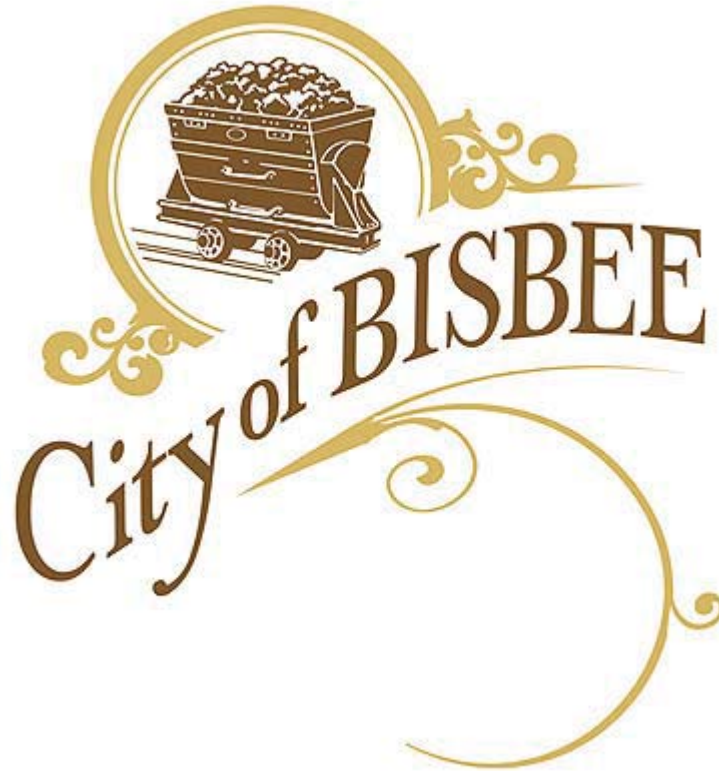


CITY OF BISBEE, ARIZONA



FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2017

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF BISBEE, ARIZONA

Table of Contents

Financial Section:

Independent Auditors' Report 1
Management's Discussion and Analysis 5

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position 19
Statement of Activities 20

Fund Financial Statements:

Balance Sheet – Governmental Funds 21
Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities 22
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds 23
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities 24
Statement of Net Position - Proprietary Funds 25
Statement of Revenues, Expenses and Changes
in Net Position - Proprietary Funds 26
Statement of Cash Flows - Proprietary Funds 27

Notes to the Financial Statements 28

Required Supplemental Information:

Schedule of the Proportionate Share of the Net Pension Liability 64
Schedule of Changes in the Net Pension Liability and Related Ratios 65
Schedule of Pension Contributions 67
Notes to Pension Plan Schedules 69
Schedule of Agent OPEB Plans' Funding Progress 70

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget
and Actual – General Fund 72
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget
and Actual – Streets Fund 74

Supplementary Information:

Combining and Individual Fund Financial Statements and Schedules: Combining Balance Sheet – Non-major Governmental Funds.....	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	78
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Grants Fund	80
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Public Safety Fire Grants Fund	81
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Transportation Grants Fund	82
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Transient Room Tax Fund	83
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Rico Drug Enforcement Asset Fund	84
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Bisbee Arts Commission Fund	85
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Miscellaneous Donations Fund	86
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Airport fund	87
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Police Special Revenue Grants Fund	88
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Public Works Grants Fund.....	89
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Miscellaneous Grants Fund.....	90
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Youth Program Fund.....	91
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Bisbee Bus Fund	92
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Capital Improvement Fund	93

Other Communications From Independent Auditors:

Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters	97
Report on Compliance with State Laws and Regulations	99

FINANCIAL SECTION

This page intentionally left blank

Independent Auditors' Report

The Honorable Mayor and
City Council
Bisbee, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, as of and for the fiscal year ended June 30, 2017, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the proportionate share of the net pension liability, the schedule of changes in the net pension liability and related ratios, the schedule of contributions, the schedule of agent OPEB funding progress, and budgetary comparison information as listed in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bisbee, Arizona's basic financial statements. The combining nonmajor fund financial statements, and nonmajor fund budget and actual schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary combining nonmajor fund financial statements and nonmajor fund budget and actual schedules were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budgetary comparison information for combining nonmajor fund financial statements and nonmajor fund budget and actual schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2018 on our consideration of the City of Bisbee, Arizona'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 City of Bisbee, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
February 13, 2018

This page intentionally left blank

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Required Supplementary Information)

This page intentionally left blank

CITY OF BISBEE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

As management of the City of Bisbee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity (3) identify changes in the City's financial position (4) identify any material deviations from the financial plan (the approved budget) and (5) individual fund issues or concerns.

The discussion and analysis (MD&A) has a different focus and purpose than the transmittal letter of this report, and is designed to be read in conjunction with the transmittal letter as well as the basic financial statements beginning on page 14 and the accompanying notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position at the close of the fiscal year was \$8.89 million. This amount is comprised of \$22.41 million in net investment in capital assets, \$2.15 million of restricted net position and (\$15.67 million) in unrestricted net position.
- Governmental net position decreased by \$1,089,018, before the prior period adjustment of (\$372,808) and Business-Type net position decreased by \$115,174.
- Total City Sales tax revenue increased by 0.97 percent from last year and still is the single largest revenue in the budget.
- Improvements totaling \$421,362 were made to the City's capital assets.
- Total debt service payments, including interest expense and net of new debt, were approximately \$1.0 million, leaving approximately \$32.55 million in total outstanding debt at the close of the year.
- The General Fund's unassigned fund balance decreased by \$473,991 to \$1,573,394. The unassigned fund balance represents 25.92 percent of total General Fund expenditures for the fiscal year.
- Other governmental fund balances decreased by \$180,913, before prior period adjustments of (\$41,164) to \$908,058, of which \$1,029,636 is restricted and (\$121,578) is committed.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works/streets, economic development, culture and recreation, and interest on long-term debt. Sales tax, federal grants, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers that is intended to cover all or most of the cost of the services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, 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. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included on pages 19 and 20.
- Proprietary funds – When the City charges customers for the services it provides, 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$8.89 million as of June 30, 2017 as shown in the following condensed statement of net position.

City of Bisbee Statement of Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Current and other assets	\$ 3,070,899	\$ 3,985,770	\$ 3,268,396	\$ 2,934,932	\$ 6,339,295	6,920,702
Capital assets	9,437,148	9,772,431	24,350,896	25,530,395	33,788,044	35,302,826
Total assets	12,508,047	13,758,201	27,619,292	28,465,327	40,127,339	42,223,528
Deferred outflows of resources	3,233,565	3,202,509	226,652	112,226	3,460,217	3,314,735
Long-term liabilities outstanding	19,735,759	20,125,631	10,478,097	12,565,486	30,213,856	32,691,117
Other liabilities	786,260	775,308	2,532,614	1,184,861	3,318,874	1,960,169
Total liabilities	20,522,019	20,900,939	13,010,711	13,750,347	33,532,730	34,651,286
Deferred inflows of resources	899,523	277,875	264,858	141,657	1,164,381	419,532
Net position:						
Invested in capital assets, net of related debt	9,428,971	9,748,205	12,981,301	13,575,686	22,410,272	23,323,891
Restricted	984,770	365,799	1,163,484	1,145,640	2,148,254	1,511,439
Unrestricted	(16,093,671)	(14,332,108)	425,590	(35,777)	(15,668,081)	(14,367,885)
Total net position	\$ (5,679,930)	\$ (4,218,104)	\$ 14,570,375	\$ 14,685,549	\$ 8,890,445	\$ 10,467,445

The City has \$43,587,556 in total assets and deferred outflows, with \$33,788,044 in capital assets (net of depreciation). The City's Utility Funds, (Wastewater, Sanitation, and Queen Mine) operations are included in the Business-type activities column.

Governmental Activities

The City's governmental programs include: General Government, Public Safety, Highways and Streets, Culture and Recreation, Economic Development, and Health and Welfare. Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

City of Bisbee
Changes in Net Position

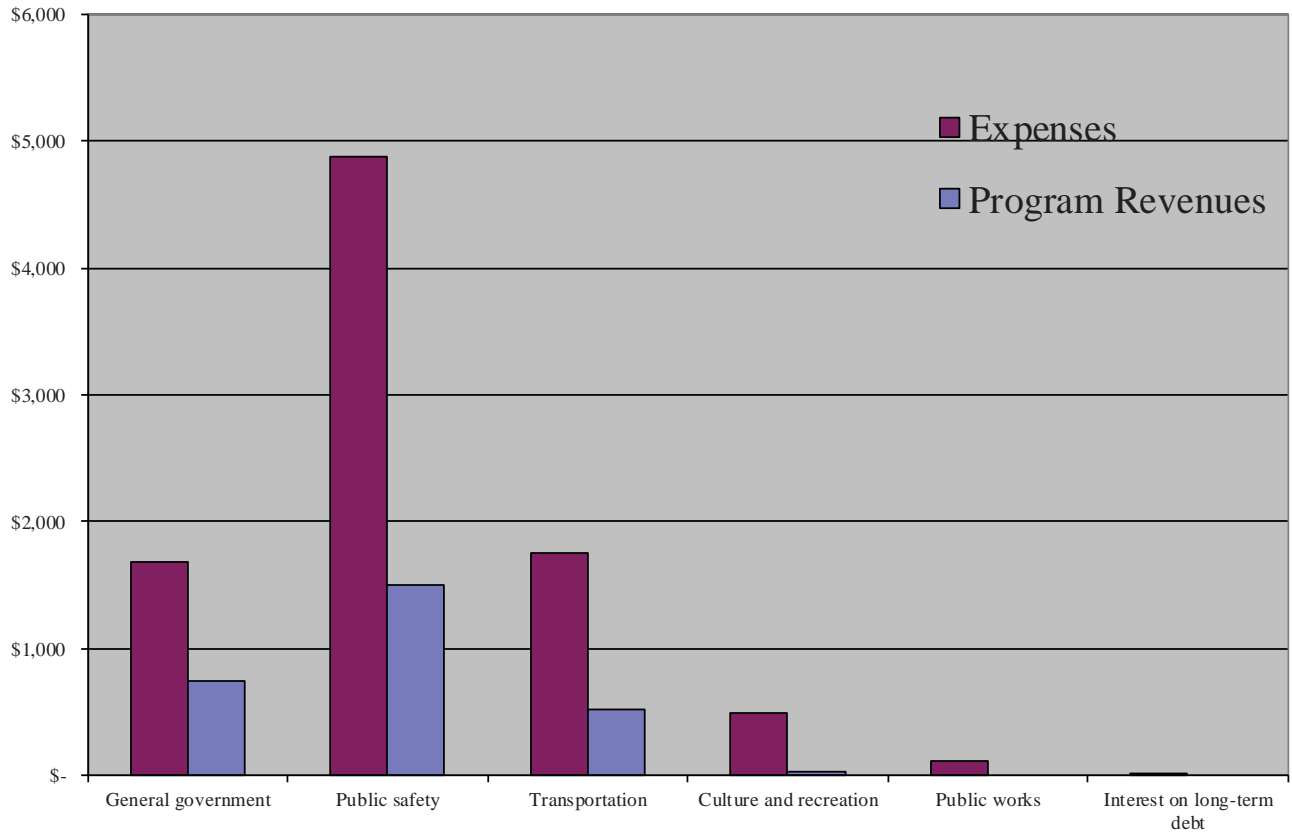
	Governmental activities		Business-type activities		Combined Total	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,728,711	\$ 2,002,569	\$ 4,065,254	\$ 3,912,496	\$ 5,793,965	\$ 5,915,065
Operating grants and contributions	897,050	740,833	-	15,632	897,050	756,465
Capital grants and contributions	172,505	618,039	-	-	172,505	618,039
General revenues:						
Sales taxes	2,907,378	2,407,286	-	-	2,907,378	2,407,286
Other taxes	1,386,918	1,639,843	-	-	1,386,918	1,639,843
State revenue sharing	637,161	519,435	-	-	637,161	519,435
Other	48,238	683,974	1,724	24,485	49,962	708,459
Total revenues	7,777,961	8,611,979	4,066,978	3,952,613	11,844,939	12,564,592
Expenses:						
General government	1,681,793	1,924,248	-	-	1,681,793	1,924,248
Public safety	4,876,985	4,868,534	-	-	4,876,985	4,868,534
Transportation	1,757,269	1,310,253	-	-	1,757,269	1,310,253
Culture and recreation	489,711	421,981	-	-	489,711	421,981
Public works	115,541	-	-	-	115,541	-
Interest on long-term debt	512	3,787	-	-	512	3,787
Wastewater	-	-	2,643,329	2,535,852	2,643,329	2,535,852
Sanitation	-	-	848,129	753,976	848,129	753,976
Queen Mine	-	-	635,862	624,883	635,862	624,883
Total expenses	8,921,811	8,528,803	4,127,320	3,914,711	13,049,131	12,443,514
(Decrease)/Increase in net assets before transfers	(1,143,850)	83,176	(60,342)	37,902	(1,204,192)	121,078
Transfers	54,832	(63,038)	(54,832)	63,038	-	-
Net position, beginning	(4,218,104)	(4,238,242)	14,685,549	14,584,609	10,467,445	10,346,367
Prior period adjustment	(372,808)	-	-	-	(372,808)	-
Net position, ending	\$ (5,679,930)	\$ (4,218,104)	\$ 14,570,375	\$ 14,685,549	\$ 8,890,445	\$ 10,467,445

The cost of all governmental activities this year was \$8,921,811 as shown in the schedule of Changes in Net Position above. \$1,728,711 of this cost was paid for by those who directly benefited from the programs. \$1,069,555 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes, Urban Revenue Sharing and investment earnings totaled \$4,979,695.

