricted cash and cash equivalents, noncurrent	<u>244,757</u>			<u>244,757</u>
	<u>\$ 1,567,278</u>	<u>\$</u>	<u>\$ 345,663</u>	<u>\$ 1,912,941</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 145,512	\$ 94,051	\$ 122,330	\$ 361,893
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,093,184	48,486	11,779	1,153,449
Changes in assets and liabilities:				
Accounts receivable	(108,350)	(32,015)		(140,365)
Prepaid items			(338)	(338)
Inventory			(2,893)	(2,893)
Accrued payroll and employee benefits	(828)	(109)	(1,284)	(2,221)
Accounts payable	(18,500)	580	211	(17,709)
Compensated absences payable	1,385	1,284	414	3,083
Deposits held for others			29	29
Net cash provided by operating activities	<u>\$ 1,112,403</u>	<u>\$ 112,277</u>	<u>\$ 130,248</u>	<u>\$ 1,354,928</u>
<u>Supplemental disclosure of noncash financing activities:</u>				
Contributed capital assets	\$ 97,542		\$ 4,167	

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**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.

For the year ended June 30, 2013, the City implemented the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 62 incorporates certain accounting and financial reporting guidance in FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins into GASB's authoritative literature. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The adoption of these statements had no effect on the City's net position as of and for the year ended June 30, 2013.

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. Therefore, 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 government-wide financial statement to emphasize they are legally separate from the City. The City's blended component unit discussed below has a June 30 year-end. The City has no discretely presented component units.

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

**B. Basis of Presentation**

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

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

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

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 investment earnings, result from transactions in which the parties do not exchange equal values.

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, 2013

**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 is both restricted and unrestricted net position resources available to finance the program. The City applies grant resources to such programs before using general revenues.

**D. Budgeting and Budgetary Control**

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

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

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

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, 2013, expenditures exceeded appropriations in the General Fund in the following departments:

General government:	
Personnel	\$ 57
Cemetery	3,905
Public works administration	3,346

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.

**E. 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. Restricted cash and cash equivalents includes amounts the City is contractually required to maintain in a separate bank account for purposes of debt service on the WIFA note payable (see Note 5), and for repairs, maintenance and capital improvements to the City's wastewater treatment plant.

**F. Allowance for Doubtful Accounts**

The allowance for doubtful accounts in the proprietary funds is estimated at approximately 34% of the year-end accounts receivable balance.

**G. Inventories**

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

**H. 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 threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is \$3,000 for all assets.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

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

**I. 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.

**J. 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. The City's non-exempt and other exempt employees may accumulate up to 208 and 247 hours of vacation, respectively, depending on years of service. 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, 2013 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.

**K. 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.

**L. 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.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

**M. Investment Earnings**

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

**N. 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 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.

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.

**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, 2013, the carrying amount of deposits was \$2,611,399 and the bank balance was \$3,715,356. At June 30, 2013, 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. Certain proceeds of the City's revenue bonds, as well as certain resources set aside for bond repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

**B. Investments**

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

The City has few investments and chooses to disclose its investments by specifically identifying each. The City has adopted a formal investment policy that is aligned with Arizona Revised Statutes; however, it does not allow investments in bonds, debentures, and notes issued by corporations organized and doing business in the United States. At June 30, 2013, the City's investments were as follows:

	Amount	Maturities
State Treasurer's investment pool 5	\$ 528,223	n/a

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Custodial Credit Risk

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

Interest Rate Risk

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

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, 2013, credit risk for the City's investments being held by the State Treasurer's investment pool 5 was not rated.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

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, 2013, 100% of the City's investments were in the State Treasurer's investment pool 5.

Foreign Currency Risk

- Statutes do not allow foreign investments.

