

CITY OF BISBEE, ARIZONA

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

Year Ended June 30, 2016

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-9
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position.....	10
Statement of Activities.....	11
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Governmental Funds Balance Sheet to the Government- wide Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes In Fund Balances	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities.....	15
Proprietary Funds:	
Statement of Net Position.....	16
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	17
Statement of Cash Flows.....	18
Notes to Financial Statements	19-43
Required Supplementary Information:	
Budgetary Comparison Schedules.....	44-45
Schedule of the City's Proportionate Share of the Net Pension Liability - Cost-Sharing Plan	46
Schedule of Changes in the City's Net Pension Liability and Related Ratios - Agent Pension Plans.....	47-48
Schedule of City Pension Contributions.....	49
Notes to Pension Plan Schedules.....	50
Schedule of Agent OPEB Plans' Funding Progress.....	51
Notes to Schedule of Agent OPEB Plans' Funding Progress.....	52
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	53-54

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, 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, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 City'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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, as of June 30, 2016, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2016, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; and GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4-9, Budgetary Comparison Schedules on pages 44-45, Schedule of the City's Proportionate Share of the Net Pension Liability - Cost-Sharing Plan on page 46, Schedule of Changes in the City's Net Pension Liability and Related Ratios - Agent Pension Plans on pages 47-48, Schedule of City Pension Contributions on page 49, and Schedule of Agent OPEB Plans' Funding Progress on page 51 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.

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 the City received 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.

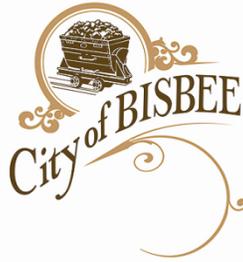
The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the City Council, management and other responsible 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 29, 2016, 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.

Fester & Chapman P.C.

December 29, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016. Please read this Management's Discussion and Analysis in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position increased by \$121 thousand to \$10.467 million.
- The City's revenues from governmental activities increased \$1.8 million (26.9%). Revenues from business-type activities decreased \$1.8 million (31.5%).
- Expenditures from governmental activities decreased \$152 thousand (1.7%). Expenses from business-type activities increased \$9 thousand (0.2%).
- The total outstanding non-current liabilities decreased from \$33.9 million to \$33.7 million, a decrease of \$207 thousand (0.6%).
- The General Fund reported a fund balance increase from \$1.71 million to \$2.10 million. The \$387 thousand increase in fund balance is due primarily to higher than anticipated ambulance fees collected.

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'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.

NET POSITION

In 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve accounting and financial reporting for pensions. The City does not offer its own pension plan, but instead participates in the Arizona State Retirement System (ASRS) which administers a cost-sharing, multiple-employer, defined benefit pension plan, and the Public Safety Personnel Retirement System (PSPRS), which administers an agent, multiple-employer, defined benefit pension plan. Thus, the majority of the information required to implement GASB Statement No. 68 was provided by the ASRS and PSPRS in their audited Schedules of Employer Allocations and Schedule of Pension Amounts by Employer.

GASB Statement No. 68 also mandates that the following amounts related to pensions be recognized and classified as either deferred outflows of resources or deferred inflows of resources accordingly:

- a. Differences between expected and actual experience in the measurement of the total pension liability;
- b. Changes of assumptions or other inputs;
- c. Net difference between projected and actual earnings on pension plan investments;
- d. Changes in the employer's proportion and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan) and the employer's proportionate share of contributions; and
- e. Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer's reporting period should be reported as a deferred outflow of resources related to pensions.

Thus, effective with fiscal year 2015, the City's Statement of Net Position reflects deferred outflows and deferred inflows of resources related to pensions. Note 12 to the financial statements provides additional information about the City's pension obligation.

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all 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). Governmental 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 a reconciliation presented after the governmental funds' 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 19-43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City’s combined net position increased from the prior fiscal year from \$10.346 million to \$10.467 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City’s combined activities.

	<u>Primary Government</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 6,921	\$ 6,087
Capital assets	<u>35,303</u>	<u>36,217</u>
Total assets	42,224	42,304
Deferred outflows of resources	3,315	3,620
Current and other liabilities	1,096	1,101
Long-term debt outstanding	<u>33,555</u>	<u>33,757</u>
Total liabilities	34,651	34,858
Deferred inflows of resources	420	720
Net position (deficit):		
Net investment in capital assets	23,324	23,376
Restricted	1,511	1,468
Unrestricted (deficit)	<u>(14,368)</u>	<u>(14,498)</u>
Total net position	<u>\$ 10,467</u>	<u>\$ 10,346</u>

Net position of the City represents the difference between the City’s resources and its obligations. As of June 30, 2016, the largest portion of the City’s net position 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 position, approximately 14%, is restricted for use in accordance with agreements with lenders and grantors.

Table 2
Condensed Statements of Activities
(thousands)
Years ended June 30

	<u>Primary Government</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 5,915	\$ 5,006
Operating grants and contributions	757	2,708
Capital grants and contributions	618	336
General revenues:		
Property taxes	971	945
Sales taxes	2,407	2,007
State shared taxes	669	675
Urban revenue sharing	519	512
Vehicle license taxes	247	236
Bed taxes	159	116
Other general revenues and transfers	<u>302</u>	<u>53</u>
Total revenues	<u>12,564</u>	<u>12,594</u>
Expenses:		
Governmental activities:		
General government	1,924	2,031
Public safety	4,868	5,530
Transportation	1,310	639
Culture and recreation	422	478
Interest on long-term debt	4	3
Business type activities:		
Wastewater	2,536	2,494
Sanitation	754	824
Queen Mine	<u>625</u>	<u>588</u>
Total expenses	<u>12,443</u>	<u>12,587</u>
Increase in net position	121	7
Net position - beginning	<u>10,346</u>	<u>10,339</u>
Net position - ending	<u>\$ 10,467</u>	<u>\$ 10,346</u>

The City's total revenues were \$12.564 million. The total cost of all programs and services was \$12.443 million.

Our analysis below separately considers the operations of governmental activities.

Governmental Activities

On the revenue side, operating grants and contributions were up \$18 thousand to \$741 thousand, or 2.5%. Charges for services were up from \$1.18 million to \$2 million, or 69.5%. This was due in large part to the increase in ambulance charges for services during the year.

On the expenditure side, governmental activities expenses decreased from \$8.7 million to \$8.5 million, or 1.8%. This was due to less than budgeted staffing and overall decrease in operational expenditures in some departments.

Table 3 presents the cost of each of the City’s four largest programs – as well as each program’s 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>2016</u>	<u>Net Cost of Services</u> <u>2016</u>
General government and administration	\$ 1,924	\$ 774
Public safety	4,869	3,240
Transportation	1,310	739
Culture and recreation	422	410
All others	<u>4</u>	<u>4</u>
Totals	<u>\$ 8,529</u>	<u>\$ 5,167</u>

CITY FUNDS FINANCIAL ANALYSIS

Governmental Funds

The City uses fund accounting to ensure 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 \$3.23 million, which is an increase from last fiscal year’s total of \$2.67 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 \$14.6 million to \$14.7 million, or 0.7%. This slight increase is mainly attributable to a decrease in liabilities and an increase in revenue.

General Fund Budgetary Highlights

Although City Tax collected fell short of the budgeted amount, overall taxes collected increased over FY15. Other general fund revenues also increased including a large gain in ambulance revenue and an unexpected payout of shares from a group insurance policy dating to 1997. Furthermore, expenses were monitored to stay within budget throughout the year and stayed below budgeted amounts. This resulted in an increase of the General Fund balance by \$556 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the City had \$35.3 million invested in a broad range of capital assets, including land, buildings, vehicles, equipment, and the new wastewater treatment facility. This amount represents about a \$1 thousand dollar decrease (including additions and deductions) over last fiscal year. This is mostly due to the depreciation of existing assets and no new large projects to capitalize.