Total resources available during the year to finance governmental operations were \$3.19 million consisting of Net position at July 1, 2016 of (\$4.22 million) before a prior period adjustment of (\$372,808), program revenues of \$2.80 million and General Revenues of \$4.98 million. Total Governmental Activities during the year were \$8.92 million. Thus Governmental Net Position was decreased by \$1.46 million to (\$5.68 million).

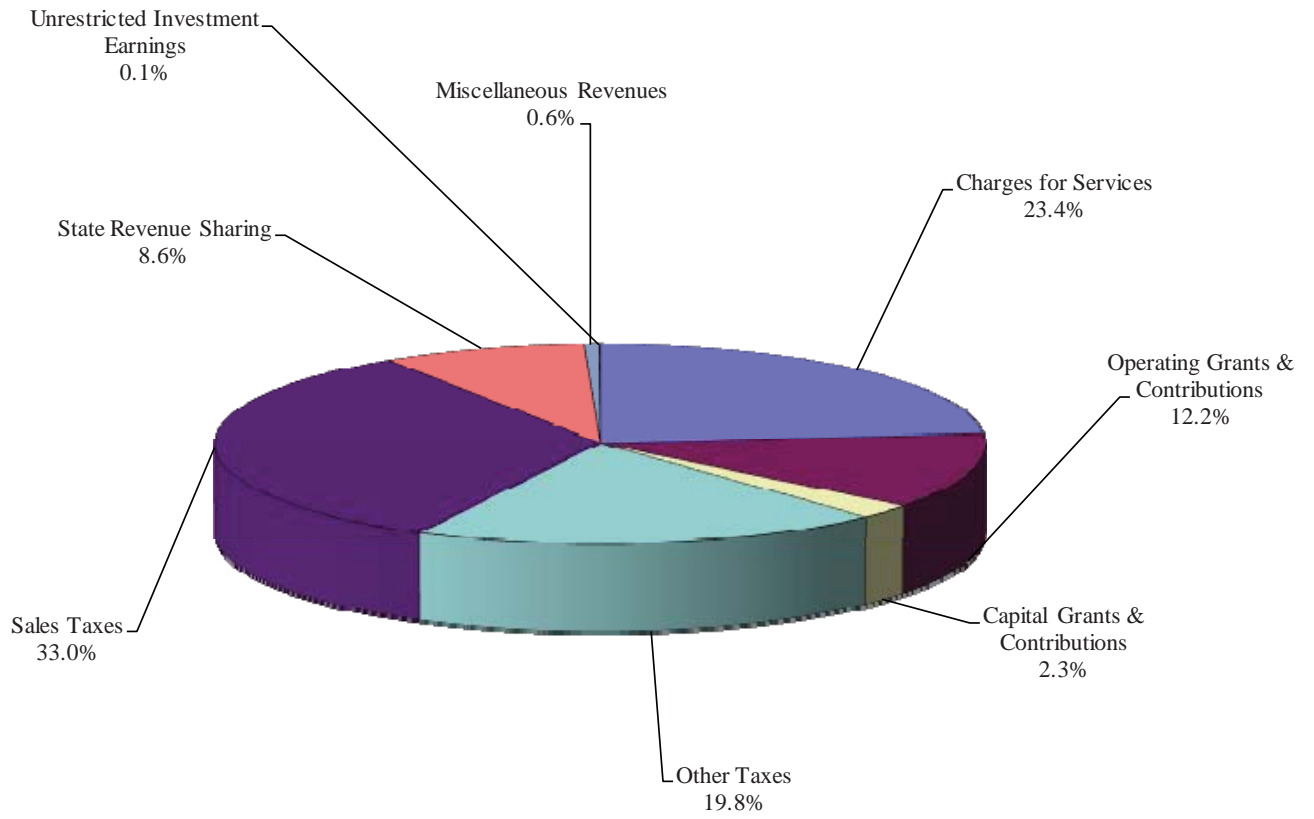
The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

Expenses and Program Revenues - Governmental Activities
(in Thousands)



This section intentionally left blank.

Revenue By Source - Governmental Activities



This section intentionally left blank.

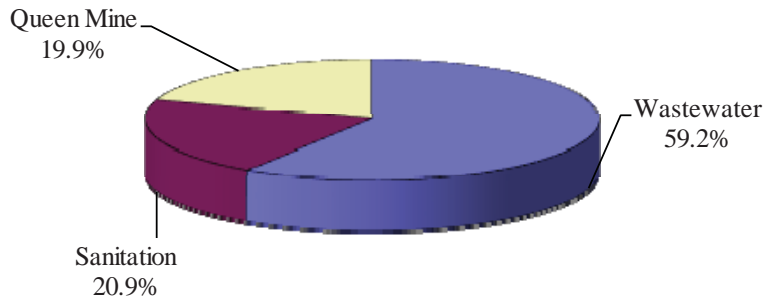
Business Type Activities

Net position of the Business Type activities at June 30, 2017, as reflected in the Statement of Net Position was \$14.57 million. The cost of providing all Proprietary (Business Type) activities this year was \$4.13 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$4.07 million. Interest earnings and other revenues were \$1,724. Net Position decreased by \$115,174.

**Expenses and Program Revenues - Business-type Activities
(in Thousands)**



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Bisbee uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City of Bisbee's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City of Bisbee's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Bisbee's governmental funds reported combined ending fund balances of \$2.59 million, a decrease of \$634,724 in comparison with the prior year. Approximately, 56% of this total amount or \$1,451,816 constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted, committed or assigned because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Bisbee. At the end of the current fiscal year, total fund balance in the general fund was \$1,683,729, of which \$1,573,394 is unassigned. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance and total fund balance represents 26% and 28% respectively of total general fund expenditures. During the year, the City of Bisbee's general fund balance decreased by \$81,003, not including the prior period adjustment of (\$331,644).

Streets fund expenditures of \$1,311,270 were funded by Highway User revenues of \$416,954 and City Sales Tax of \$685,384 which resulted in a fund balance of \$(47,403).

The non-major fund balance of \$955,461 consists of grant funds and donations restricted for various purposes.

General Fund Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$6,107,821 were less than the budget of \$7,035,979 by \$928,158 mainly due to taxes and charges for services falling below expectation. Actual expenditures of \$6,070,458 were \$98,778 less than budgeted expenditures of \$6,169,236. The most significant variance was from general government that was under budget. There were a couple departments that exceeded the budget during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, vehicles, buildings, land, park facilities and roads. At the end of fiscal year 2017, net capital assets of the government activities totaled \$9.44 million and the net capital assets of the business-type activities totaled \$24.35 million. Combined capital assets additions were \$421,362 for fiscal year 2017 consisting of: assorted capital assets for various City departments. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the City had \$19.89 million in governmental type debt, and \$12.66 million in business-type debt. (See note 6 the financial statements.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City budget for fiscal year 2017/2018, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2016/2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to: City of Bisbee, Finance Department, 1415 Melody Lane, Bldg G, Bisbee, AZ 85603. (520)432-6008.

This page intentionally left blank

BASIC FINANCIAL STATEMENTS

This page intentionally left blank

CITY OF BISBEE, ARIZONA
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,623,999	\$ 1,514,285	\$ 3,138,284
Investments	535,485	-	535,485
Accounts receivable (net of allowance)	905,558	438,617	1,344,175
Inventory	-	116,468	116,468
Prepays	5,857	23,805	29,662
Due from other governments	-	11,737	11,737
Total current assets	3,070,899	2,104,912	5,175,811
Non-current assets:			
Restricted cash and cash equivalents	-	1,163,484	1,163,484
Capital assets:			
Not being depreciated	747,457	455,509	1,202,966
Net of accumulated depreciation	8,689,691	23,895,387	32,585,078
Total non-current assets	9,437,148	25,514,380	34,951,528
Total Assets	12,508,047	27,619,292	40,127,339
Deferred outflows related to pensions	3,233,565	226,652	3,460,217
Total assets and deferred outflows of resources	15,741,612	27,845,944	43,587,556
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Liabilities			
Current liabilities:			
Accounts payable and other current liabilities	628,083	134,415	762,498
Customer deposits	-	3,332	3,332
Accrued interest payable	-	215,886	215,886
Compensated absences - current	150,000	35,000	185,000
Long-term liabilities due within one year	8,177	891,498	899,675
Total current liabilities	786,260	1,280,131	2,066,391
Noncurrent liabilities:			
Compensated absences	7,630	2,828	10,458
Long-term liabilities due after one year	-	10,478,097	10,478,097
Net pension liability	19,728,129	1,249,655	20,977,784
Total non-current liabilities	19,735,759	11,730,580	31,466,339
Total Liabilities	20,522,019	13,010,711	33,532,730
Deferred inflows related to pensions	899,523	264,858	1,164,381
Total liabilities and deferred inflows of resources	21,421,542	13,275,569	34,697,111
NET POSITION:			
Net investment in capital assets	9,428,971	12,981,301	22,410,272
Nonspendable:			
Prepays	5,857	-	5,857
Restricted for:			
Debt service	-	1,163,484	1,163,484
Public Safety	8,575	-	8,575
Transportation	36,938	-	36,938
Culture and recreation	28,827	-	28,827
Capital projects	642,908	-	642,908
Other purposes	261,665	-	261,665
Unrestricted	(16,093,671)	425,590	(15,668,081)
Total net (deficit) position	(5,679,930)	14,570,375	8,890,445
Total liabilities, deferred inflows of resources and net position	\$ 15,741,612	\$ 27,845,944	\$ 43,587,556