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments at June 30, 2013, included the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Arizona State Treasurer:			
State sales tax	\$ 78,789		\$ 78,789
City sales tax	337,869		337,869
Highway user revenue fund		\$ 62,308	62,308
JAG Award		12,220	12,220
Vehicle license tax	42,201		42,201
Urban revenue sharing	51,831		51,831
Arizona Department of Transportation		21,965	21,965
Arizona Department of Homeland Security		34,875	34,875
Federal Aviation Administration		133,677	133,677
Other	7,331	5,527	12,858
Total	<u>\$ 518,021</u>	<u>\$ 270,572</u>	<u>\$ 788,593</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 571,670			\$ 571,670
Construction in progress	<u>1,042,864</u>	\$ 153,261		<u>1,196,125</u>
Total capital assets not being depreciated	<u>1,614,534</u>	<u>153,261</u>		<u>1,767,795</u>
Capital assets being depreciated:				
Buildings	3,672,954		\$ (5,674)	3,667,280
Improvements other than buildings	1,060,383			1,060,383
Airport	3,833,032			3,833,032
Machinery and equipment	3,194,506	176,516	(59,693)	3,311,329
Infrastructure	<u>1,188,281</u>			<u>1,188,281</u>
	12,949,156	176,516	(65,367)	13,060,305
Less: accumulated depreciation	<u>6,015,319</u>	<u>519,607</u>	<u>(53,607)</u>	<u>6,481,319</u>
Total capital assets being depreciated, net	<u>6,933,837</u>	<u>(343,091)</u>	<u>(11,760)</u>	<u>6,578,986</u>
Total capital assets, net	<u>\$ 8,548,371</u>	<u>\$ (189,830)</u>	<u>\$ (11,760)</u>	<u>\$ 8,346,781</u>
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Construction in progress	44,384	\$ 99,924		144,308
Buildings	13,563,166		\$ (5,700)	13,557,466
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	1,160,074	45,123	(47,625)	1,157,572
Infrastructure	<u>17,027,156</u>			<u>17,027,156</u>
	34,440,522	145,047	(53,325)	34,532,244
Less: accumulated depreciation	<u>8,252,457</u>	<u>1,153,449</u>	<u>(13,886)</u>	<u>9,392,020</u>
Net business-type assets	<u>\$26,188,065</u>	<u>\$ (1,008,402)</u>	<u>\$ (39,439)</u>	<u>\$ 25,140,224</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 19,551
Public safety	220,325
Public works	61,745
Transportation	144,900
Culture and recreation	<u>73,086</u>
Total governmental activities depreciation	<u>\$ 519,607</u>
Business-type activities:	
Wastewater	\$ 1,093,184
Sanitation	48,486
Queen Mine	<u>11,779</u>
Total business-type activities depreciation	<u>\$ 1,153,449</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 5 - LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2013, was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases payable	\$ 107,140	\$ 77,366	\$ (43,764)	\$ 140,742	\$ 42,457
Compensated absences payable	<u>137,381</u>	<u>99,021</u>	<u>(60,416)</u>	<u>175,986</u>	<u>          </u>
Total governmental activities	<u>\$ 244,521</u>	<u>\$ 176,387</u>	<u>\$ (104,180)</u>	<u>\$ 316,728</u>	<u>\$ 42,457</u>
Business-type activities:					
WIFA note payable	\$ 9,784,542		\$ (612,532)	\$ 9,172,010	\$ 624,782
USDA note payable	2,786,352		(65,411)	2,720,941	73,320
USDA note payable	<u>1,217,301</u>	<u>          </u>	<u>(28,567)</u>	<u>1,188,734</u>	<u>32,021</u>
Total notes payable	13,788,195		(706,510)	13,081,685	730,123
Capital leases payable	114,539		(17,180)	97,359	17,902
Compensated absences payable	<u>25,889</u>	<u>\$ 26,897</u>	<u>(25,208)</u>	<u>27,578</u>	<u>          </u>
Total business-type activities	<u>\$13,928,623</u>	<u>\$ 26,897</u>	<u>\$ (748,898)</u>	<u>\$13,206,622</u>	<u>\$ 748,025</u>
Total	<u>\$14,173,144</u>	<u>\$ 203,284</u>	<u>\$ (853,078)</u>	<u>\$13,523,350</u>	<u>\$ 790,482</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, 2013, are as follows:

	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Year of Maturity</u>	<u>Outstanding Principal</u>
Business-type activities:				
WIFA	\$ 12,671,685	2.000% to 2.721%	2025	\$ 9,172,010
USDA, 2006	3,050,000	4.25%	2035	2,720,941
USDA, 2006	<u>1,332,000</u>	4.25%	2035	<u>1,188,734</u>
	<u>\$ 17,053,685</u>			<u>\$ 13,081,685</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**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>
2014	\$ 730,123	\$ 359,958
2015	747,489	350,453
2016	764,233	340,755
2017	781,945	319,759
2018	800,111	298,243
2019-2023	4,289,897	1,179,448
2024-2028	3,187,726	573,159
2029-2033	1,048,839	285,266
2034-2036	731,322	61,528
Total	<u>\$ 13,081,685</u>	<u>\$ 3,768,569</u>