Table 4
Capital Assets at Year-end
(thousands)

	<u>Total Assets</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 619	\$ 619
Buildings and improvements	17,624	17,464
Airport	4,387	4,388
Improvements other than buildings	3,744	3,745
Machinery and equipment	6,874	6,309
Infrastructure	20,997	20,865
Construction in progress	2,109	2,115
Less: accumulated depreciation	<u>(21,051)</u>	<u>(19,288)</u>
Totals	<u>\$ 35,303</u>	<u>\$ 36,217</u>

Long-term debt

At June 30, 2016, the City had \$33.6 million in long-term debt outstanding, which decreased \$202 thousand due to payment of principal and no new debt. Obligations include capital asset leases, pension obligations and accrued vacation pay and sick leave. More detailed information about the City's total long-term liabilities is presented in Note 7 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:

- Continue to look at ways to increase revenues and decrease expenses to limit the use of reserves to cover operating expenses.
- Develop a plan to reduce the large unfunded liability of the PSPRS obligation.
- Develop a plan to reduce the large balance of uncollectible sewer and garbage accounts.
- Maintain a reasonable level of services for the citizens of the City of Bisbee in these continually challenging economic times.
- Maintain comparable pay and benefits to the City of Bisbee employees while facing increasing minimum wage, healthcare and pension costs
- Acquire funding for much needed capital equipment and vehicles.

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, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,198,952	\$ 1,027,619	\$ 3,226,571
Investments	532,110		532,110
Receivables (net of allowance for uncollectibles):			
Accounts	535,706	627,338	1,163,044
Property taxes	39,423		39,423
Restricted cash and cash equivalents		1,145,640	1,145,640
Inventory		96,752	96,752
Due from other governments	622,186	12,159	634,345
Prepaid items	57,393	25,424	82,817
Capital assets, not being depreciated	665,151	420,066	1,085,217
Capital assets, being depreciated, net	<u>9,107,280</u>	<u>25,110,329</u>	<u>34,217,609</u>
Total assets	<u>13,758,201</u>	<u>28,465,327</u>	<u>42,223,528</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	3,202,509	112,226	3,314,735
Liabilities			
Accrued payroll and employee benefits	164,062	35,182	199,244
Accounts payable	595,197	69,780	664,977
Accrued interest payable		228,906	228,906
Deposits held for others		2,876	2,876
Noncurrent liabilities:			
Due within one year	16,049	848,117	864,166
Due in more than one year	<u>20,125,631</u>	<u>12,565,486</u>	<u>32,691,117</u>
Total liabilities	<u>20,900,939</u>	<u>13,750,347</u>	<u>34,651,286</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>277,875</u>	<u>141,657</u>	<u>419,532</u>
Total deferred inflows of resources	<u>277,875</u>	<u>141,657</u>	<u>419,532</u>
Net Position			
Net investment in capital assets	9,748,205	13,575,686	23,323,891
Restricted for:			
Public safety	8,574		8,574
Highways and streets	181,442		181,442
Transportation	66,240		66,240
Culture and recreation	61,542		61,542
Debt service		1,145,640	1,145,640
Other purposes	48,001		48,001
Unrestricted	<u>(14,332,108)</u>	<u>(35,777)</u>	<u>(14,367,885)</u>
Total net (deficit) position	<u>\$ (4,218,104)</u>	<u>\$ 14,685,549</u>	<u>\$ 10,467,445</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 1,924,248	\$ 469,154	\$ 248,228	\$ 432,749	\$ (774,117)		\$ (774,117)
Public safety	4,868,534	1,513,418	88,076	26,774	(3,240,266)		(3,240,266)
Transportation	1,310,253	8,275	404,529	158,516	(738,933)		(738,933)
Culture and recreation	421,981	11,722			(410,259)		(410,259)
Interest on long-term debt	3,787				(3,787)		(3,787)
Total governmental activities	<u>8,528,803</u>	<u>2,002,569</u>	<u>740,833</u>	<u>618,039</u>	<u>(5,167,362)</u>		<u>(5,167,362)</u>
Business-type activities:							
Wastewater	2,535,852	2,315,095	15,632			\$ (205,125)	(205,125)
Sanitation	753,976	849,059				95,083	95,083
Queen Mine	624,883	748,342				123,459	123,459
Total business-type activities	<u>3,914,711</u>	<u>3,912,496</u>	<u>15,632</u>			<u>13,417</u>	<u>13,417</u>
Total	<u>\$ 12,443,514</u>	<u>\$ 5,915,065</u>	<u>\$ 756,465</u>	<u>\$ 618,039</u>	<u>(5,167,362)</u>	<u>13,417</u>	<u>(5,153,945)</u>
General revenues:							
Taxes:							
					971,419		971,419
					2,407,286		2,407,286
					668,424		668,424
					519,435		519,435
					247,088		247,088
					159,048		159,048
					2,652	499	3,151
					275,186	23,986	299,172
					(63,038)	63,038	
					<u>5,187,500</u>	<u>87,523</u>	<u>5,275,023</u>
					20,138	100,940	121,078
					(4,238,242)	14,584,609	10,346,367
					<u>\$ (4,218,104)</u>	<u>\$ 14,685,549</u>	<u>\$ 10,467,445</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 997,864	\$ 252,293	\$ 948,795	\$ 2,198,952
Investments	409,771	574	121,765	532,110
Receivables (net of allowance for uncollectibles):				
Accounts	471,732		63,974	535,706
Property taxes	39,423			39,423
Due from other governments	489,962	67,492	64,732	622,186
Prepaid items	<u>44,758</u>		<u>12,635</u>	<u>57,393</u>
Total assets	<u>\$ 2,453,510</u>	<u>\$ 320,359</u>	<u>\$ 1,211,901</u>	<u>\$ 3,985,770</u>
Liabilities and Fund Balances				
Liabilities:				
Accrued payroll and employee benefits	\$ 157,477	\$ 5,225	\$ 1,360	\$ 164,062
Accounts payable	<u>199,657</u>	<u>133,692</u>	<u>261,848</u>	<u>595,197</u>
Total liabilities	<u>357,134</u>	<u>138,917</u>	<u>263,208</u>	<u>759,259</u>
Fund balances:				
Nonspendable	44,758		12,635	57,393
Restricted		181,442	184,357	365,799
Committed	4,233		823,803	828,036
Unassigned (deficit)	<u>2,047,385</u>		<u>(72,102)</u>	<u>1,975,283</u>
Total fund balances	<u>2,096,376</u>	<u>181,442</u>	<u>948,693</u>	<u>3,226,511</u>
 Total liabilities and fund balances	 <u>\$ 2,453,510</u>	 <u>\$ 320,359</u>	 <u>\$ 1,211,901</u>	 <u>\$ 3,985,770</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
 RECONCILIATION OF GOVERNMENTAL FUNDS' BALANCE SHEET TO THE GOVERNMENT-
 WIDE STATEMENT OF NET POSITION
 June 30, 2016

Fund balances - total governmental funds		\$ 3,226,511
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		9,772,431
Some liabilities, such as net pension liabilities, capital leases payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases payable	(24,226)	
Net pension liabilities	(19,968,576)	
Compensated absences	<u>(148,878)</u>	
		(20,141,680)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		<u>2,924,634</u>
Net position (deficit) of governmental activities		<u>\$ (4,218,104)</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, 2016