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,681,793	\$ 354,953	\$ 324,718	\$ 65,078	\$ (937,044)	\$ -	\$ (937,044)
Public safety	4,876,985	1,344,402	155,378	596	(3,376,609)	-	(3,376,609)
Transportation	1,757,269	14,312	416,954	93,197	(1,232,806)	-	(1,232,806)
Culture and recreation	489,711	15,044	-	13,634	(461,033)	-	(461,033)
Public works	115,541	-	-	-	(115,541)	-	(115,541)
Interest on long-term debt	512	-	-	-	(512)	-	(512)
Total governmental activities	8,921,811	1,728,711	897,050	172,505	(6,123,545)	-	(6,123,545)
Business-type activities:							
Wastewater	2,643,329	2,407,551	-	-	-	(235,778)	(235,778)
Sanitation	848,129	849,457	-	-	-	1,328	1,328
Queen Mine	635,862	808,246	-	-	-	172,384	172,384
Total business-type activities	4,127,320	4,065,254	-	-	-	(62,066)	(62,066)
Total primary government	\$ 13,049,131	\$ 5,793,965	\$ 897,050	\$ 172,505	(6,123,545)	(62,066)	(6,185,611)
General Revenues:							
Property taxes levied for general purposes					981,794	-	981,794
City sales tax					2,430,590	-	2,430,590
State sales tax					476,788	-	476,788
Urban revenue sharing					637,161	-	637,161
Vehicle license tax					257,163	-	257,163
Bed tax					147,961	-	147,961
Miscellaneous revenues					44,454	-	44,454
Unrestricted investment earnings/(loss)					3,784	1,724	5,508
Transfers					54,832	(54,832)	-
Total general revenues & transfers					5,034,527	(53,108)	4,981,419
Change in net position					(1,089,018)	(115,174)	(1,204,192)
Net position - beginning					(4,218,104)	14,685,549	10,467,445
Restatement adjustment					(372,808)	-	(372,808)
Net position - ending					\$ (5,679,930)	\$ 14,570,375	\$ 8,890,445

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Streets Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 748,992	\$ -	\$ 875,007	\$ 1,623,999
Investments	412,352	578	122,555	535,485
Receivables:				
Accounts	486,576	-	3,931	490,507
Property taxes	29,058	-	-	29,058
Due from other governments	202,627	38,959	144,407	385,993
Due from other funds	167,668	-	-	167,668
Prepays	2,537	-	3,320	5,857
Total assets	<u>\$ 2,049,810</u>	<u>\$ 39,537</u>	<u>\$ 1,149,220</u>	<u>\$ 3,238,567</u>
LIABILITIES				
Accounts payable	200,007	47,132	57,903	\$ 305,042
Due to other funds	-	33,596	134,072	167,668
Accrued payroll	158,891	6,212	1,784	166,887
Total liabilities	<u>358,898</u>	<u>86,940</u>	<u>193,759</u>	<u>639,597</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	7,183	-	-	7,183
Total deferred inflows of resources	<u>7,183</u>	<u>-</u>	<u>-</u>	<u>7,183</u>
FUND BALANCES				
Nonspendable:				
Prepays	2,537	-	3,320	5,857
Restricted for:				
Public safety			8,575	8,575
Transportation			84,341	84,341
Culture and recreation			28,827	28,827
Debt service	-	-	-	-
Other purposes	-	-	261,665	261,665
Capital projects	-	-	642,908	642,908
Committed	107,798	-	-	107,798
Unassigned (deficits)	1,573,394	(47,403)	(74,175)	1,451,816
Total fund balances (deficits)	<u>1,683,729</u>	<u>(47,403)</u>	<u>955,461</u>	<u>2,591,787</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,049,810</u>	<u>\$ 39,537</u>	<u>\$ 1,149,220</u>	<u>\$ 3,238,567</u>

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2017

Total governmental fund balances		\$ 2,591,787
----------------------------------	--	--------------

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	\$ 18,179,166	
Accumulated Depreciation	<u>(8,742,018)</u>	
		9,437,148

Other assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

7,183

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Capital leases	\$ (8,177)	
Net pension liability	(19,728,129)	
Compensated absences	(157,630)	
PSPRS refund and interest payable	<u>(156,154)</u>	
		<u>(20,050,090)</u>

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

Deferred outflows	\$ 3,233,565	
Deferred inflows	<u>(899,523)</u>	
		<u>2,334,042</u>

Total net position of governmental activities		<u>\$ (5,679,930)</u>
---	--	-----------------------

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Streets Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 2,867,778	\$ 685,384	\$ -	\$ 3,553,162
Licenses, permits and fees	97,469	-	-	97,469
Intergovernmental revenue	1,406,196	416,954	359,159	2,182,309
Charges for services	1,601,942	11,932	29,125	1,642,999
Fines and forfeitures	1,140	-	-	1,140
Investment earnings	2,894	4	886	3,784
Rent	42,625	-	11,091	53,716
Contributions	34,950	-	128,670	163,620
Miscellaneous	52,827	-	19,752	72,579
Total revenues	<u>6,107,821</u>	<u>1,114,274</u>	<u>548,683</u>	<u>7,770,778</u>
EXPENDITURES				
Current:				
General government	1,503,903	-	172,124	1,676,027
Public safety	4,132,598	-	91,116	4,223,714
Culture and recreation	417,396	-	13,616	431,012
Transportation	-	1,275,239	288,475	1,563,714
Public works	-	-	4,970	4,970
Capital outlay	-	36,031	135,497	171,528
Debt service:				
Principal	16,049	-	-	16,049
Interest	512	-	-	512
Total expenditures	<u>6,070,458</u>	<u>1,311,270</u>	<u>705,798</u>	<u>8,087,526</u>
Excess of revenues over (under) expenditures	<u>37,363</u>	<u>(196,996)</u>	<u>(157,115)</u>	<u>(316,748)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(500,485)	-	(596)	(501,081)
Transfers in	382,119	-	173,794	555,913
Total other financing sources (uses)	<u>(118,366)</u>	<u>-</u>	<u>173,198</u>	<u>54,832</u>
Net change in fund balances	(81,003)	(196,996)	16,083	(261,916)
Fund balances, beginning of year	2,096,376	181,442	948,693	3,226,511
Prior period adjustment	(331,644)	(31,849)	(9,315)	(372,808)
Fund balances (deficits), end of year	<u>\$ 1,683,729</u>	<u>\$ (47,403)</u>	<u>\$ 955,461</u>	<u>\$ 2,591,787</u>

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds	\$	(261,916)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.</p>		
Capital Outlay	\$	298,988
Depreciation Expense		<u>(634,270)</u>
		(335,282)
Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.		7,183
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds and is recorded as an expenditure, but the repayment reduces long-term liabilities in the statement of net position.		16,049
<p>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 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.</p>		
Pension contributions	\$	1,423,358
Pension expense		<u>(1,773,504)</u>
		(350,146)
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences expense		(8,752)
PSPRS refund and interest expense		<u>(156,154)</u>
Change in net position of governmental activities	\$	<u><u>(1,089,018)</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	Business-type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 935,798	\$ -	\$ 578,487	\$ 1,514,285
Receivables (net of allowance)	330,271	108,346	-	438,617
Inventory	-	-	116,468	116,468
Prepaid items	-	-	23,805	23,805
Due from other funds	500,473	-	-	500,473
Due from other governments	11,737	-	-	11,737
Total Current Assets	1,778,279	108,346	718,760	2,605,385
Noncurrent assets:				
Restricted cash and cash equivalents, noncurrent	1,163,484	-	-	1,163,484
Capital assets				
Land	47,660	-	-	47,660
Construction in progress	397,849	10,000	-	407,849
Buildings	13,642,934	-	230,667	13,873,601
Improvements over than buildings	2,598,082	-	-	2,598,082
Machinery and equipment	2,028,665	738,123	78,718	2,845,506
Infrastructure	18,802,364	-	-	18,802,364
Accumulated depreciation	(13,408,433)	(604,900)	(210,833)	(14,224,166)
Total Noncurrent Assets	25,272,605	143,223	98,552	25,514,380
Total Assets	27,050,884	251,569	817,312	28,119,765
Deferred outflows related to pensions	98,590	82,715	45,347	226,652
Total assets and deferred outflows of resources	\$ 27,149,474	\$ 334,284	\$ 862,659	\$ 28,346,417
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:				
Liabilities				
Current liabilities:				
Accounts payable	\$ 56,185	\$ 24,604	\$ 16,442	\$ 97,231
Accrued wages and benefits	14,978	10,985	11,221	37,184
Accrued interest payable	215,886	-	-	215,886
Due to other funds	-	500,473	-	500,473
Customer deposits	-	-	3,332	3,332
Compensated absences - current	9,155	14,314	11,531	35,000
Current portion - long-term debt	870,391	21,107	-	891,498
Total Current Liabilities	1,166,595	571,483	42,526	1,780,604
Non-current liabilities:				
Compensated absences	739	1,157	932	2,828
Net pension liability	543,581	456,051	250,023	1,249,655
Long-term debt, net of current portion	10,478,097	-	-	10,478,097
Total non-current liabilities	11,022,417	457,208	250,955	11,730,580
Total Liabilities	12,189,012	1,028,691	293,481	13,511,184
Deferred inflows related to pensions	115,209	96,658	52,991	264,858
Total liabilities and deferred inflows of resources	12,304,221	1,125,349	346,472	13,776,042
NET POSITION:				
Net investment in capital assets	12,760,633	122,116	98,552	12,981,301
Restricted for debt service	1,163,484	-	-	1,163,484
Unrestricted (deficit)	921,136	(913,181)	417,635	425,590
Total net position (deficit)	14,845,253	(791,065)	516,187	14,570,375
Total liabilities, deferred inflows of resources and net position	\$ 27,149,474	\$ 334,284	\$ 862,659	\$ 28,346,417

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Operating revenues:				
Charges for services	\$ 2,132,799	\$ 844,657	\$ 808,246	\$ 3,785,702
Customer penalties and interest	162,873	-	-	162,873
Other revenues	94,522	4,800	-	99,322
Total operating revenues	<u>2,390,194</u>	<u>849,457</u>	<u>808,246</u>	<u>4,047,897</u>
Operating expenses:				
Salaries, wages and benefits	258,290	382,419	346,889	987,598
Administration	111,914	260,306	57,336	429,556
Supplies	96,525	10,739	170,147	277,411
Repairs and maintenance	190,612	74,909	23,682	289,203
Utilities	61,126	4,602	24,781	90,509
Bad debt	366,758	64,624	-	431,382
Depreciation	1,219,325	49,018	13,027	1,281,370
Total operating expenses	<u>2,304,550</u>	<u>846,617</u>	<u>635,862</u>	<u>3,787,029</u>
Net operating income (loss)	<u>85,644</u>	<u>2,840</u>	<u>172,384</u>	<u>260,868</u>
Non-operating revenues (expenses):				
Interest income	1,724	-	-	1,724
Interest expense and fiscal charges	(338,779)	(1,512)	-	(340,291)
Intergovernmental	17,357	-	-	17,357
Total non-operating revenue (expense)	<u>(319,698)</u>	<u>(1,512)</u>	<u>-</u>	<u>(321,210)</u>
Income (loss) before contributions and transfers	(234,054)	1,328	172,384	(60,342)
Transfers in	342,692	-	-	342,692
Transfers out	<u>(209,115)</u>	<u>(125,948)</u>	<u>(62,461)</u>	<u>(397,524)</u>
Change in net position	(100,477)	(124,620)	109,923	(115,174)
Total net position (deficit), beginning of year	<u>14,945,730</u>	<u>(666,445)</u>	<u>406,264</u>	<u>14,685,549</u>
Total net position (deficit), end of year	<u>\$ 14,845,253</u>	<u>\$ (791,065)</u>	<u>\$ 516,187</u>	<u>\$ 14,570,375</u>