**B. Capital leases**

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Asset:			
Machinery and equipment	\$ 303,131	\$ 176,424	\$ 479,555
Less accumulated depreciation	(99,317)	(95,563)	(194,880)
Total	<u>\$ 203,814</u>	<u>\$ 80,861</u>	<u>\$ 284,675</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Year ending June 30,		
2014	\$ 46,313	\$ 21,768
2015	46,313	21,768
2016	31,437	21,768
2017	16,561	21,768
2018	8,280	21,768
Total minimum lease payments	148,904	108,840
Less amount representing interest	(8,162)	(11,481)
Present value of future minimum payments	<u>\$ 140,742</u>	<u>\$ 97,359</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 6 - INTERFUND BALANCES AND ACTIVITY**

Interfund Receivables and Payables:

Interfund balances at June 30, 2013, were as follows:

	Payable to
Payable from	Wastewater Fund
Sanitation Fund	\$ 171,200

The Sanitation Fund maintained a negative cash balance at June 30, 2013. The negative cash balance was reduced by interfund borrowing from the Wastewater Fund.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2013, were as follows:

Transfers In	Transfers Out					Total
	General Fund	Other Governmental Funds	Wastewater Fund	Sanitation Fund	Queen Mine Fund	
Governmental Funds:						
General Fund		\$ 21,948	\$ 181,957	\$ 103,419	\$ 33,757	\$ 341,081
Other Governmental Funds	\$ 72,620		59,068		20,167	151,855
Wastewater Fund	326,679					326,679
Total	\$ 399,299	\$ 21,948	\$ 241,025	\$ 103,419	\$ 53,924	\$ 819,615

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, 2013

**NOTE 7 - GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

Details of governmental fund balance classifications at June 30, 2013, are as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Fund balances:</u>			
Restricted for:			
Public safety		\$ 32,812	\$ 32,812
Highways and streets		57,430	57,430
Transportation		80,391	80,391
Culture and recreation		66,896	66,896
Other		<u>1,236</u>	<u>1,236</u>
Total restricted		<u>238,765</u>	<u>238,765</u>
Committed to:			
Cemetery maintenance	\$ 12,100		12,100
Bisbee Arts		44,859	44,859
Airport maintenance		544	544
Youth programs		125,235	125,235
Donor designated contributions		7,250	7,250
Capital improvements		<u>709,369</u>	<u>709,369</u>
Total committed	<u>12,100</u>	<u>887,257</u>	<u>899,357</u>
Assigned - contingency reserves	239,747		239,747
Unassigned	<u>1,630,409</u>		<u>1,630,409</u>
Total fund balances	<u>\$ 1,882,256</u>	<u>\$ 1,126,022</u>	<u>\$ 3,008,278</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**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.

**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.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 10 - RETIREMENT PLANS - CONTINUED**

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.

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

*Cost-sharing plans* - For the year ended June 30, 2013, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

<u>Year Ended June 30th.</u>	<u>Retirement and Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2013	\$ 194,748	\$ 4,288
2012	202,603	4,631
2011	204,321	5,321

*Agent plans* - For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 48.73 percent (Police) and 49.63 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 1.45 percent (Fire Fighters) of covered payroll.

*Actuarial methods and assumptions* - The contribution requirements for the year ended June 30, 2013 were established by the June 30, 2011 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 10 - RETIREMENT PLANS - CONTINUED**

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

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

The significant actuarial methods and assumptions used are the same for both plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal-year 2013 contribution requirements are as follows:

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry Age Normal
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
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.0% -8.0%
Includes inflation at	5.0%

**Annual Pension Cost** - The City's pension/OPEB cost for the agent plan for the year ended June 30, 2013, and related information follows:

	<b>PSPRS</b>			
	<u>Police</u>		<u>Fire Fighters</u>	
	<u>Pension</u>	Health <u>Insurance</u>	<u>Pension</u>	Health <u>Insurance</u>
Annual pension/OPEB cost	\$314,119	\$14,006	\$376,434	\$11,329
Contributions made	314,119	14,006	376,434	11,329

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**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.