	General Fund	Streets Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,612,045	\$ 697,970		\$ 4,310,015
Fines and forfeitures	292			292
Licenses and permits	96,899			96,899
Intergovernmental	717,236	404,529	\$ 851,741	1,973,506
Charges for services	1,789,456	19,324	13,527	1,822,307
Investment earnings	2,341		310	2,651
Rent	46,500		12,039	58,539
Contributions	18,319		61,845	80,164
Miscellaneous	173,944		138,197	312,141
Total revenues	6,457,032	1,121,823	1,077,659	8,656,514
Expenditures:				
Current:				
General government	1,470,882		409,309	1,880,191
Public safety	3,977,520		61,554	4,039,074
Transportation		1,066,671	29,445	1,096,116
Culture and recreation	358,455		6,086	364,541
Capital outlay		83,000	532,143	615,143
Debt service:				
Principal	38,259			38,259
Interest	3,787			3,787
Total expenditures	5,848,903	1,149,671	1,038,537	8,037,111
Excess (deficiency) of revenues over expenditures	608,129	(27,848)	39,122	619,403
Other financing (uses) sources:				
Transfers in	315,845	11,341	223,762	550,948
Transfers out	(536,730)	(20,505)	(56,751)	(613,986)
Total other financing (uses) sources	(220,885)	(9,164)	167,011	(63,038)
Net change in fund balances	387,244	(37,012)	206,133	556,365
Fund balances, July 1, 2015	1,709,132	218,454	742,560	2,670,146
Fund balances, June 30, 2016	\$ 2,096,376	\$ 181,442	\$ 948,693	\$ 3,226,511

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
 RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2016

Net changes in fund balances - total governmental funds \$ 556,365

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

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

Capital outlay	\$ 604,499	
Depreciation expense	<u>(586,303)</u>	18,196

Repayment of principal of long-term debt consumes the current financial resources of governmental funds. However, these payments have no effect on net position. This amount is the effect of difference in the treatment of repayments of long-term debt and related items. 30,275

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

Decrease in compensated absences 5,457

Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities. (590,155)

Change in net position of governmental activities \$ 20,138

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 518,991		\$ 508,628	\$ 1,027,619
Accounts receivable, net of allowance for uncollectibles, current	305,934	\$ 94,449		400,383
Restricted cash and cash equivalents, current	827,861			827,861
Inventory			96,752	96,752
Prepaid items			25,424	25,424
Due from other funds	438,118			438,118
Due from other governments	12,159			12,159
Total current assets	<u>2,103,063</u>	<u>94,449</u>	<u>630,804</u>	<u>2,828,316</u>
Noncurrent assets:				
Restricted cash and cash equivalents, noncurrent	317,779			317,779
Accounts receivable, net of allowance for uncollectibles, noncurrent	177,281	49,674		226,955
Capital assets (net of accumulated depreciation):				
Land	47,660			47,660
Construction in progress	372,406			372,406
Buildings, net	9,054,782		69,350	9,124,132
Improvements other than buildings, net	1,149,425			1,149,425
Machinery and equipment, net	1,527,531	182,241	2,677	1,712,449
Infrastructure, net	<u>13,124,323</u>			<u>13,124,323</u>
Total capital assets, net	<u>25,276,127</u>	<u>182,241</u>	<u>72,027</u>	<u>25,530,395</u>
Total noncurrent assets	<u>25,771,187</u>	<u>231,915</u>	<u>72,027</u>	<u>26,075,129</u>
Total assets	<u>27,874,250</u>	<u>326,364</u>	<u>702,831</u>	<u>28,903,445</u>
Deferred Outflows of Resources				
Deferred outflows related to pensions	<u>46,757</u>	<u>42,895</u>	<u>22,574</u>	<u>112,226</u>
Total deferred outflows of resources	<u>46,757</u>	<u>42,895</u>	<u>22,574</u>	<u>112,226</u>
Liabilities				
Current liabilities:				
Accrued payroll and employee benefits	12,092	11,738	11,352	35,182
Accounts payable	35,563	23,793	10,424	69,780
Accrued interest payable	228,906			228,906
Due to other funds		438,118		438,118
Deposits held for others			2,876	2,876
Current portion of long-term debt	<u>827,861</u>	<u>20,256</u>		<u>848,117</u>
Total current liabilities	<u>1,104,422</u>	<u>493,905</u>	<u>24,652</u>	<u>1,622,979</u>
Noncurrent liabilities:				
Long-term debt, net of current portion	<u>11,811,836</u>	<u>487,655</u>	<u>265,995</u>	<u>12,565,486</u>
Total noncurrent liabilities	<u>11,811,836</u>	<u>487,655</u>	<u>265,995</u>	<u>12,565,486</u>
Total liabilities	<u>12,916,258</u>	<u>981,560</u>	<u>290,647</u>	<u>14,188,465</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	<u>59,019</u>	<u>54,144</u>	<u>28,494</u>	<u>141,657</u>
Total deferred inflows of resources	<u>59,019</u>	<u>54,144</u>	<u>28,494</u>	<u>141,657</u>
Net Position				
Net investment in capital assets	13,362,781	140,878	72,027	13,575,686
Restricted for debt service	1,145,640			1,145,640
Unrestricted (deficit)	<u>437,309</u>	<u>(807,323)</u>	<u>334,237</u>	<u>(35,777)</u>
Total net position (deficit)	<u>\$ 14,945,730</u>	<u>\$ (666,445)</u>	<u>\$ 406,264</u>	<u>\$ 14,685,549</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, 2016

	<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	\$ 2,155,981	\$ 849,059	\$ 748,342	\$ 3,753,382
Customer penalties and interest	159,114			159,114
Miscellaneous	<u>20,636</u>		<u>3,000</u>	<u>23,636</u>
Total operating revenues	2,335,731	849,059	751,342	3,936,132
Operating expenses:				
Cost of sales and services	1,007,651	696,427	612,547	2,316,625
Depreciation	<u>1,170,714</u>	<u>57,199</u>	<u>12,336</u>	<u>1,240,249</u>
Total operating expenses	<u>2,178,365</u>	<u>753,626</u>	<u>624,883</u>	<u>3,556,874</u>
Operating income	157,366	95,433	126,459	379,258
Nonoperating revenues (expenses):				
Intergovernmental	15,632			15,632
Interest income	499			499
Interest expense	<u>(357,487)</u>			<u>(357,487)</u>
Total nonoperating revenues (expenses)	<u>(341,356)</u>			<u>(341,356)</u>
(Loss) income before transfers	(183,990)	95,433	126,459	37,902
Transfers in	386,401			386,401
Transfers out	<u>(178,824)</u>	<u>(82,744)</u>	<u>(61,795)</u>	<u>(323,363)</u>
Increase in net position	23,587	12,689	64,664	100,940
Total net position (deficit), July 1, 2015	<u>14,922,143</u>	<u>(679,134)</u>	<u>341,600</u>	<u>14,584,609</u>
Total net position (deficit), June 30, 2016	<u>\$ 14,945,730</u>	<u>\$ (666,445)</u>	<u>\$ 406,264</u>	<u>\$ 14,685,549</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, 2016