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers, service fees	\$ 2,285,744	\$ 880,434	\$ 808,702	\$ 3,974,880
Cash received from customers, other	257,395	4,800	-	262,195
Cash paid to suppliers	(806,314)	(414,369)	(288,028)	(1,508,711)
Cash paid to employees	(423,923)	(363,766)	(348,804)	(1,136,493)
Net cash flows from operating activities	<u>1,312,902</u>	<u>107,099</u>	<u>171,870</u>	<u>1,591,871</u>
Cash flows from noncapital financing activities:				
Transfers (to)/from other funds	133,577	(125,948)	(62,461)	(54,832)
Change in due to/due from	(62,355)	62,355	-	-
Net cash flows from noncapital financing activities	<u>71,222</u>	<u>(63,593)</u>	<u>(62,461)</u>	<u>(54,832)</u>
Cash flows from capital and related financing activities:				
Loan proceeds	262,454	-	-	262,454
Capital grants	17,778	-	-	17,778
Purchase of capital assets	(52,318)	(10,000)	(39,550)	(101,868)
Principal paid on long-term debt	(827,312)	(20,256)	-	(847,568)
Interest paid	(351,799)	(13,250)	-	(365,049)
Net cash flows from capital and related financing activities	<u>(951,197)</u>	<u>(43,506)</u>	<u>(39,550)</u>	<u>(1,034,253)</u>
Cash flows from investing activities:				
Investment income/(loss)	1,724	-	-	1,724
Net cash flows from investing activities	<u>1,724</u>	<u>-</u>	<u>-</u>	<u>1,724</u>
Net change in cash and cash equivalents	434,651	-	69,859	504,510
Cash and cash equivalents, beginning of year	1,664,631	-	508,628	2,173,259
Cash and cash equivalents, end of year	<u>\$ 2,099,282</u>	<u>\$ -</u>	<u>\$ 578,487</u>	<u>\$ 2,677,769</u>
Reconciliation of operating income to net cash flows from operating activities:				
Net operating income	\$ 85,644	\$ 2,840	\$ 172,384	\$ 260,868
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	1,219,325	49,018	13,027	1,281,370
Net pension expense	(170,262)	2,963	(2,482)	(169,781)
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	152,945	35,777	-	188,722
(Increase)/Decrease in inventory	-	-	(19,716)	(19,716)
(Increase)/Decrease in prepaid items	-	-	1,619	1,619
Increase/(Decrease) in accounts payable	20,621	811	6,015	27,447
Increase/(Decrease) in customer deposits			456	456
Increase/(Decrease) in accrued payroll and employee benefits	2,886	10,985	(130)	13,741
Increase/(Decrease) in compensated absences	1,743	4,705	697	7,145
Net cash flows from operating activities	<u>\$ 1,312,902</u>	<u>\$ 107,099</u>	<u>\$ 171,870</u>	<u>\$ 1,591,871</u>

The accompanying notes are an integral part of the financial statements.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

The financial statements of the City of Bisbee, Arizona have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting Entity

The City is a municipal entity governed by an elected mayor and council 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 accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the City, the primary government.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, component units combined with the City for financial statement presentation purposes, and the City, are not included in any other governmental reporting entity. Consequently, the City's financial statements include the funds of those organizational entities for which its elected governing body is financially accountable.

The following is a brief review of the component units included in defining the City's reporting entity. There are no discretely presented component units and one blended component units.

Blended component units included within the reporting entity:

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.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of presentation – fund financial statements

The fund financial statements provide information about the City's funds, including the blended component unit. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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 for those 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 the operations, maintenance, and construction of the City-owned wastewater system.

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

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

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Property taxes, sales taxes, state shared revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the *economic resources measurement* focus and the *accrual basis of accounting*.

Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

Deposits and Investments

For the purposes of the 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 include amounts the City is contractually required to maintain in a separate bank account for purposes of debt service on the WIFA note payable (see footnote 7), and for repairs, maintenance, and capital improvements to the City's wastewater treatment plant.

All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares. Investment earnings is composed of interest, dividends, and net changes in the estimated fair value of applicable 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.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "Internal balances" in the Statement of Net Position and as "Due to" or "Due from" other funds in the fund financial statements. All trade accounts receivable in the General Fund and proprietary funds are shown net of an allowance for doubtful accounts.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

The allowance for doubtful accounts in the proprietary funds is estimated at 56% of the current portion of the yearend 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.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories for the proprietary funds consist principally of materials used in the repair of the distribution, collection and treatment systems and are valued at the lower of cost (first-in, first-out) or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$3,000 and an estimated useful life in excess of one year. Capitalized assets are recorded at cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. Depreciation for other property, plant, equipment, and infrastructure is computed using the straight-line method over the following estimated useful lives:

Building	5 to 50 years
Improvements other than buildings	5 to 30 years
Airport	5 to 40 years
Machinery and equipment	3 to 20 years
Infrastructure	5 to 40 years

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide and proprietary fund financial statements. See footnote 8 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Pension related items reported on the government-wide and proprietary fund financial statements. See footnote 8 for more information. Another item, which arises only under a modified accrual basis of accounting, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position of the Arizona State Retirement System (ASRS) and the Arizona Public Safety Personnel Retirement System (PSPRS), and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS and PSPRS. 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.

Net position flow assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Fund balance flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. 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 City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The council has authorized the City Manager to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund

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.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. Property taxes not collected within 60 days subsequent to the fiscal-year end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues. Cochise County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments on October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date.

The County also levies various personal property taxes during the year. A lien against property assessed attaches on the first day of January preceding the assessment and levy.

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 this 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 12 week period allowed by law.

All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. For governmental funds amounts of accumulated vacation and compensatory time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, wastewater fund, refuse fund, and internal service funds are charges to customers for sales and services. The water and wastewater funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Tax Abatements

The City has not entered into any tax abatement agreements and the City is not aware of any tax abatement agreements that have been entered into by other governments that would reduce the City's tax revenues.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 22.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 24.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the City. The use of budgets and monitoring of equity status facilitate the City's compliance with legal requirements.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the first of September, the expenditure limitation for the City is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. State law requires that, prior to April 1, the Economic Estimates Commission provide the City with a final expenditure limit for the coming fiscal year.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds. The City Council has adopted a budget transfer policy and all amendments must be done in accordance with this policy.
6. The City has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Capital Projects, Debt Service, and Enterprise funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

Supplementary budgetary appropriations were made during the year ended June 30, 2017.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation for future years, is not employed by the City.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 3. Stewardship, Compliance, and Accountability, Continued

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2017, if any.

Note 4. Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net position is as follows:

Cash and cash equivalents	\$ 3,138,284
Restricted cash and cash equivalents	1,163,484
Investments	<u>535,485</u>
Total cash and equivalents	<u><u>\$ 4,837,253</u></u>

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.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the City's deposit may not be returned to it. Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover. At year end, the carrying amount of the City's deposits was \$4,301,768 and the bank balance was \$4,347,591. The bank balance was fully covered by FDIC coverage or collateral held by the pledging financial institution in the City's name.

Investments

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP) with no regulatory oversight. The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 4. Deposits and Investments, Continued

The LGIP is not registered with the SEC as an investment company. The State Board of Investments provides oversight for the State Treasurer’s investment pools. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated “P1” by Moody’s investors or “A1” by Standard and Poor’s rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2017, the carrying amount of the City’s deposits and investments are as follows:

	Fair Value	Credit Rating (1)	Weighted Average Maturity (Days) (2)
Deposits:			
Cash on hand	\$ 700	N/A	N/A
Cash in bank	4,301,068	N/A	N/A
Investments:			
Local government investment pool 5	535,485	AAA	36.5
	\$ 4,837,253		

* The fair value of the City’s position in each pool is the same as the value of the pool shares.

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

(2) Interest Rate Risk is estimated using the weighted average days to maturity.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323). A.R.S. 35-323 limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor’s and Moody’s Investor Services.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323). A.R.S. 35-323 requires that the City’s investment portfolio maturities do not exceed five years from the time of purchase.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 4. Deposits and Investments, Continued

Fair value measurements

As noted above, the City holds investments that are measured at fair value on a recurring basis. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The state treasurer's investment pool, as listed above, are valued using quoted prices that are observable for the assets (Level 2 inputs).

Note 5. Restricted Assets

Restricted assets consisted of the following cash reserves at June 30, 2017:

Business-Type Activities:	
Wastewater Fund:	
Reserve for debt service WIFA Bonds	<u>\$1,163,484</u>
Total Business-Type Activities	<u><u>\$1,163,484</u></u>

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year:

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 571,670	\$ -	\$ -	\$ 571,670
Construction in progress	93,481	102,811	(20,505)	175,787
Total capital assets not being depreciated	<u>665,151</u>	<u>102,811</u>	<u>(20,505)</u>	<u>747,457</u>
Capital assets being depreciated:				
Buildings	3,752,428	26,259	-	3,778,687
Improvements other than buildings	1,145,996	-	-	1,145,996
Airport	4,383,864	-	-	4,383,864
Machinery and equipment	4,094,932	110,471	-	4,205,403
Infrastructure	3,837,807	79,952	-	3,917,759
Total capital assets being depreciated	<u>17,215,027</u>	<u>216,682</u>	<u>-</u>	<u>17,431,709</u>
Less: Accumulated depreciation				
Buildings	(1,936,487)	(91,648)	-	(2,028,135)
Improvements other than buildings	(779,950)	(33,712)	-	(813,662)
Airport	(2,095,182)	(117,457)	-	(2,212,639)
Machinery and equipment	(2,927,098)	(277,992)	-	(3,205,090)
Infrastructure	(369,031)	(113,461)	-	(482,492)
Total accumulated depreciation	<u>(8,107,748)</u>	<u>(634,270)</u>	<u>-</u>	<u>(8,742,018)</u>
Total assets being depreciated, net	<u>9,107,279</u>	<u>(417,588)</u>	<u>-</u>	<u>8,689,691</u>
Governmental capital assets, net	<u>\$ 9,772,430</u>	<u>\$ (314,777)</u>	<u>\$ (20,505)</u>	<u>\$ 9,437,148</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Governmental activities	
General government	\$ 20,391
Public safety	205,982
Public works	110,590
Transportation	233,308
Culture and recreation	63,999
Total governmental activities depreciation	<u>\$ 634,270</u>

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year:

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 47,660	\$ -	\$ -	\$ 47,660
Construction in progress	372,406	35,443	-	407,849
Total capital assets not being depreciated	<u>420,066</u>	<u>35,443</u>	<u>-</u>	<u>455,509</u>
Capital assets being depreciated:				
Buildings	13,873,601	-	-	13,873,601
Improvements other than buildings	2,598,082	-	-	2,598,082
Machinery and equipment	2,779,080	66,426	-	2,845,506
Infrastructure	18,802,364	-	-	18,802,364
Total capital assets being depreciated	<u>38,053,127</u>	<u>66,426</u>	<u>-</u>	<u>38,119,553</u>
Less: Accumulated depreciation				
Buildings	(4,749,468)	(458,702)	-	(5,208,170)
Improvements other than buildings	(1,448,657)	(68,588)	-	(1,517,245)
Machinery and equipment	(1,066,631)	(141,580)	-	(1,208,211)
Infrastructure	(5,678,041)	(612,500)	-	(6,290,540)
Total accumulated depreciation	<u>(12,942,797)</u>	<u>(1,281,370)</u>	<u>-</u>	<u>(14,224,166)</u>
Total assets being depreciated, net	<u>25,110,330</u>	<u>(1,214,944)</u>	<u>-</u>	<u>23,895,387</u>
Business-type capital assets, net	<u>\$ 25,530,396</u>	<u>\$ (1,179,501)</u>	<u>\$ -</u>	<u>\$ 24,350,896</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Business-type activities	
Wastewater	\$ 1,219,325
Sanitation	49,018
Queen Mine	13,027
Total business-type activities depreciation	<u>\$ 1,281,370</u>

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the current fiscal year:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Governmental Activities:					
Capital Leases	\$ 24,226	\$ -	\$ (16,049)	\$ 8,177	\$ 8,177
Net Pension Liability	19,968,576	-	(240,447)	19,728,129	-
Accrued Compensated Absences	148,878	174,268	(165,516)	157,630	150,000
Total Governmental Activity Long-Term Liabilities	<u>\$ 20,141,680</u>	<u>\$ 174,268</u>	<u>\$ (422,012)</u>	<u>\$ 19,893,936</u>	<u>\$ 158,177</u>
Business-Type Activities:					
Notes Payable:					
WIFA Loan 910160-14 (Solar)	\$ 1,074,309	\$ -	\$ (45,916)	\$ 1,028,393	\$ 47,289
WIFA Loan 910074-5	7,259,903	-	(663,024)	6,596,879	676,284
USDA Loan 92-07	2,490,875	-	(82,082)	2,408,793	86,352
USDA Loan 92-06	1,088,259	-	(36,291)	1,051,968	37,712
Total Notes Payable	<u>11,913,346</u>	<u>-</u>	<u>(827,312)</u>	<u>11,086,034</u>	<u>847,638</u>
Other Business-Type Obligations					
Capital Leases	41,363	262,454	(20,256)	283,561	43,860
Net Pension Liability	1,428,211	-	(178,556)	1,249,655	-
Accrued Compensated Absences	30,683	44,555	(37,410)	37,828	35,000
Total Other Business-Type Obligations	<u>1,500,257</u>	<u>307,009</u>	<u>(236,222)</u>	<u>1,571,044</u>	<u>78,860</u>
Total Business-Type Activity Long-Term Liabilities	<u>\$ 13,413,603</u>	<u>\$ 307,009</u>	<u>\$ (1,063,534)</u>	<u>\$ 12,657,078</u>	<u>\$ 926,498</u>
Total Long-Term Liabilities	<u>\$ 33,555,283</u>	<u>\$ 481,277</u>	<u>\$ (1,485,546)</u>	<u>\$ 32,551,014</u>	<u>\$ 1,084,675</u>

Generally, resources from the General fund are used to liquidate pension liabilities and compensated absences for governmental activities.