<b>PSPRS</b>				
<b>Plan</b>	<b>Year Ended June 30</b>	<b>Annual Pension/OPEB Cost</b>	<b>Percentage of Annual Cost Contributed</b>	<b>Net Pension/ OPEB Obligation</b>
<b><u>Police</u></b>				
Pension	2013	\$ 314,119	100.0%	\$0
Health insurance	2013	14,006	100.0%	0
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
<b><u>Fire Fighters</u></b>				
Pension	2013	\$ 376,434	100.0%	\$0
Health insurance	2013	11,329	100.0%	0
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

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 10 - RETIREMENT PLANS - CONTINUED**

**Funded Status** - The funded status of the plan as of the most recent valuation date, June 30, 2012, 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)	\$7,710,369	\$205,900	\$8,933,649	\$124,156
Actuarial value of assets (b)	2,100,380	0	1,720,702	0
Unfunded actuarial accrued liability (funding excess) (a) - (b)	5,609,989	205,900	7,212,947	124,156
Funded ratio (b)/(a)	27.2%	0.0%	19.3%	0.0%
Annual covered payroll (c)	637,562	637,562	826,905	826,905
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a) - (b)]/(c)	879.9%	32.3%	872.3%	15.0%

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

**PSPRS**

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market 80% / 120% market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.0% - 9.0%
Includes inflation at	5.0%

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 11 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 6, 2013, which was the date the City's financial statements were issued. In July 2013 the City signed a \$1.6 million loan agreement with WIFA to finance the installation of solar panels at its wastewater treatment plant (the project). Upon successful completion of the project, WIFA will forgive \$400,000 of the loan, with the remaining \$1.2 million payable at 2.992% interest over twenty years. Annual principal and semiannual interest payments totaling \$80,559 are due until the loan matures in 2033. Once the solar panels are operational, the City will receive renewable energy credits to help offset the cost of the project and the related debt service requirements. In September 2013 the City signed an agreement with a contractor for engineering, design and construction management services for the project totaling \$189,327.

SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona  
 REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 3,618,864	\$ 3,618,864	\$ 3,452,213	\$ (166,651)
Fines and forfeitures			80	80
Licenses and permits	86,200	86,200	95,526	9,326
Intergovernmental	569,423	569,423	575,394	5,971
Charges for services	1,284,750	1,284,750	1,149,941	(134,809)
Investment earnings			8,772	8,772
Rent			58,400	58,400
Contributions			375	375
Miscellaneous	142,250	142,250	102,587	(39,663)
Total revenues	<u>5,701,487</u>	<u>5,701,487</u>	<u>5,443,288</u>	<u>(258,199)</u>
<b>Expenditures:</b>				
<b>General government:</b>				
Mayor and council	36,269	36,269	34,333	1,936
City manager	130,954	130,954	128,959	1,995
Finance department	391,992	391,992	366,094	25,898
City clerk	141,178	141,178	123,601	17,577
Community development	131,223	131,223	42,517	88,706
Administrative and general government	724,515	724,515	162,137	562,378
Personnel	76,251	76,251	76,308	(57)
Legal services	60,000	60,000	47,504	12,496
Water systems	3,760	3,760	1,127	2,633
Information systems	48,270	48,270	46,956	1,314
Cemetery	2,804	2,804	6,709	(3,905)
Building maintenance	47,100	47,100	38,078	9,022
Public works administration	123,307	123,307	126,653	(3,346)
Garage	113,881	113,881	91,944	21,937
Building inspector	67,565	67,565	64,125	3,440
Contingency	100,000	100,000	1,997	98,003
Total general government	<u>2,199,069</u>	<u>2,199,069</u>	<u>1,359,042</u>	<u>840,027</u>
<b>Public safety:</b>				
Police department	1,784,357	1,784,357	1,763,214	21,143
Fire department	1,769,256	1,769,256	1,712,239	57,017
City magistrate	48,000	48,000	46,746	1,254
Total public safety	<u>3,601,613</u>	<u>3,601,613</u>	<u>3,522,199</u>	<u>79,414</u>
<b>Culture and recreation:</b>				
Parks	147,559	147,559	133,039	14,520
Swimming pool	50,407	50,407	27,574	22,833
Library	176,903	176,903	167,722	9,181
Senior citizens' center	23,346	23,346	23,108	238
Total culture and recreation	<u>398,215</u>	<u>398,215</u>	<u>351,443</u>	<u>46,772</u>
Total expenditures	<u>6,198,897</u>	<u>6,198,897</u>	<u>5,232,684</u>	<u>966,213</u>
Excess of revenues over (under) expenditures	(497,410)	(497,410)	210,604	(1,224,412)
<b>Other financing sources (uses):</b>				
Capital lease agreements			77,366	77,366
Proceeds from sale of assets			13,610	13,610
Principal payments on leases	(73,599)	(73,599)	(43,764)	29,835
Interest payments on leases	(12,925)	(12,925)	(8,860)	4,065
Transfers in	497,410	497,410	341,081	(156,329)
Transfers out	(541,756)	(541,756)	(399,299)	(142,457)
Total other financing sources (uses)	<u>(130,870)</u>	<u>(130,870)</u>	<u>(19,866)</u>	<u>111,004</u>
Net change in fund balances	(628,280)	(628,280)	190,738	819,018
Fund balance, July 1, 2012	1,274,328	1,274,328	1,691,518	417,190
Fund balance, June 30, 2013	<u>\$ 646,048</u>	<u>\$ 646,048</u>	<u>\$ 1,882,256</u>	<u>\$ 1,236,208</u>