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,250,573	\$ 846,290	\$ 747,627	\$ 3,844,490
Other operating receipts	20,636		3,000	23,636
Cash payments to employees	(395,918)	(380,261)	(338,831)	(1,115,010)
Cash payments to suppliers for goods and services	(588,820)	(375,870)	(280,114)	(1,244,804)
Net cash provided by operating activities	<u>1,286,471</u>	<u>90,159</u>	<u>131,682</u>	<u>1,508,312</u>
Cash flows from noncapital financing activities:				
Proceeds from grants	15,632			15,632
(Payments to) advances from other funds	(12,024)	12,024		
Payments to other governments	373,175			373,175
Cash transfers from other funds	347,408			347,408
Cash transfers to other funds	(173,745)	(82,744)	(61,795)	(318,284)
Net cash provided (used) by noncapital financing activities	<u>550,446</u>	<u>(70,720)</u>	<u>(61,795)</u>	<u>417,931</u>
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(812,276)	(19,439)		(831,715)
Interest paid on long-term debt	(347,019)			(347,019)
Purchases of capital assets	(569,277)			(569,277)
Net cash used by capital and related financing activities	<u>(1,728,572)</u>	<u>(19,439)</u>		<u>(1,748,011)</u>
Cash flows from investing activities:				
Interest income	499			499
Net cash provided by investing activities	<u>499</u>			<u>499</u>
Net increase in cash and cash equivalents	108,844		69,887	178,731
Cash and cash equivalents, June 30, 2015	<u>1,555,787</u>		<u>438,741</u>	<u>1,994,528</u>
Cash and cash equivalents, June 30, 2016	<u>\$ 1,664,631</u>	<u>\$</u>	<u>\$ 508,628</u>	<u>\$ 2,173,259</u>
Cash and cash equivalents consisted of the following at June 30, 2016:				
Unrestricted cash and cash equivalents	\$ 518,991		\$ 508,628	\$ 1,027,619
Restricted cash and cash equivalents, current	827,861			827,861
Restricted cash and cash equivalents, noncurrent	317,779			317,779
	<u>\$ 1,664,631</u>	<u>\$</u>	<u>\$ 508,628</u>	<u>\$ 2,173,259</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 157,366	\$ 95,433	\$ 126,459	\$ 379,258
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,170,714	57,199	12,336	1,240,249
Pension expense	96,919	(8,477)	2,427	90,869
Employer pension contributions	(31,482)	(28,882)	(15,199)	(75,563)
Changes in assets and liabilities:				
Accounts receivable	(64,523)	(2,769)		(67,292)
Inventory			618	618
Prepaid items			73	73
Accrued payroll and employee benefits	810	3,511	2,754	7,075
Accounts payable	(40,658)	(14,804)	(557)	(56,019)
Compensated absences payable	(2,675)	(11,052)	2,056	(11,671)
Deposits held for others			715	715
Net cash provided by operating activities	<u>\$ 1,286,471</u>	<u>\$ 90,159</u>	<u>\$ 131,682</u>	<u>\$ 1,508,312</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 73 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government-wide statements - Provide information about the primary government 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 *Streets Fund* accounts for the operation and maintenance of the City's streets, rights of way and street lighting throughout the City.

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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus/Basis of Accounting

The government-wide and proprietary funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers city sales tax, state sales tax, vehicle license tax, and property tax revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Those revenues susceptible to accrual prior to receipt are franchise taxes; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the City's behalf. Fines and forfeits and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

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

Under the terms of grant agreements, the City funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net 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, 2016

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, 2016, expenditures exceeded appropriations at the departmental levels for the general fund and special revenue funds as follows:

<u>General Fund:</u>	
General government:	
City manager	\$ 479
Legal services	1,574
Information systems	1,082
Garage	55,509
Public Safety:	
Fire department	219,083
Culture and recreation:	
Swimming pool	5,932
Senior citizens' center	3,670
 <u>Streets Fund:</u>	
Transportation	28,726
Capital Outlay	83,000

The excesses were primarily due to unexpected expenditures and lower than expected revenues.

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 7), 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 56% of the current portion of the year-end accounts receivable balance, and 80% of the noncurrent accounts receivable balance. The noncurrent accounts receivable balance includes the accounts of customers on payment plans and accounts with liens placed on properties.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. 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, 2016 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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

M. Investment Earnings

Investment earnings is composed of interest, dividends, and net changes in the estimated 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 authorized 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.

O. Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as revenue in future periods.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

P. Pensions

For purposes of measuring the net pension (asset and) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) 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, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the City may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit Risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.
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.

Custodial Credit Risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of Credit Risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

Deposits:

At June 30, 2016, the carrying amount of deposits was \$4,372,211, and the bank balance was \$4,461,043. At June 30, 2016, 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. The City does not have a formal policy with respect to custodial credit risk.

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, 2016, the City's investments were as follows:

	Amount	Maturities
State Treasurer's investment pool 5	\$ 532,110	n/a

Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the City held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2016, included the following:

	General Fund	Streets Fund	Other Governmental Funds	Wastewater Fund	Total
Arizona State Treasurer:					
State sales tax	\$ 77,308				\$ 77,308
City sales tax	337,982				337,982
Highway user revenue fund		\$ 67,492			67,492
Vehicle license tax	11,266				11,266
Urban revenue sharing	53,131				53,131
Arizona Department of Transportation			\$ 40,802		40,802
Arizona Department of Homeland Security			3,775		3,775
Arizona Department of Housing			3,000		3,000
Other	10,275		17,155	\$ 12,159	39,589
Total	\$ 489,962	\$ 67,492	\$ 64,732	\$ 12,159	\$ 634,345

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 571,670			\$ 571,670
Construction in progress	<u>15,767</u>	<u>\$ 77,714</u>		<u>93,481</u>
Total capital assets not being depreciated	<u>587,437</u>	<u>77,714</u>		<u>665,151</u>
Capital assets being depreciated:				
Buildings	3,740,701	11,727		3,752,428
Improvements other than buildings	1,145,996			1,145,996
Airport	4,387,993		\$ (4,129)	4,383,864
Machinery and equipment	3,541,381	592,772	(39,221)	4,094,932
Infrastructure	<u>3,837,807</u>			<u>3,837,807</u>
	16,653,878	604,499	(43,350)	17,215,027
Less: accumulated depreciation	<u>7,563,997</u>	<u>586,303</u>	<u>(42,553)</u>	<u>8,107,747</u>
Total capital assets being depreciated, net	<u>9,089,881</u>	<u>18,196</u>	<u>(797)</u>	<u>9,107,280</u>
 Total capital assets, net	 <u>\$ 9,677,318</u>	 <u>\$ 95,910</u>	 <u>\$ (797)</u>	 <u>\$ 9,772,431</u>
	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Construction in progress	2,099,168	\$ 26,535	\$ (1,753,297)	372,406
Buildings	13,723,166	152,985	(2,550)	13,873,601
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	2,767,928	29,905	(18,753)	2,779,080
Infrastructure	<u>17,027,156</u>	<u>1,775,208</u>		<u>18,802,364</u>
	38,263,160	1,984,633	(1,774,600)	38,473,193
Less: accumulated depreciation	<u>11,723,852</u>	<u>1,240,249</u>	<u>(21,303)</u>	<u>12,942,798</u>
Net business-type assets	<u>\$26,539,308</u>	<u>\$ 744,384</u>	<u>\$ (1,753,297)</u>	<u>\$ 25,530,395</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 21,219
Public safety	98,021
Public works	177,947
Transportation	222,224
Culture and recreation	<u>66,892</u>
Total governmental activities depreciation	<u>\$ 586,303</u>
Business-type activities:	
Wastewater	\$ 1,170,714
Sanitation	57,199
Queen Mine	<u>12,336</u>
Total business-type activities depreciation	<u>\$ 1,240,249</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2016, was as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases payable	\$ 54,501		\$ (30,275)	\$ 24,226	\$ 16,049
Net pension liabilities	19,390,366	\$ 578,210		19,968,576	
Compensated absences payable	<u>154,335</u>	<u>139,285</u>	<u>(144,742)</u>	<u>148,878</u>	
Total governmental activities	<u>\$ 19,599,202</u>	<u>\$ 717,495</u>	<u>\$ (175,017)</u>	<u>\$ 20,141,680</u>	<u>\$ 16,049</u>
Business-type activities:					
WIFA note payable	\$ 7,909,926		\$ (650,023)	\$ 7,259,903	\$ 663,025
WIFA note payable (Solar)	1,118,890		(44,581)	1,074,309	45,915
USDA note payable	2,572,778		(81,903)	2,490,875	82,772
USDA note payable	<u>1,124,028</u>		<u>(35,769)</u>	<u>1,088,259</u>	<u>36,149</u>
Total notes payable	12,725,622		(812,276)	11,913,346	827,861
Capital leases payable	60,802		(19,439)	41,363	20,256
Net pension liabilities	1,328,866	\$ 99,345		1,428,211	
Compensated absences payable	<u>42,352</u>	<u>32,400</u>	<u>(44,069)</u>	<u>30,683</u>	
Total business-type activities	<u>\$ 14,157,642</u>	<u>\$ 131,745</u>	<u>\$ (875,784)</u>	<u>\$ 13,413,603</u>	<u>\$ 848,117</u>
Total	<u>\$ 33,756,844</u>	<u>\$ 849,240</u>	<u>\$ (1,050,801)</u>	<u>\$ 33,555,283</u>	<u>\$ 864,166</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, 2016, 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	\$ 7,259,903
WIFA (Solar)	1,163,863	2.99%	2033	1,074,309
USDA, 2006	3,050,000	4.25%	2035	2,490,875
USDA, 2006	<u>1,332,000</u>	4.25%	2035	<u>1,088,259</u>
	<u>\$ 18,217,548</u>			<u>\$ 11,913,346</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 - 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>
2017	\$ 827,861	\$ 351,216
2018	847,400	328,295
2019	867,449	304,818
2020	888,021	286,177
2021	909,132	266,064
2022-2026	4,882,300	910,596
2027-2031	1,294,685	424,817
2032-2036	1,396,498	160,086
Total	<u>\$ 11,913,346</u>	<u>\$ 3,032,069</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>
Assets:			
Machinery and equipment	\$ 303,131	\$ 176,424	\$ 479,555
Less accumulated depreciation	<u>(194,915)</u>	<u>(148,490)</u>	<u>(343,405)</u>
Total	<u>\$ 108,216</u>	<u>\$ 27,934</u>	<u>\$ 136,150</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Year ending June 30,		
2017	\$ 16,561	\$ 21,768
2018	<u>8,280</u>	<u>21,768</u>
Total minimum lease payments	24,841	43,536
Less amount representing interest	<u>(615)</u>	<u>(2,173)</u>
Present value of future minimum payments	<u>\$ 24,226</u>	<u>\$ 41,363</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 - INTERFUND BALANCES AND ACTIVITY