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.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 6. Long-Term Liabilities, Continued

Long-term debt activity for the primary government at June 30, 2017 is comprised of the following issues:

Notes payable:

Business-type activities:

Note payable to the Water Infrastructure Finance Authority of Arizona (WIFA), due in annual principal installments ranging from \$45,915 to \$75,791, bearing interest semi-annually at 1.492%, maturing July 1, 2033.	\$ 1,028,393
Note payable to the Water Infrastructure Finance Authority of Arizona (WIFA), due in annual principal installments ranging from \$663,024 to \$792,345, bearing interest semi-annually at 2.000% to 2.721%, maturing July 1, 2025.	6,596,879
Note payable to the United States Department of Agriculture (USDA), due in annual principal installments ranging from \$82,082 to \$168,699, bearing interest annually at 4.125% maturing August 12, 2035.	2,408,793
Note payable to the United States Department of Agriculture (USDA), due in annual principal installments ranging from \$36,215 to \$73,647, bearing interest annually at 4.125% maturing August 12, 2035.	<u>1,051,968</u>
Total notes payable - business-type activities	<u>\$ 11,086,034</u>

Leases payable:

Governmental activities:

Lease payable in semi-annual installments of \$8,280 through July 1, 2017, at interest of 2.53%.	\$ 8,177
--	----------

Business-type activities:

Lease payable in semi-annual installments of \$15,542 through February 1, 2027, at interest of 3.23%.	262,454
Lease payable in semi-annual installments of \$10,884 through February 15, 2018, at interest of 4.16%.	<u>21,107</u>
Total leases payable	<u>291,738</u>

Accrued compensated absences

195,458

Net pension liability

20,977,784

Total long-term debt

\$ 32,551,014

Less current portion:

Governmental activities	(158,177)
Business-type activities	<u>(926,498)</u>

Net long-term debt

31,466,339

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 6. Long-Term Liabilities, Continued

The annual requirements to amortize notes payable are as follows:

Year Ending June 30,	Water Infrastructure Finance Authority of Arizona (WIFA) Loans		USDA Loans	
	Principal	Interest	Principal	Interest
2018	\$ 723,574	\$ 185,341	\$ 124,065	\$ 266,821
2019	738,514	167,259	129,182	266,821
2020	753,768	153,627	134,511	266,821
2021	769,344	139,041	140,060	266,821
2022	785,243	117,749	145,837	266,821
2023-2027	3,368,356	264,596	824,541	1,334,105
2028-2032	337,095	48,156	1,009,223	1,334,105
2033-2037	149,380	4,502	953,343	1,052,775
Total	\$ 7,625,273	\$ 1,080,272	\$ 3,460,762	\$ 5,055,090

The city has entered into capital lease agreement which are considered capital leases in accordance with generally accepted account principles. The following is an annual schedule of future minimum lease payments with interest rates ranging from 2.53% to 4.16%, together with the present value of the net minimum lease payments:

Year Ending June 30,	Police Car	Total Gov. Activities	Vactor Truck	Garbage Truck	Total Bus. Activities
2018	\$ 8,280	\$ 8,280	\$ 30,905	\$ 21,768	\$ 52,673
2019	-	-	30,905	-	30,905
2020	-	-	30,905	-	30,905
2021	-	-	30,905	-	30,905
2022	-	-	30,905	-	30,905
2023-2027	-	-	154,525	-	154,525
Total remaining lease payments:	8,280	8,280	309,050	21,768	330,818
Less amount representing interest:	(103)	(103)	(46,596)	(661)	(47,257)
Present value of net remaining minimum lease payments:	<u>\$ 8,177</u>	<u>\$ 8,177</u>	<u>\$ 262,454</u>	<u>\$ 21,107</u>	<u>\$ 283,561</u>

A summary of the assets acquired through capital leases is as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
Vehicles, machinery, and equipment	\$ 253,790	\$ 25,379	\$ 204,815

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 7. Interfund Receivables, Payables and Transfers

As of June 30, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

<u>Due to</u>	<u>Due from</u>		<u>Total</u>
	<u>General Fund</u>	<u>Wastewater Fund</u>	
Highway User Revenue Fund	\$ 33,596	\$ -	\$ 33,596
Sanitation Fund	-	500,473	500,473
Nonmajor Funds	134,072	-	134,072
Total	<u>\$ 167,668</u>	<u>\$ 500,473</u>	<u>\$ 668,141</u>

The interfund receivables and payables were recorded to eliminate short-term deficit pooled cash balances in the various funds.

Interfund transfers for the fiscal year ended June 30, 2017 are as follows:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General</u>	<u>Wastewater</u>	<u>Non Major Funds</u>	
General Fund	\$ -	\$ 342,692	\$ 157,793	\$ 500,485
Wastewater	209,115	-	-	209,115
Sanitation	125,948	-	-	125,948
Queen Mine	46,460	-	16,000	62,460
Non Major Funds	596	-	-	596
Total	<u>\$ 382,119</u>	<u>\$ 342,692</u>	<u>\$ 173,793</u>	<u>\$ 898,604</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans

The City contributes to the Arizona State Retirements System and Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2017, 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>ASRS</u>	<u>PSPRS</u>	<u>Combined Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net pension liabilities	\$ 2,911,836	\$ 18,065,948	\$ 20,977,784	\$ 19,728,129	\$ 1,249,655
Deferred outflows of resources	528,126	2,932,092	3,460,217	3,233,565	226,652
Deferred inflows of resources	617,149	547,232	1,164,381	899,523	264,858
Pension expense	1,444	1,705,953	1,707,397	1,789,066	(81,669)

The City reported \$1,789,066 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS)

Plan description – The City participates 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 benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date Before July 1, 2011	Initial Membership Date On or After July 1, 2011
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 consecutive months of last 120 months	Highest 60 consecutive 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 the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, 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, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the ASRS.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	\$ 194,333	\$ 10,529	\$ 2,141
2016	176,660	8,141	1,954
2017	194,885	10,124	2,531

Pension liability – At June 30, 2017, the City reported a liability of \$2,911,837 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The City's proportion of the net pension liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The City's proportion measured as of June 30, 2016, was 0.018040 percent, which was a decrease of 0.002130 percent from its proportion measured as of June 30, 2015.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the City recognized pension expense for ASRS of \$1,444. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to ASRS pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,695	\$ 200,313
Changes in assumptions	-	154,059
Net difference between projected and actual earnings on pension plan investments	315,546	-
Changes in proportion and differences between contributions and proportional share of contributions	-	262,777
Contributions subsequent to the measurement date	194,885	-
Total	\$ 528,126	\$ 617,149

The \$194,885 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 ending June 30, 2018. 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 Ended June 30	Deferred Outflows (Inflows) of Resources
2018	\$ (266,523)
2019	(212,556)
2020	106,693
2021	88,478
2022	-
Thereafter	-

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 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 Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%	3.90%
Fixed income	25%	3.70%	0.93%
Multi-asset	5%	3.41%	0.17%
Commodities	2%	3.84%	0.08%
Real Estate	10%	4.25%	0.42%
Totals	100%		5.50%
		Inflation	3.25%
		Expected arithmetic nominal return	8.75%

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

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 8.75 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 proportionate share of the 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 (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of Net pension (asset) / liability	\$ 3,712,814	\$ 2,911,837	\$ 2,269,629

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System (PSPRS)

Plan description – The City contributes to the Public Safety Personnel Retirement System (PSPRS), 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 in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment 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 a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The reports are available on the PSPRS website at www.psprs.com.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

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

	Initial Membership Date Before January 1, 2012	Initial Membership Date On or After January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
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	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

Employees covered by benefit terms – At June 30, 2017, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS - Police	PSPRS - Fire
Inactive employees or beneficiaries currently receiving benefits	16	22
Inactive employees entitled to but not yet receiving benefits	4	6
Active employees	8	18
Total	28	46

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 active member and employer contribution requirements for 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. For the year ended June 30, 2017, active PSPRS members were required by statute to contribute 11.65 percent of their annual covered salary to the PSPRS and the City was required to contribute 91.16 percent for police and 83.40 percent for fire, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 0.63 percent for police and 0.00percent for fire.

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, 2017, were:

	PSPRS - Police	PSPRS - Fire
Pension		
Contributions made	\$ 477,532	\$ 834,579
Health Insurance Premium Benefit		
Annual OPEB cost	\$ 4,422	\$ -
Contributions made	\$ 4,422	\$ -

Pension liability – At June 30, 2017, the City reported a net pension liability of \$7,904,514 for PSPRS Police and \$10,161,434 for PSPRS Fire. The net pension liabilities was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- 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 2 percent.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City's net pension liability as a result of these changes is not known.

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Individual Entry Age Normal
Discount rate	7.50%
Projected salary increases	4.0% to 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, 2016, 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 7.50 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. The target allocation and best estimates of geometrical real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Short term investments	2.00%	0.75%
Absolute return	5.00%	4.11%
Risk parity	4.00%	5.13%
Fixed income	7.00%	2.92%
Real assets	8.00%	4.77%
GTAA	10.00%	4.38%
Private equity	11.00%	9.50%
Real estate	10.00%	4.48%
Credit opportunities	13.00%	7.08%
Non-U.S. equity	14.00%	8.25%
U.S. equity	16.00%	6.23%
Total	<u>100.00%</u>	

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

Discount Rate – At June 30, 2016 the discount rate used to measure the total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. 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 actuarially determined contribution rates and the member rate. Based on these 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.

Changes in the Net Pension Liability

	PSPRS - Police			PSPRS - Fire		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 9,301,850	\$ 1,183,817	\$ 8,118,033	\$ 10,650,559	\$ 512,913	\$ 10,137,646
Changes for the year:		-			-	
Service cost	81,788	-	81,788	167,677	-	167,677
Interest on total pension liability	706,659	-	706,659	809,760	-	809,760
Changes of benefit terms	(127,627)	-	(127,627)	(322,800)	-	(322,800)
Difference between expected and actual experience in the measurement of the pension liability	(565,815)	-	(565,815)	(126,570)	-	(126,570)
Changes of assumptions	300,626	-	300,626	358,543	-	358,543
Contributions - employer	-	552,417	(552,417)	-	816,618	(816,618)
Contributions - employee	-	68,545	(68,545)	-	107,983	(107,983)
Net investment income	-	6,838	(6,838)	-	3,065	(3,065)
Benefit payments, including refunds of employee contributions	(681,429)	(681,429)	-	(837,959)	(837,959)	-
Pension plan administrative expense	-	(1,383)	1,383	-	(842)	842
Other changes*	-	(17,267)	17,267	-	(64,002)	64,002
Net changes	(285,798)	(72,279)	(213,519)	48,651	24,863	23,788
Balances at June 30, 2017	<u>\$ 9,016,052</u>	<u>\$ 1,111,538</u>	<u>\$ 7,904,514</u>	<u>\$ 10,699,210</u>	<u>\$ 537,776</u>	<u>\$ 10,161,434</u>

* Other changes include adjustments for prior year GASB 68 and reserve transfer to/from employer and employee reserves.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following table presents the City's net pension liability calculated using the discount rate 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:

	PSPRS - Police		
	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of Net pension (asset) / liability	\$ 8,888,546	\$ 7,904,514	\$ 7,085,245
	PSPRS - Fire		
	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of Net pension (asset) / liability	\$ 11,299,045	\$ 10,161,434	\$ 9,205,161

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the City recognized pension expense of \$896,814 for PSPRS Police and \$809,139 for PSPRS Fire. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PSPRS - Police		PSPRS - Fire	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,500	\$ 443,123	\$ 26,787	\$ 104,109
Changes in assumptions	534,106	-	928,363	-
Net difference between projected and actual earnings on pension plan investments	63,304	-	24,921	-
Contributions subsequent to the measurement date	477,532	-	834,579	-
Total	\$ 1,117,442	\$ 443,123	\$ 1,814,650	\$ 104,109

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

The amounts reported as deferred outflows of resources related to PSPRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

Year Ended December 31	PSPRS - Police Deferred Outflows (Inflows) of Resources	PSPRS - Fire Deferred Outflows (Inflows) of Resources
2018	\$ 286,688	\$ 340,381
2019	(62,639)	340,380
2020	(37,467)	119,719
2021	10,205	49,344
2022	-	26,138
Thereafter	-	-

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status 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 plan as the City and plans' members understand them 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 designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2017 contribution requirements:

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Agent plan OPEB trend information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years follows for each of the agent plans:

PSPRS - Police				
Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2015	\$ 16,663	100%	-
	2016	5,833	100%	-
	2017	4,422	100%	-

PSPRS - Fire				
Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2015	\$ 11,776	100%	-
	2016	-	100%	-
	2017	-	100%	-

Agent plan OPEB funded status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS - Police	PSPRS - Fire
	Insurance Subsidy	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 228,367	\$ 181,472
Actuarial value of plan assets	164,200	236,389
Unfunded actuarial accrued liability (UAAL)	\$ 64,167	\$ (54,917)
Funded ratio (actuarial value of plan assets/AAL)	71.90%	130.26%
Covered payroll (active plan members)	\$ 442,576	\$ 944,130
UAAL as a percentage of covered payroll	0.00%	0.00%

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Note 9. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; 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 nor the three prior years.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 10. Contingent Liabilities and Significant Commitments

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 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.

PSPRS refunds: In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—*Hall* for EORP and *Parker* for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in *Hall* that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the *Parker* case was stayed pending the outcome of *Hall*. Nevertheless, the facts and circumstances are essentially the same where both parties to *Parker* agreed, at the time of stay, to appropriately apply the remedies of *Hall* when finalized.

After seeking further clarification from the Supreme Court on their ruling, the PSPRS Board of Trustees in April directed employers in both EORP and PSPRS plans to revert the rates back to pre-SB1609 levels for affected members. As a result, members who were hired prior to July 20, 2011 are also entitled to receive a return of those excess contributions with interest. Therefore, at its May 31, 2017 meeting, the PSPRS Board of Trustees authorized local boards who have stopped withholding at the higher rate to begin working with their employer in returning those contributions as soon as practicable. However, while the *Hall* case has been decided and released. As such, the *Hall* case is not finalized yet, but the excess contributions should be returned as soon as possible to stop interest from accruing.

Because the plans administered by PSPRS are 401(a) qualified plans, the IRS dictates the method used to return the excess contributions to members. PSPRS is not allowed to return the contributions directly to members or employers. Instead, employers are required to return the excess contributions to members, and then may take advantage of credit memos set up by PSPRS to offset future employer contributions. PSPRS will prepare credit memos equal to the contributions plus pre-judgment interest. Employers that want to take advantage of those credit memos may use those credit memos in lieu of sending PSPRS future employer contributions until the credit memos are used up. As of June 30, 2017 the City owed refunds totaling \$156,154 to current and former employees, including interest. The payable and related claims and judgement expense are reported on the government-wide statement of net position and the statement of activities.

CITY OF BISBEE, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 11. Prior Period Adjustments

Adjustments were posted to correct various items on the governmental fund financial statements and the government-wide financial statements. The adjustments are described below.

Tax revenues were accrued that were related to the fiscal year ended June 30, 2017. The adjustment resulted in an increase in tax revenues and a decrease in fund balance of \$331,644 for the general fund and \$31,849 for the streets fund.

A deposit was not applied to the purchase of a bus in the prior year. The adjustment resulted in a decrease in deposits and a decrease in fund balance of \$9,315 for the miscellaneous grants fund.

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BISBEE, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Last Three Fiscal Years

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.018040%	0.020000%	0.020000%
Proportionate share of the net pension liability (asset)	\$ 2,911,837	\$ 3,141,111	\$ 3,011,861
Covered payroll	\$ 1,716,492	\$ 1,721,226	\$ 1,900,854
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	169.64%	182.49%	158.45%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

CITY OF BISBEE, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Three Fiscal Years

Public Safety Personnel Retirement System - Police	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability			
Service cost	\$ 81,788	\$ 113,055	\$ 121,391
Interest on total pension liability	706,659	713,065	588,428
Changes of benefit terms*	(127,627)	-	294,989
Difference between expected and actual experience of the total net pension liability	(565,815)	(30,404)	172,427
Changes of assumptions	300,626	-	1,244,835
Benefit payments, including refunds of employee contributions	(681,429)	(1,041,927)	(618,413)
Net change in total pension liability	(285,798)	(246,211)	1,803,657
Total pension liability - beginning	9,301,850	9,548,061	7,744,404
Total pension liability - ending (a)	<u>\$ 9,016,052</u>	<u>\$ 9,301,850</u>	<u>\$ 9,548,061</u>
Plan fiduciary net position			
Contributions - employer	\$ 552,417	\$ 401,838	\$ 348,980
Contributions - employee	68,545	70,709	104,080
Net investment income	6,838	56,297	217,688
Benefit payments, including refunds of employee contributions	(681,429)	(1,041,927)	(618,413)
Pension plan administrative expense	(1,383)	(1,737)	-
Other	(17,267)	(1,246)	(130,415)
Net change in plan fiduciary net position	(72,279)	(516,066)	(78,080)
Plan fiduciary net position - beginning	1,183,817	1,699,883	1,777,963
Plan fiduciary net position - ending (b)	<u>\$ 1,111,538</u>	<u>\$ 1,183,817</u>	<u>\$ 1,699,883</u>
Net pension liability - ending (a) - (b)	<u>\$ 7,904,514</u>	<u>\$ 8,118,033</u>	<u>\$ 7,848,178</u>
Plan fiduciary net position as a percentage of the total pension liability	12.33%	12.73%	17.80%
Covered payroll	\$ 573,216	\$ 648,977	\$ 605,942
Net pension liability as a percentage of covered payroll	1378.98%	1250.90%	1295.20%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

CITY OF BISBEE, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Three Fiscal Years

Public Safety Personnel Retirement System - Fire	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability			
Service cost	\$ 167,677	\$ 148,284	\$ 150,293
Interest on total pension liability	809,760	807,124	666,632
Changes of benefit terms*	(322,800)	-	385,339
Difference between expected and actual experience of the total net pension liability	(126,570)	7,207	52,323
Changes of assumptions	358,543	-	1,490,617
Benefit payments, including refunds of employee contributions	(837,959)	(1,039,495)	(869,480)
Net change in total pension liability	48,651	(76,880)	1,875,724
Total pension liability - beginning	10,650,559	10,727,439	8,851,715
Total pension liability - ending (a)	\$ 10,699,210	\$ 10,650,559	\$ 10,727,439
Plan fiduciary net position			
Contributions - employer	\$ 816,618	\$ 566,273	\$ 488,842
Contributions - employee	107,983	95,678	83,553
Net investment income	3,065	26,028	132,336
Benefit payments, including refunds of employee contributions	(837,959)	(1,039,495)	(869,480)
Pension plan administrative expense	(842)	(941)	-
Other	(64,002)	(2,876)	(212,994)
Net change in plan fiduciary net position	24,863	(355,333)	(377,743)
Plan fiduciary net position - beginning	512,913	868,246	1,245,989
Plan fiduciary net position - ending (b)	\$ 537,776	\$ 512,913	\$ 868,246
Net pension liability - ending (a) - (b)	\$ 10,161,434	\$ 10,137,646	\$ 9,859,193
Plan fiduciary net position as a percentage of the total pension liability	5.03%	4.82%	8.09%
Covered payroll	\$ 955,314	\$ 882,311	\$ 882,311
Net pension liability as a percentage of covered payroll	1063.67%	1148.99%	1117.43%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

CITY OF BISBEE, ARIZONA
Required Supplementary Information
Schedule of Pension Contributions
Last Three Fiscal Years

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Contractually required contribution	\$ 194,885	\$ 176,660	\$ 194,333
Contributions in relation to the contractually required contribution	\$ (194,885)	\$ (176,660)	\$ (194,333)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,716,492	\$ 1,721,226	\$ 1,784,509
Contributions as a percentage of covered payroll	11.35%	10.26%	10.89%

Public Safety Personnel Retirement System

PSPRS - Police	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Actuarially determined contribution	\$ 552,417	\$ 401,838	\$ 348,980
Contributions in relation to the actuarially determined contribution	\$ (552,417)	\$ (401,838)	\$ (348,980)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 573,216	\$ 648,977	\$ 605,942
Contributions as a percentage of covered payroll	96.37%	61.92%	57.59%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

CITY OF BISBEE, ARIZONA
Required Supplementary Information
Schedule of Pension Contributions
Last Three Fiscal Years

Public Safety Personnel Retirement System

PSPRS - Fire	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Actuarially determined contribution	\$ 816,618	\$ 802,672	\$ 566,273
Contributions in relation to the actuarially determined contribution	\$ (816,618)	\$ (802,672)	\$ (566,273)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 955,314	\$ 882,311	\$ 882,311
Contributions as a percentage of covered payroll	85.48%	90.97%	64.18%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

CITY OF BISBEE, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2017

Note 1. Actuarially Determined Contribution Rates

Actuarially 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	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period As of the 2015 actuarial valuation	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return decreased from 8% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5%
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
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)

Note 2. Factors that Affect Trends

In February 2014, the Arizona Supreme Court affirmed a Superior court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS, changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the City's net pension liability and related ratios. These changes also increased the PSPRS required contributions beginning in fiscal year 2016 in the schedule of City pension contributions.

CITY OF BISBEE, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2017

Health Insurance Premium Benefit

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)	
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll		
PSPRS - Police	2013	-	214,857	214,857	0.00%	649,299	33.09%
	2014	153,045	197,994	44,949	77.30%	784,311	0.00%
	2015	164,025	181,377	17,352	90.43%	648,977	0.00%
	2016	164,200	228,367	64,167	71.90%	442,576	0.00%
	2017	**	**	**	**	**	**

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)	
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll		
PSPRS - Fire	2013	-	130,265	130,265	0.00%	798,782	16.31%
	2014	219,718	162,285	(57,433)	135.39%	809,095	0.00%
	2015	232,942	173,593	(59,349)	134.19%	882,311	0.00%
	2016	236,389	181,472	(54,917)	130.26%	944,130	0.00%
	2017	**	**	**	**	**	**

** Information not available at the time the financial statements were issued.

Note 1. Factors that Affect the Identification of Trends

No significant factors noted.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

- The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except for those 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.