City of Bisbee, Arizona  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS  
 Year Ended June 30, 2013

**Public Safety Personnel Retirement System**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</u>
<b><u>POLICE</u></b>						
Pension 6/30/12	\$2,100,380	\$7,710,369	(\$5,609,989)	27.2%	\$637,562	879.9%
Health insurance 6/30/12	0	205,900	(205,900)	0.0%	637,562	32.3%
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)	0.0%	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)	0.0%	676,953	24.4%
<b><u>FIRE FIGHTERS</u></b>						
Pension 6/30/12	\$1,720,702	\$8,933,649	(\$7,212,947)	19.3%	826,905	872.3%
Health insurance 6/30/12	0	124,156	(124,156)	0.0%	826,905	15.0%
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)	0.0%	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)	0.0%	786,618	17.7%

City of Bisbee, Arizona  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2013

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's Program and Non-Entitlement Grants in Hawaii	14.228	129-12	\$ 38,191
U.S. Department of Transportation			
Passed through:			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-04-0004-011-2011	130,249
Passed through:			
Arizona Department of Transportation:			
Formula Grants for Rural Areas	20.509	JPA 12-004 G45	<u>179,978</u>
Total Department of Transportation			<u>310,227</u>
Environmental Protection Agency			
Passed through:			
Water Infrastructure Finance Authority			
ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	TA CW-011-2012	35,156
U.S. Department of Homeland Security			
Passed through:			
Arizona Division of Emergency Management			
Homeland Security Grant Program	97.067	888406-01	<u>149,453</u>
Total Expenditures of Federal Awards			<u>\$ 533,027</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, 2013

**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 modified 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 2013 *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, 2013.

**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, 2013 was \$3,909,675, 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 of  
City of Bisbee, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 6, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's basic financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

December 6, 2013

Independent Auditors' Report on Compliance for Each Major Federal Program  
and on Internal Control over Compliance Required by OMB Circular A-133

To the City Council of  
City of Bisbee, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited City of Bisbee, Arizona (the City)'s compliance 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 the City's major federal program for the year ended June 30, 2013. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on the Major Federal Program**

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Foster & Chapman P.C." with a stylized ampersand.

December 6, 2013

City of Bisbee, Arizona  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2013

**A. Summary of Audit Results**

Financial Statements:

Type of auditors' report issued:	<u>Yes</u>	<u>Unmodified</u> <u>No</u>
Internal control over financial reporting:		
Material weakness(es) identified?	<u>                    </u>	<u>X</u>
Significant deficiency(ies) identified?	<u>                    </u>	<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	<u>                    </u>	<u>X</u>

Federal Awards:

Internal control over major programs:		
Material weakness(es) identified?	<u>                    </u>	<u>X</u>
Significant deficiency(ies) identified?	<u>                    </u>	<u>X</u> (None reported)

Type of auditors' report issued on compliance for major programs:		<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>                    </u>	<u>X</u>

Identification of major program:

<u>CFDA Number</u> 20.509	<u>Name of Federal Program or Cluster</u> Formula Grants for Rural Areas
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Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
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Auditee qualified as low-risk auditee?	<u>X</u>	<u>                    </u>
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Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>                    </u>	<u>X</u>
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**B. Findings - Financial Statement Audit**

None reported.

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

None reported.