Interfund Receivables and Payables:

Interfund balances at June 30, 2016, were as follows:

	Payable to
Payable from	Wastewater Fund
Sanitation Fund	\$ 438,118

The Sanitation Fund maintained a negative cash balance at June 30, 2016. The negative cash balance was reduced by interfund borrowing from the Wastewater Fund.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2016, were as follows:

Transfers In	Transfers Out						Total
	General Fund	Streets Fund	Other Governmental Funds	Wastewater Fund	Sanitation Fund	Queen Mine Fund	
Governmental Funds:							
General Fund			\$ 19,335	\$ 167,971	\$ 82,744	\$ 45,795	\$ 315,845
Streets Fund	\$ 11,341						11,341
Other Governmental Funds	176,404	\$ 20,505		10,853		16,000	223,762
Business-type Funds:							
Wastewater Fund	348,985		37,416				386,401
Total	\$ 536,730	\$ 20,505	\$ 56,751	\$ 178,824	\$ 82,744	\$ 61,795	\$ 937,349

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, 2016

NOTE 9 - GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

Details of governmental fund balance classifications at June 30, 2016, are as follows:

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Fund balances:</u>				
Nonspendable - prepaid items	\$ 44,758		\$ 12,635	\$ 57,393
Restricted for:				
Public safety			8,574	8,574
Highways and streets		\$ 181,442		181,442
Transportation			66,240	66,240
Culture and recreation			61,542	61,542
Other			<u>48,001</u>	<u>48,001</u>
Total restricted		<u>181,442</u>	<u>184,357</u>	<u>365,799</u>
Committed to:				
Cemetery maintenance	4,233			4,233
Bisbee Arts			18,017	18,017
Youth programs			125,645	125,645
Donor designated contributions			41,348	41,348
Capital improvements			<u>638,793</u>	<u>638,793</u>
Total committed	<u>4,233</u>		<u>823,803</u>	<u>828,036</u>
Assigned - contingency reserves				
Unassigned	<u>2,047,385</u>		<u>(72,102)</u>	<u>1,975,283</u>
Total fund balances	<u>\$ 2,096,376</u>	<u>\$ 181,442</u>	<u>\$ 948,693</u>	<u>\$ 3,226,511</u>

The July 1, 2015 fund balances in the Other Governmental Funds do not agree to the prior year financial statements. This is a result of the classification of the Streets fund as a major fund during the fiscal year ended June 30, 2016.

	<u>Streets Fund</u>	<u>Other Governmental Funds</u>
Fund balance, June 30, 2015 as previously reported		\$ 961,014
Fund reclassification	\$ 218,454	<u>(218,454)</u>
Fund balance, July 1, 2015	<u>\$ 218,454</u>	<u>\$ 742,560</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10 - 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 11 - CONTINGENT LIABILITIES

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

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the retirement plans described below. The plans are component units of the State of Arizona. At June 30, 2016, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

<u>Statement of Net Position and Statement of Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net pension liabilities	\$ 19,968,576	\$ 1,428,211	\$ 21,396,787
Deferred outflows of resources	3,202,509	112,226	3,314,735
Deferred inflows of resources	(277,875)	(141,657)	(419,532)
Pension expense	1,446,460	75,563	1,522,023

The City reported accrued payroll and employee benefits of \$63,730 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016.

A. Arizona State Retirement System

Plan Description - City employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits Provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement	
	<u>Initial membership date:</u>	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The City's contributions to the pension plan for the year ended June 30, 2016 and the preceding 2 years were as follows:

Year ended June 30:	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	\$ 176,660	\$ 8,141	\$ 1,954
2015	194,333	10,529	2,141
2014	199,109	10,572	4,229

During fiscal year 2016, the City paid for ASRS pension and OPEB contributions as follows: 27 percent from the General Fund, 43 percent from enterprise funds, and 30 percent from other governmental funds.

Pension Liability - At June 30, 2016, the City reported a liability of \$3,141,111 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015.

The City's proportion of the net pension liability was based on the City's actual contributions to the pension plan relative to the total of all participating employers contributions. The City's proportion measured as of June 30, 2015 and 2014 was 0.020 percent.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2016, the City recognized pension expense for ASRS of \$117,533. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 85,714	\$ 164,597
Net difference between projected and actual earnings on pension plan investments		100,666
Changes in proportion and differences between City contributions and proportionate share of contributions		65,919
City contributions subsequent to the measurement date	176,660	
Total	\$ 262,374	\$ 331,182

The \$176,660 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2017	\$ (110,482)
2018	(132,924)
2019	(74,731)
2020	72,699

Actuarial Assumptions - The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 20, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Rate of Return
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate - The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City’s proportionate share of the net pension liability	\$ 4,115,928	\$ 3,141,111	\$ 2,473,041

Pension Plan Fiduciary Net Position - Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

B. Public Safety Personnel Retirement System (PSPRS)

Plan Description - 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. The PSPRS issues publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

Benefits Provided - The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	<u>Initial membership date:</u>	
	<u>Before January 1, 2012</u>	<u>On or after January 1, 2012</u>
<u>Retirement and Disability:</u>		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years and age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
<u>Benefit percent:</u>		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
<u>Survivor Benefit:</u>		
Retired Members	80% of retired member's pension benefit	
Active Members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employees Covered by Benefit Terms - At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Inactive employees or beneficiaries currently receiving benefits	17	22
Inactive employees entitled to but not yet receiving benefits	2	8
Active employees	13	18
Total	32	48

Contributions and Annual OPEB Cost - State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Active members - Pension	11.65%	11.65%
City:		
Pension	72.65	72.42
Health insurance premium benefit	0.89	

For the agent plans, the City's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
<u>Pension:</u>		
Contributions made	\$ 542,691	\$ 802,672
<u>Health Insurance Premium Benefit:</u>		
Annual OPEB cost	6,648	
Contributions made	6,648	

During fiscal year 2016, the City paid for PSPRS pension and OPEB contributions from the General Fund.