CITY OF BISBEE, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
City sales tax	2,460,000	2,460,000	1,745,206	\$ (714,794)
Property taxes	997,406	997,406	974,611	(22,795)
Bed tax	150,000	150,000	147,961	(2,039)
Total taxes	<u>3,607,406</u>	<u>3,607,406</u>	<u>2,867,778</u>	<u>(739,628)</u>
Fines and forfeitures	-	-	1,140	1,140
Licenses and permits	117,500	117,500	97,469	(20,031)
Intergovernmental:				
State sales tax	490,639	490,639	476,788	(13,851)
Auto lieu tax	263,960	263,960	257,163	(6,797)
Urban revenue sharing	637,724	637,724	637,161	(563)
Other Intergovernmental revenues	60,000	60,000	35,084	(24,916)
Total intergovernmental	<u>1,452,323</u>	<u>1,452,323</u>	<u>1,406,196</u>	<u>(46,127)</u>
Charges for services	1,738,250	1,738,250	1,601,942	(136,308)
Investment earnings	1,000	1,000	2,894	1,894
Other revenues:				
Rent	46,500	46,500	42,625	(3,875)
Contributions	2,000	2,000	34,950	32,950
Miscellaneous	71,000	71,000	52,827	(18,173)
Total other revenues	<u>119,500</u>	<u>119,500</u>	<u>130,402</u>	<u>10,902</u>
Total revenues	<u>7,035,979</u>	<u>7,035,979</u>	<u>6,107,821</u>	<u>(928,158)</u>
EXPENDITURES:				
General government				
Mayor and council	38,113	38,113	29,550	8,563
City manager	136,808	136,808	132,708	4,100
Finance	421,469	421,469	362,910	58,559
City clerk	138,676	138,676	137,500	1,176
Community development	131,455	131,455	122,786	8,669
Administration	212,215	212,215	171,888	40,327
Personnel	44,528	44,528	39,675	4,853
Legal services	60,325	60,325	60,000	325
Water systems	5,600	5,600	2,674	2,926
Information systems	88,480	88,480	85,545	2,935
Cemetery	9,318	9,318	6,237	3,081
Building maintenance	42,950	42,950	28,057	14,893
Public works administration	102,148	102,148	95,645	6,503
Garage	174,568	174,568	153,647	20,921
Building inspector	64,053	64,053	65,787	(1,734)
Contingency	100,000	100,000	9,294	90,706
Total general government	<u>1,770,706</u>	<u>1,770,706</u>	<u>1,503,903</u>	<u>266,803</u>

(Continued)

CITY OF BISBEE, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Public safety				
Police department	1,841,871	1,841,871	1,601,131	240,740
Fire department	2,112,180	2,112,180	2,486,125	(373,945)
City magistrate	38,000	38,000	45,342	(7,342)
Total public safety	<u>3,992,051</u>	<u>3,992,051</u>	<u>4,132,598</u>	<u>(140,547)</u>
Culture and recreation				
Parks	159,024	159,024	216,511	(57,487)
Swimming pool	19,100	19,100	41,979	(22,879)
Library	151,519	151,519	130,178	21,341
Senior citizens' center	23,507	23,507	28,728	(5,221)
Total culture and recreation	<u>353,150</u>	<u>353,150</u>	<u>417,396</u>	<u>(64,246)</u>
Debt service:				
Principal	51,305	51,305	16,049	35,256
Interest	2,024	2,024	512	1,512
Total debt service	<u>53,329</u>	<u>53,329</u>	<u>16,561</u>	<u>36,768</u>
Total expenditures	<u>6,169,236</u>	<u>6,169,236</u>	<u>6,070,458</u>	<u>98,778</u>
Excess of revenues over (under) expenditures	<u>866,743</u>	<u>866,743</u>	<u>37,363</u>	<u>(829,380)</u>
Other financing sources (uses):				
Transfer from other funds	434,851	434,851	382,119	(52,732)
Transfer to other funds	(1,301,594)	(1,301,594)	(500,485)	801,109
Total other financing sources (uses)	<u>(866,743)</u>	<u>(866,743)</u>	<u>(118,366)</u>	<u>748,377</u>
Net change in fund balance	-	-	(81,003)	(81,003)
Fund balance, beginning of year	2,096,376	2,096,376	2,096,376	-
Prior period adjustment	-	-	(331,644)	(331,644)
Fund balance, end of year	<u>\$ 2,096,376</u>	<u>\$ 2,096,376</u>	<u>\$ 1,683,729</u>	<u>\$ (412,647)</u>

CITY OF BISBEE, ARIZONA
STREETS FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 703,000	\$ 703,000	\$ 685,384	\$ (17,616)
Intergovernmental	385,188	385,188	416,954	31,766
Charges for services	16,000	16,000	11,932	(4,068)
Interest	-	-	4	4
Total revenues	<u>1,104,188</u>	<u>1,104,188</u>	<u>1,114,274</u>	<u>10,086</u>
EXPENDITURES:				
Transportation	1,104,188	1,104,188	1,275,239	(171,051)
Capital outlay	-	-	36,031	(36,031)
Total expenditures	<u>1,104,188</u>	<u>1,104,188</u>	<u>1,311,270</u>	<u>(207,082)</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(196,996)</u>	<u>(196,996)</u>
Net change in fund balance	-	-	(196,996)	(196,996)
Fund balance, beginning of year	181,442	181,442	181,442	-
Prior period adjustment	-	-	(31,849)	(31,849)
Fund balance, end of year	<u>\$ 181,442</u>	<u>\$ 181,442</u>	<u>\$ (47,403)</u>	<u>\$ (228,845)</u>

SUPPLEMENTARY INFORMATION
COMBINING STATEMENTS AND
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- The **General Grants Fund** is used to account for federal and state grants and contributions that are restricted for specific use.
- The **Public Safety Fire Grants Fund** is used to account for federal and state grants and contributions that are restricted for fire.
- The **Transportation Grants Fund** is used to account for federal and state grants and contributions that are restricted for transportation projects.
- The **Transient Room Tax Fund** is used to account for bed tax receipts and expenditures.
- The **Rico Drug Enforcement Asset Fund** is used to account for RICO funds that are restricted for police.
- The **Bisbee Arts Commission Fund** is used to account for art project funds and related expenditures.
- The **Miscellaneous Donations Fund** is used to account for miscellaneous donations and related expenditures.
- The **Airport Fund** is used to account for airport operations and projects.
- The **Police Special Revenue Grants Fund** is used to account for federal and state grants and contributions that are restricted for police.
- The **Public Works Grants Fund** is used to account for federal and state grants and contributions that are restricted for public works.
- The **Miscellaneous Grants Fund** is used to account for federal and state grants and contributions that are restricted for specific use.
- The **Youth Program Fund** is used to account for funds restricted for the Youth Council.
- The **Bisbee Bus Fund** is used to account for the operations and projects of Bisbee busses.

Capital Projects Funds

- The **Capital Improvement Fund** is used to account for funds accumulated for capital projects and the related expenditures.

CITY OF BISBEE, ARIZONA
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2017

	Special Revenue Funds					
	General Grants Fund	Public Safety Fire Grants Fund	Transportation Grants Fund	Transient Room Tax Fund	Rico Drug Enforcement Asset fund	Bisbee Arts Commission Fund
ASSETS						
Cash and cash equivalents	\$ 8,319	\$ -	\$ 84,341	\$ 84,080	\$ 1,651	\$ 28,862
Investments	-	-	-	-	-	-
Receivables:						
Accounts	-	-	-	-	-	-
Due from other governments	-	-	-	-	272	-
Prepays	-	-	-	-	-	-
Total assets	<u>\$ 8,319</u>	<u>\$ -</u>	<u>\$ 84,341</u>	<u>\$ 84,080</u>	<u>\$ 1,923</u>	<u>\$ 28,862</u>
LIABILITIES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 11,150	\$ -	\$ 35
Due to other funds	-	-	-	-	-	-
Accrued payroll	-	-	-	1,784	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,934</u>	<u>-</u>	<u>35</u>
FUND BALANCES						
Nonspendable:						
Prepays	-	-	-	-	-	-
Restricted for:						
Public safety	-	-	-	-	1,923	-
Transportation	-	-	84,341	-	-	-
Culture and recreation	-	-	-	-	-	28,827
Other purposes	8,319	-	-	71,146	-	-
Capital projects	-	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	-	-
Total fund balances (deficit)	<u>8,319</u>	<u>-</u>	<u>84,341</u>	<u>71,146</u>	<u>1,923</u>	<u>28,827</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,319</u>	<u>\$ -</u>	<u>\$ 84,341</u>	<u>\$ 84,080</u>	<u>\$ 1,923</u>	<u>\$ 28,862</u>

Special Revenue Funds							Capital Projects Fund	Total Non-major Funds
Miscellaneous Donations Fund	Airport Fund	Police Special Revenue Grants Fund	Public Works Grants Fund	Miscellaneous Grants Fund	Youth Program Fund	Bisbee Bus Fund	Capital Improvement Fund	Total Non-major Funds
\$ 60,900	\$ -	\$ 758	\$ -	\$ -	\$ 2,843	\$ -	\$ 603,253	\$ 875,007
-	-	-	-	-	122,555	-	-	122,555
93	300	-	-	-	96	3,442	-	3,931
-	-	5,894	-	-	-	98,586	39,655	144,407
-	3,320	-	-	-	-	-	-	3,320
<u>\$ 60,993</u>	<u>\$ 3,620</u>	<u>\$ 6,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,494</u>	<u>\$ 102,028</u>	<u>\$ 642,908</u>	<u>\$ 1,149,220</u>
\$ 4,287	\$ 495	\$ -	\$ -	\$ -	\$ -	\$ 41,936	\$ -	\$ 57,903
-	3,351	-	31,532	-	-	99,189	-	134,072
-	-	-	-	-	-	-	-	1,784
<u>4,287</u>	<u>3,846</u>	<u>-</u>	<u>31,532</u>	<u>-</u>	<u>-</u>	<u>141,125</u>	<u>-</u>	<u>193,759</u>
-	3,320	-	-	-	-	-	-	3,320
-	-	6,652	-	-	-	-	-	8,575
-	-	-	-	-	-	-	-	84,341
-	-	-	-	-	-	-	-	28,827
56,706	-	-	-	-	125,494	-	-	261,665
-	-	-	-	-	-	-	642,908	642,908
-	(3,546)	-	(31,532)	-	-	(39,097)	-	(74,175)
<u>56,706</u>	<u>(226)</u>	<u>6,652</u>	<u>(31,532)</u>	<u>-</u>	<u>125,494</u>	<u>(39,097)</u>	<u>642,908</u>	<u>955,461</u>
<u>\$ 60,993</u>	<u>\$ 3,620</u>	<u>\$ 6,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,494</u>	<u>\$ 102,028</u>	<u>\$ 642,908</u>	<u>\$ 1,149,220</u>

CITY OF BISBEE, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue Funds					
	General Grants Fund	Public Safety Fire Grants Fund	Transportation Grants Fund	Transient Room Tax Fund	Rico Drug Enforcement Asset fund	Bisbee Arts Commission Fund
REVENUES						
Intergovernmental revenue	\$ 14,547	\$ -	\$ -	\$ -	\$ 272	\$ -
Charges for services	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	13,634
Total revenues	<u>14,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>272</u>	<u>13,634</u>
EXPENDITURES						
Current:						
General government	-	-	-	154,355	-	-
Public safety	-	-	-	-	272	-
Culture and recreation	-	-	-	-	-	2,824
Transportation	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Capital outlay	14,547	-	-	-	-	-
Total expenditures	<u>14,547</u>	<u>-</u>	<u>-</u>	<u>154,355</u>	<u>272</u>	<u>2,824</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(154,355)</u>	<u>-</u>	<u>10,810</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	-	-	-	-	-	-
Transfers in	-	-	-	163,961	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,961</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,606</u>	<u>-</u>	<u>10,810</u>
Fund balances (deficits), beginning of year	8,319	-	84,341	61,540	1,923	18,017
Prior period adjustment	-	-	-	-	-	-
Fund balances (deficits), end of year	<u>\$ 8,319</u>	<u>\$ -</u>	<u>\$ 84,341</u>	<u>\$ 71,146</u>	<u>\$ 1,923</u>	<u>\$ 28,827</u>