Pension Liability - At June 30, 2016, the City reported the following net pension liabilities:

PSPRS - Police	\$ 8,118,033
PSPRS - Fire	10,137,646

The net pension liabilities (and asset) were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2015, reflect the changes of benefit terms and actuarial assumptions for a court ruling for permanent benefit increases and a decrease in the wage growth assumption.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of two percent. The change in the City's net pension liability as a result of the statutory adjustments is not known.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Pension Actuarial Assumptions - The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%–8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Rate of Return
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

Pension Discount Rates - The discount rate of 7.85 percent was used to measure the total pension liabilities.

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Changes in the PSPRS net pension liabilities are as follows for the year ended June 30, 2016:

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
PSPRS - Police			
Balances at June 30, 2015	<u>\$ 9,548,061</u>	<u>\$ 1,699,883</u>	<u>\$ 7,848,178</u>
Changes for the year:			
Service cost	113,055		113,055
Interest on the total pension liability	713,065		713,065
Differences between expected and actual experience in the measurement of the pension liability	(30,404)		(30,404)
Contributions—employer		401,838	(401,838)
Contributions—employee		70,709	(70,709)
Net investment income		56,297	(56,297)
Benefit payments, including refunds of employee contributions	(1,041,927)	(1,041,927)	
Administrative expense		(1,737)	1,737
Other changes		(1,246)	1,246
Net changes	<u>(246,211)</u>	<u>(516,066)</u>	<u>269,855</u>
Balances at June 30, 2016	<u>\$ 9,301,850</u>	<u>\$ 1,183,817</u>	<u>\$ 8,118,033</u>
PSPRS - Fire			
Balances at June 30, 2015	<u>\$ 10,727,439</u>	<u>\$ 868,246</u>	<u>\$ 9,859,193</u>
Changes for the year:			
Service cost	148,284		148,284
Interest on the total pension liability	807,124		807,124
Differences between expected and actual experience in the measurement of the pension liability	7,207		7,207
Contributions—employer		566,273	(566,273)
Contributions—employee		95,678	(95,678)
Net investment income		26,028	(26,028)
Benefit payments, including refunds of employee contributions	(1,039,495)	(1,039,495)	
Administrative expense		(941)	941
Other changes		(2,876)	2,876
Net changes	<u>(76,880)</u>	<u>(355,333)</u>	<u>278,453</u>
Balances at June 30, 2016	<u>\$ 10,650,559</u>	<u>\$ 512,913</u>	<u>\$ 10,137,646</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Sensitivity of the City's Net Pension Liability to Changes in the Discount Rate - The following table presents the City's net pension liabilities calculated using the discount rates noted above, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>PSPRS - Police</u>			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 9,130,172	\$ 8,118,033	\$ 7,269,543
<u>PSPRS - Fire</u>			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 11,217,229	\$ 10,137,646	\$ 9,223,542

Pension Plan Fiduciary Net Position - Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense - For the year ended June 30, 2016, the City recognized the following pension expense:

PSPRS - Police	\$ 988,862
PSPRS - Fire	1,101,961

Pension Deferred Outflows/Inflows of Resources - At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>PSPRS - Police</u>		
Differences between expected and actual experience	\$ 85,809	\$ 22,878
Changes of assumptions or other inputs	619,495	
Net difference between projected and actual earnings on pension plan investments	43,743	53,837
City contributions subsequent to the measurement date	542,691	
Total	<u>\$ 1,291,738</u>	<u>\$ 76,715</u>
<u>PSPRS - Fire</u>		
Differences between expected and actual experience	\$ 38,144	
Changes of assumptions or other inputs	919,171	
Net difference between projected and actual earnings on pension plan investments	21,729	\$ 32,728
City contributions subsequent to the measurement date	802,672	
Total	<u>\$ 1,781,716</u>	<u>\$ 32,728</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PSPRS- Police</u>	<u>PSPRS- Fire</u>
Year ending June 30:		
2017	\$ 341,444	\$ 291,603
2018	334,790	291,603
2019	(14,537)	291,602
2020	10,635	770,941
2021		567

Agent Plan OPEB Trend Information - The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years:

Year Ended June 30,	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>
<u>PSPRS - Police</u>		
2016	\$ 0	100%
2015	15,376	100%
2014	13,844	100%
<u>PSPRS - Fire</u>		
2016	\$ 0	100%
2015	11,588	100%
2014	9,916	100%

Agent Plan OPEB Actuarial Assumptions - Actuarial valuations involve estimates of the reported amounts' value 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 for the health insurance premium benefit 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 benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements, are as follows:

PSPRS—OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%–8%
Wage growth	4%

The funded status of the all the PSPRS health insurance premium benefit plans in the June 30, 2015, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

PSPRS—OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%–8%
Wage growth	4%

Agent Plan OPEB Funded Status - The following table presents the funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2016.

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Actuarial value of assets (a)	\$ 164,200	\$ 236,389
Actuarial accrued liability (b)	228,367	181,472
Unfunded actuarial accrued liability (funding excess) (b) – (a)	64,167	(54,917)
Funded ratio (a)/(b)	71.90 %	130.26 %
Annual covered payroll (c)	442,576	944,130
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c)	14.50 %	(5.82)%

REQUIRED SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 4,356,204	\$ 4,356,204	\$ 3,612,045	\$ (744,159)
Fines and forfeitures			292	292
Licenses and permits	103,500	103,500	96,899	(6,601)
Intergovernmental	671,229	671,229	717,236	46,007
Charges for services	1,176,400	1,176,400	1,789,456	613,056
Investment earnings			2,341	2,341
Rent			46,500	46,500
Contributions	1,000	1,000	18,319	17,319
Miscellaneous	193,500	193,500	173,944	(19,556)
Total revenues	<u>6,501,833</u>	<u>6,501,833</u>	<u>6,457,032</u>	<u>(44,801)</u>
Expenditures:				
General government:				
Mayor and council	38,144	38,144	37,623	521
City manager	121,860	121,860	122,339	(479)
Finance department	428,363	428,363	379,142	49,221
City clerk	133,405	133,405	113,162	20,243
Community development	115,375	115,375	90,584	24,791
Administrative and general government	1,485,698	1,485,698	169,999	1,315,699
Personnel	73,651	73,651	44,697	28,954
Legal services	61,225	61,225	62,799	(1,574)
Water systems	5,600	5,600	3,028	2,572
Information systems	88,170	88,170	89,252	(1,082)
Cemetery	9,318	9,318	6,198	3,120
Building maintenance	44,950	44,950	33,905	11,045
Public works administration	113,095	113,095	101,708	11,387
Garage	99,673	99,673	155,182	(55,509)
Building inspector	62,614	62,614	58,742	3,872
Contingency	100,000	100,000	2,522	97,478
Total general government	<u>2,981,141</u>	<u>2,981,141</u>	<u>1,470,882</u>	<u>1,510,259</u>
Public safety:				
Police department	1,942,404	1,942,404	1,676,020	266,384
Fire department	2,035,670	2,035,670	2,254,753	(219,083)
City magistrate	48,000	48,000	46,747	1,253
Total public safety	<u>4,026,074</u>	<u>4,026,074</u>	<u>3,977,520</u>	<u>48,554</u>
Culture and recreation:				
Parks	175,062	175,062	159,085	15,977
Swimming pool	18,700	18,700	24,632	(5,932)
Library	205,163	205,163	147,611	57,552
Senior citizens' center	23,457	23,457	27,127	(3,670)
Total culture and recreation	<u>422,382</u>	<u>422,382</u>	<u>358,455</u>	<u>63,927</u>
Total expenditures	<u>7,429,597</u>	<u>7,429,597</u>	<u>5,806,857</u>	<u>1,622,740</u>
Excess of revenues (under) over expenditures	(927,764)	(927,764)	650,175	(1,667,541)
Other financing (uses) sources:				
Principal payments on leases	(63,716)	(63,716)	(38,259)	25,457
Interest payments on leases	(5,073)	(5,073)	(3,787)	1,286
Transfers in	927,764	927,764	315,845	(611,919)
Transfers out	(1,262,061)	(1,262,061)	(536,730)	(725,331)
Total other financing (uses) sources	<u>(403,086)</u>	<u>(403,086)</u>	<u>(262,931)</u>	<u>140,155</u>
Net change in fund balances	(1,330,850)	(1,330,850)	387,244	1,718,094
Fund balance, July 1, 2015	(551,401)	(551,401)	1,709,132	2,260,533
Fund balance, June 30, 2016	<u>\$ (1,882,251)</u>	<u>\$ (1,882,251)</u>	<u>\$ 2,096,376</u>	<u>\$ 3,978,627</u>

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
 STREETS FUND
 Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 703,560	\$ 703,560	\$ 697,970	\$ (5,590)
Intergovernmental	405,145	405,145	404,529	(616)
Charges for services	21,000	21,000	19,324	(1,676)
Total revenues	<u>1,129,705</u>	<u>1,129,705</u>	<u>1,121,823</u>	<u>(7,882)</u>
Expenditures:				
Transportation	1,037,945	1,037,945	1,066,671	(28,726)
Capital outlay			83,000	(83,000)
Total expenditures	<u>1,037,945</u>	<u>1,037,945</u>	<u>1,149,671</u>	<u>(111,726)</u>
Excess of revenues (under) over expenditures	91,760	91,760	(27,848)	103,844
Other financing (uses) sources:				
Transfers in			11,341	11,341
Transfers out	145,000	145,000	(20,505)	165,505
Total other financing (uses) sources	<u>145,000</u>	<u>145,000</u>	<u>(9,164)</u>	<u>(154,164)</u>
Net change in fund balances	236,760	236,760	(37,012)	(273,772)
Fund balance, July 1, 2015	<u>218,454</u>	<u>218,454</u>	<u>218,454</u>	<u></u>
Fund balance, June 30, 2016	<u>\$ 455,214</u>	<u>\$ 455,214</u>	<u>\$ 181,442</u>	<u>\$ (273,772)</u>

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COST-SHARING PLAN
 June 30, 2016

Arizona State Retirement System:

	Reporting Fiscal Year (Measurement Date)		
	<u>2016 (2015)</u>	<u>2015 (2014)</u>	<u>2014 through 2007</u>
City's proportion of the net pension liability	0.02 %	0.02 %	Information
City's proportionate share of the net pension liability	\$ 3,141,111	\$ 3,011,861	not available
City's covered-employee payroll	\$ 1,721,226	\$ 1,900,854	
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	54.80 %	63.11 %	
Plan fiduciary net position as a percentage of the total pension liability	68.35 %	69.49 %	

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS
June 30, 2016

<u>PSPRS - Police:</u>	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability:			
Service cost	\$ 113,055	\$ 121,391	Information
Interest on the total pension liability	713,065	588,428	not available
Changes of benefit terms		294,989	
Differences between expected and actual experience in the measurement of the pension liability	(30,404)	172,427	
Changes of assumptions or other inputs		1,244,835	
Benefit payments, including refunds of employee contributions	<u>(1,041,927)</u>	<u>(618,413)</u>	
Net change in total pension liability	(246,211)	1,803,657	
Total pension liability—beginning	<u>9,548,061</u>	<u>7,744,404</u>	
Total pension liability—ending (a)	<u><u>\$ 9,301,850</u></u>	<u><u>\$ 9,548,061</u></u>	
 Plan fiduciary net position:			
Contributions—employer	\$ 401,838	\$ 348,980	
Contributions—employee	70,709	104,080	
Net investment income	56,297	217,688	
Benefit payments, including refunds of employee contributions	(1,041,927)	(618,413)	
Administrative expense	(1,737)		
Other changes	<u>(1,246)</u>	<u>(130,415)</u>	
Net change in plan fiduciary net position	(516,066)	(78,080)	
Plan fiduciary net position—beginning	<u>1,699,883</u>	<u>1,777,963</u>	
Plan fiduciary net position—ending (b)	<u><u>\$ 1,183,817</u></u>	<u><u>\$ 1,699,883</u></u>	
 City's net pension liability (asset)—ending (a) – (b)	\$ 8,118,033	\$ 7,848,178	
Plan fiduciary net position as a percentage of the total pension liability	12.73 %	17.80 %	
Covered-employee payroll	\$ 648,977	\$ 605,942	
City's net pension liability as a percentage of covered- employee payroll	1,251 %	1,295 %	

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS - CONTINUED
June 30, 2016

<u>PSPRS - Fire:</u>	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability:			
Service cost	\$ 148,284	\$ 150,293	Information
Interest on the total pension liability	807,124	666,632	not available
Changes of benefit terms		385,339	
Differences between expected and actual experience in the measurement of the pension liability	7,207	52,323	
Changes of assumptions or other inputs		1,490,617	
Benefit payments, including refunds of employee contributions	<u>(1,039,495)</u>	<u>(869,480)</u>	
Net change in total pension liability	(76,880)	1,875,724	
Total pension liability—beginning	<u>10,727,439</u>	<u>8,851,715</u>	
Total pension liability—ending (a)	<u><u>\$ 10,650,559</u></u>	<u><u>\$10,727,439</u></u>	
Plan fiduciary net position:			
Contributions—employer	\$ 566,273	\$ 488,842	
Contributions—employee	95,678	83,553	
Net investment income	26,028	132,336	
Benefit payments, including refunds of employee contributions	(1,039,495)	(869,480)	
Administrative expense	(941)		
Other changes	<u>(2,876)</u>	<u>(212,994)</u>	
Net change in plan fiduciary net position	(355,333)	(377,743)	
Plan fiduciary net position—beginning	<u>868,246</u>	<u>1,245,989</u>	
Plan fiduciary net position—ending (b)	<u><u>\$ 512,913</u></u>	<u><u>\$ 868,246</u></u>	
City's net pension liability (asset)—ending (a) – (b)	\$ 10,137,646	\$ 9,859,193	
Plan fiduciary net position as a percentage of the total pension liability	4.82 %	8.09 %	
Covered-employee payroll	\$ 882,311	\$ 809,095	
City's net pension liability (asset) as a percentage of covered-employee payroll	1,149 %	1,219 %	

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS
June 30, 2016

ASRS:

	Reporting Fiscal Year			
	2016	2015	2014	2013 through 2007
Statutorily required contribution	\$ 176,660	\$ 194,333	\$ 199,109	Information not available
City's contributions in relation to the statutorily required contribution	<u>176,660</u>	<u>194,333</u>	<u>199,109</u>	
City's contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	
City's covered-employee payroll	\$ 1,721,226	\$ 1,784,509	\$ 1,762,027	
City's contributions as a percentage of covered-employee payroll	10.26 %	10.89 %	11.30 %	

PSPRS - Police:

	Reporting Fiscal Year			
	2016	2015	2014	2013 through 2007
Actuarially determined contribution	\$ 549,339	\$ 407,946	\$ 348,980	Information not available
City's contributions in relation to the actuarially determined contribution	<u>549,339</u>	<u>407,946</u>	<u>348,980</u>	
City's contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	
City's covered-employee payroll	\$ 648,977	\$ 648,977	\$ 605,942	
City's contributions as a percentage of covered-employee payroll	84.65 %	62.86 %	57.59 %	

PSPRS - Fire:

	Reporting Fiscal Year			
	2016	2015	2014	2013 through 2007
Actuarially determined contribution	\$ 802,672	\$ 566,273	\$ 488,842	Information not available
City's contributions in relation to the actuarially determined contribution	<u>802,672</u>	<u>566,273</u>	<u>488,842</u>	
City's contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	
City's covered-employee payroll	\$ 882,311	\$ 882,311	\$ 809,095	
City's contributions as a percentage of covered-employee payroll	90.97 %	64.18 %	60.42 %	

See accompanying notes to pension plan schedules.

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION
 NOTES TO PENSION PLAN SCHEDULES
 June 30, 2016

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
 June 30, 2016

Health Insurance Premium Benefit - PSPRS Police:

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (b) – (a)	Funded ratio (a)/(b)	Annual covered payroll (c)	UAAL as a percentage of covered payroll (b) – (a)/(c)
6/30/16	\$ 164,200	\$ 228,367	\$ 64,167	71.90 %	\$ 442,576	14.50 %
6/30/15	164,025	181,377	17,352	90.43 %	648,977	2.67 %
6/30/14	140,167	118,884	(21,283)	117.90 %	784,311	(2.71)%

Health Insurance Premium Benefit - PSPRS Fire:

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (b) – (a)	Funded ratio (a)/(b)	Annual covered payroll (c)	UAAL as a percentage of covered payroll (b) – (a)/(c)
6/30/16	\$ 236,389	\$ 181,472	\$ (54,917)	130.26 %	\$ 944,130	(5.82)%
6/30/15	232,942	173,593	(59,349)	134.19 %	882,311	(6.73)%
6/30/14	219,718	162,285	(57,433)	135.39 %	809,095	(7.10)%

See accompanying notes to schedule of agent OPEB plans' funding progress.

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
June 30, 2016

NOTE 1 - FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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

To the City Council of the
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, 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, 2016, 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 29, 2016.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies that we consider to be a significant deficiency described in a separate report entitled "Significant Deficiency and Client Advisory Comments" dated December 29, 2016.

Compliance and Other Matters

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

City of Bisbee's Response to the Finding

The City's response to the finding identified in our audit is described in a separate report entitled "Significant Deficiency and Client Advisory Comments". The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Fester & Chapman P.C.

December 29, 2016

City of Bisbee, Arizona

REPORT TO THE HONORABLE MAYOR AND CITY COUNCIL

June 30, 2016

December 29, 2016

To the Honorable Mayor and City Council
City of Bisbee, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bisbee, Arizona (the City) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 30, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. During the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

The net pension liability for ASRS and PSPRS was calculated using actuarial valuations as disclosed in financial statement Note 12.

Management's estimate of the allowance for doubtful accounts for ambulance receivables and customer accounts is based on calculations performed by management using historical collection rates.

Management's estimate of the useful lives of capital assets used to calculate depreciation expense is based on management's experience in accounting for depreciable capital assets.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of retirement plans in Note 12 to the financial statements is based on actuarial valuations involving estimates of the funding status of the City's retirement plans.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, which are included in the attached schedule accompanying this letter.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have issued a “Significant Deficiency and Client Advisory Comments” letter dated December 29, 2016, that describes internal control related matters and our related recommendations.

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedules and the Pension Plan Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Mayor, City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Fester & Chapman P.C.

City of Bisbee

Adjusting Journal Entries

Number	Date	Name	Account No	Debit	Credit
AJE 01	6/30/2016	FUND BALANCE	10-2935000 GF		2
AJE 01	6/30/2016	CONTRIBUTED CAPITAL	11-2931000 NMG		2
AJE 01	6/30/2016	FUND BALANCE - BEGINN OF YEAR	54-2935000 WW	711,073	
AJE 01	6/30/2016	FUND BALANCE - BEGINN OF YEAR	54-2935000 WW		39,940
AJE 01	6/30/2016	Net Pension Liability	54-2936000 WW		671,131
AJE 01	6/30/2016	FUND BALANCE - BEGINN OF YEAR	56-2935000 SN	539,212	
AJE 01	6/30/2016	FUND BALANCE - BEGINN OF YEAR	56-2935000 SN		30,193
AJE 01	6/30/2016	Net Pension Liability	56-2936000 SN		509,020
AJE 01	6/30/2016	CONSTRUCTION IN PROGRESS	59-1311000 QM		5,700
AJE 01	6/30/2016	FUND BALANCE	59-2935000 QM	291,818	
AJE 01	6/30/2016	FUND BALANCE	59-2935000 QM		16,390
AJE 01	6/30/2016	FUND BALANCE	59-2935000 QM	5,700	
AJE 01	6/30/2016	Net Pension Liability	59-2936000 QM		275,427
AJE 01	6/30/2016	UNASSIGNED EXPENSES	10-99-99100 GF	2	
AJE 01	6/30/2016	Unassigned expense	11-99-99100 NMG	2	
AJE 01	6/30/2016	Miscellaneous Revenue	54-36-50000 WW		2
AJE 01	6/30/2016	BAD DEBTS	56-40-79500 SN	1	
AJE 01	6/30/2016	MISCELLANEOUS	59-40-73000 QM		1

To agree beginning fund balances
to prior year audited financial statements.

AJE 02	6/30/2016	CITY SALES TAX	10-31-10000 GF	697,970	
AJE 02	6/30/2016	TRANSFER TO STREETS	10-55-99021 GF		697,970
AJE 02	6/30/2016	Sales Tax 1% Increase	21-36-10000 STR		697,970
AJE 02	6/30/2016	SALES TAX INCR - 1%	21-38-99011 STR	697,970	

To reclassify 1% sales tax revenue from transfers to revenue in the
Streets Fund and to eliminate the transaction in the General Fund.

AJE 03	6/30/2016	DUE FROM OTHER GOVERNMENTS	54-1012010 WW		17,000
AJE 03	6/30/2016	ACCOUNTS PAYABLE	54-2020000 WW	76,950	
AJE 03	6/30/2016	WIFA GRANTS/LOAN PROCEEDS	54-30-22500 WW	17,000	
AJE 03	6/30/2016	WIFA GRANTS/LOAN PROCEEDS	54-30-22500 WW		76,950

To reverse FY15 A/R payment
recorded as revenue and reclassify accounts payable balance.

AJE 04	6/30/2016	ACCOUNTS PAYABLE	10-2020000 GF		23,020
AJE 04	6/30/2016	ACCOUNTS PAYABLE	96-2020000 NMG		20,111
AJE 04	6/30/2016	NON CAP ADMIN EQUIP/FURN	10-64-42050 GF	23,020	
AJE 04	6/30/2016	CONTRACTOR OPERATING EXPENSES	96-40-41606 NMG	20,111	

To accrue expenses and adjust AP.