Speical Revenue Funds							Capital Projects Fund	Total Non-major Funds
Miscellaneous Donations Fund	Airport Fund	Police Special Revenue Grants Fund	Public Works Grants Fund	Miscellaneous Grants Fund	Youth Program Fund	Bisbee Bus Fund	Capital Improvement Fund	Total Non-major Funds
\$ -	\$ -	\$ 5,894	\$ -	\$ -	\$ -	\$ 338,446	\$ -	\$ 359,159
-	13,803	-	-	-	-	15,322	-	29,125
-	-	-	-	-	886	-	-	886
-	11,091	-	-	-	-	-	-	11,091
128,670	-	-	-	-	-	-	-	128,670
-	-	-	-	-	-	-	6,118	19,752
<u>128,670</u>	<u>24,894</u>	<u>5,894</u>	<u>-</u>	<u>-</u>	<u>886</u>	<u>353,768</u>	<u>6,118</u>	<u>548,683</u>
17,269	-	-	-	-	500	-	-	172,124
85,546	-	5,298	-	-	-	-	-	91,116
10,792	-	-	-	-	-	-	-	13,616
-	24,824	-	-	-	-	263,651	-	288,475
-	-	-	4,970	-	-	-	-	4,970
-	-	-	-	-	-	120,950	-	135,497
<u>113,607</u>	<u>24,824</u>	<u>5,298</u>	<u>4,970</u>	<u>-</u>	<u>500</u>	<u>384,601</u>	<u>-</u>	<u>705,798</u>
15,063	70	596	(4,970)	-	386	(30,833)	6,118	(157,115)
-	-	(596)	-	-	-	-	-	(596)
-	-	-	-	-	-	9,833	-	173,794
-	-	(596)	-	-	-	9,833	-	173,198
15,063	70	-	(4,970)	-	386	(21,000)	6,118	16,083
41,643	(296)	6,652	(26,562)	9,315	125,108	(18,097)	636,790	948,693
-	-	-	-	(9,315)	-	-	-	(9,315)
<u>\$ 56,706</u>	<u>\$ (226)</u>	<u>\$ 6,652</u>	<u>\$ (31,532)</u>	<u>\$ -</u>	<u>\$ 125,494</u>	<u>\$ (39,097)</u>	<u>\$ 642,908</u>	<u>\$ 955,461</u>

CITY OF BISBEE, ARIZONA
GENERAL GRANTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental revenue	\$ 214,600	\$ 214,600	\$ 14,547	\$ (200,053)
Total revenues	<u>214,600</u>	<u>214,600</u>	<u>14,547</u>	<u>(200,053)</u>
EXPENDITURES				
Capital outlay	214,600	214,600	14,547	200,053
Total expenditures	<u>214,600</u>	<u>214,600</u>	<u>14,547</u>	<u>200,053</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	<u>8,319</u>	<u>8,319</u>	<u>8,319</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,319</u>	<u>\$ 8,319</u>	<u>\$ 8,319</u>	<u>\$ -</u>

CITY OF BISBEE, ARIZONA
POLICE SAFETY FIRE GRANTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenue	\$ 285,000	\$ 285,000	\$ -	\$ (285,000)
Total revenues	<u>285,000</u>	<u>285,000</u>	<u>-</u>	<u>(285,000)</u>
EXPENDITURES				
Capital outlay	300,000	300,000	-	300,000
Total expenditures	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>
Excess of revenues over (under) expenditures	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	15,000	15,000	-	(15,000)
Total other financing sources (uses)	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>(15,000)</u>
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF BISBEE, ARIZONA
TRANSPORTATION GRANTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Intergovernmental revenue	\$ 320,000	\$ 320,000	\$ -	\$ (320,000)
Total revenues	<u>320,000</u>	<u>320,000</u>	<u>-</u>	<u>(320,000)</u>
EXPENDITURES				
Current:				
Transportation	332,500	332,500	-	332,500
Total expenditures	<u>332,500</u>	<u>332,500</u>	<u>-</u>	<u>332,500</u>
Excess of revenues over (under) expenditures	<u>(12,500)</u>	<u>(12,500)</u>	<u>-</u>	<u>12,500</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	12,500	12,500	-	(12,500)
Total other financing sources (uses)	<u>12,500</u>	<u>12,500</u>	<u>-</u>	<u>(12,500)</u>
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	<u>84,341</u>	<u>84,341</u>	<u>84,341</u>	<u>-</u>
Fund balance, end of year	<u>\$ 84,341</u>	<u>\$ 84,341</u>	<u>\$ 84,341</u>	<u>\$ -</u>

CITY OF BISBEE, ARIZONA
TRANSIENT ROOM TAX
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Total revenues	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Current:				
General government	187,378	187,378	154,355	33,023
Total expenditures	187,378	187,378	154,355	33,023
Excess of revenues over (under) expenditures	(187,378)	(187,378)	(154,355)	33,023
OTHER FINANCING SOURCES (USES)				
Transfers out	(50,000)	(50,000)	-	(50,000)
Transfers in	166,000	166,000	163,961	(2,039)
Total other financing sources (uses)	116,000	116,000	163,961	(52,039)
Net change in fund balances	(71,378)	(71,378)	9,606	(19,016)
Fund balance, beginning of year	61,540	61,540	61,540	-
Fund balance, end of year	\$ (9,838)	\$ (9,838)	\$ 71,146	\$ (19,016)

CITY OF BISBEE, ARIZONA
RICO DRUG ENFORCEMENT ASET
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Intergovernmental revenue	\$ 250,000	\$ 250,000	\$ 272	\$ (249,728)
Charges for services	1,000	1,000	-	(1,000)
Total revenues	<u>251,000</u>	<u>251,000</u>	<u>272</u>	<u>(250,728)</u>
EXPENDITURES				
Current:				
Public safety	233,439	233,439	272	233,167
Capital outlay	1,000	1,000	-	1,000
Total expenditures	<u>234,439</u>	<u>234,439</u>	<u>272</u>	<u>234,167</u>
Excess of revenues over (under) expenditures	<u>16,561</u>	<u>16,561</u>	<u>-</u>	<u>(16,561)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(16,561)	(16,561)	-	(16,561)
Total other financing sources (uses)	<u>(16,561)</u>	<u>(16,561)</u>	<u>-</u>	<u>(16,561)</u>
Net change in fund balances	-	-	-	(33,122)
Fund balance, beginning of year	1,923	1,923	1,923	-
Prior period adjustment	-	-	-	-
Fund balance, end of year	<u>\$ 1,923</u>	<u>\$ 1,923</u>	<u>\$ 1,923</u>	<u>\$ (33,122)</u>

**CITY OF BISBEE, ARIZONA
 BISBEE ARTS COMMISSION
 SPECIAL REVENUE FUND
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 13,634	\$ 13,634
Total revenues	<u>-</u>	<u>-</u>	<u>13,634</u>	<u>13,634</u>
EXPENDITURES				
Current:				
Culture and recreation	21,000	21,000	2,824	18,176
Total expenditures	<u>21,000</u>	<u>21,000</u>	<u>2,824</u>	<u>18,176</u>
Excess of revenues over (under) expenditures	<u>(21,000)</u>	<u>(21,000)</u>	<u>10,810</u>	<u>31,810</u>
Net change in fund balances	(21,000)	(21,000)	10,810	31,810
Fund balance, beginning of year	<u>18,017</u>	<u>18,017</u>	<u>18,017</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (2,983)</u></u>	<u><u>\$ (2,983)</u></u>	<u><u>\$ 28,827</u></u>	<u><u>\$ 31,810</u></u>

CITY OF BISBEE, ARIZONA
MISCELLANEOUS DONATIONS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Contributions	\$ 1,036,500	\$ 1,036,500	\$ 128,670	\$ (907,830)
Total revenues	<u>1,036,500</u>	<u>1,036,500</u>	<u>128,670</u>	<u>(907,830)</u>
EXPENDITURES				
Current:				
General government	1,022,000	1,022,000	17,269	1,004,731
Public safety	14,500	14,500	85,546	(71,046)
Culture and recreation	-	-	10,792	(10,792)
Total expenditures	<u>1,036,500</u>	<u>1,036,500</u>	<u>113,607</u>	<u>922,893</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>15,063</u>	<u>15,063</u>
Net change in fund balances	-	-	15,063	15,063
Fund balance, beginning of year	<u>41,643</u>	<u>41,643</u>	<u>41,643</u>	<u>-</u>
Fund balance, end of year	<u>\$ 41,643</u>	<u>\$ 41,643</u>	<u>\$ 56,706</u>	<u>\$ 15,063</u>

CITY OF BISBEE, ARIZONA
AIRPORT
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Charges for services	\$ 26,600	\$ 26,600	\$ 13,803	\$ (12,797)
Rent	15,060	15,060	11,091	(3,969)
Total revenues	<u>41,660</u>	<u>41,660</u>	<u>24,894</u>	<u>(16,766)</u>
EXPENDITURES				
Current:				
Transportation	54,160	54,160	24,824	29,336
Total expenditures	<u>54,160</u>	<u>54,160</u>	<u>24,824</u>	<u>29,336</u>
Excess of revenues over (under) expenditures	<u>(12,500)</u>	<u>(12,500)</u>	<u>70</u>	<u>12,570</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	12,500	12,500	-	(12,500)
Total other financing sources (uses)	<u>12,500</u>	<u>12,500</u>	<u>-</u>	<u>(12,500)</u>
Net change in fund balances	-	-	70	70
Fund balance (deficit), beginning of year	(296)	(296)	(296)	-
Fund balance (deficit), end of year	<u>\$ (296)</u>	<u>\$ (296)</u>	<u>\$ (226)</u>	<u>\$ 70</u>

CITY OF BISBEE, ARIZONA
POLICE SPECIAL REVENUE GRANTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental revenue	\$ 129,800	\$ 129,800	\$ 5,894	\$ (123,906)
Total revenues	<u>129,800</u>	<u>129,800</u>	<u>5,894</u>	<u>(123,906)</u>
EXPENDITURES				
Current:				
Public safety	129,800	129,800	5,298	124,502
Total expenditures	<u>129,800</u>	<u>129,800</u>	<u>5,298</u>	<u>124,502</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>596</u>	<u>596</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(596)	596
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(596)</u>	<u>596</u>
Net change in fund balances	-	-	-	1,192
Fund balance, beginning of year	<u>6,652</u>	<u>6,652</u>	<u>6,652</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,652</u>	<u>\$ 6,652</u>	<u>\$ 6,652</u>	<u>\$ 1,192</u>

**CITY OF BISBEE, ARIZONA
PUBLIC WORKS GRANTS
SPECIAL REVENUE FUND**
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Intergovernmental revenue	\$ 3,703,960	\$ 3,703,960	\$ -	\$ (3,703,960)
Total revenues	<u>3,703,960</u>	<u>3,703,960</u>	<u>-</u>	<u>(3,703,960)</u>
EXPENDITURES				
Current:				
Public works	2,563,960	2,563,960	4,970	2,558,990
Capital outlay	1,723,000	1,723,000	-	1,723,000
Total expenditures	<u>4,286,960</u>	<u>4,286,960</u>	<u>4,970</u>	<u>4,281,990</u>
Excess of revenues over (under) expenditures	<u>(583,000)</u>	<u>(583,000)</u>	<u>(4,970)</u>	<u>578,030</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	583,000	583,000	-	(583,000)
Total other financing sources (uses)	<u>583,000</u>	<u>583,000</u>	<u>-</u>	<u>(583,000)</u>
Net change in fund balances	-	-	(4,970)	(4,970)
Fund balance, beginning of year	<u>(26,562)</u>	<u>(26,562)</u>	<u>(26,562)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (26,562)</u>	<u>\$ (26,562)</u>	<u>\$ (31,532)</u>	<u>\$ (4,970)</u>

**CITY OF BISBEE, ARIZONA
 MISCELLANEOUS GRANTS
 SPECIAL REVENUE FUND
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Intergovernmental revenue	\$ 5,093,660	\$ 5,093,660	\$ -	\$ (5,093,660)
Total revenues	<u>5,093,660</u>	<u>5,093,660</u>	<u>-</u>	<u>(5,093,660)</u>
EXPENDITURES				
Current:				
General government	5,000,000	5,000,000	-	5,000,000
Culture and recreation	15,000	15,000	-	15,000
Transportation	98,325	98,325	-	98,325
Total expenditures	<u>5,113,325</u>	<u>5,113,325</u>	<u>-</u>	<u>5,113,325</u>
Excess of revenues over (under) expenditures	<u>(19,665)</u>	<u>(19,665)</u>	<u>-</u>	<u>19,665</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	19,665	19,665	-	(19,665)
Total other financing sources (uses)	<u>19,665</u>	<u>19,665</u>	<u>-</u>	<u>(19,665)</u>
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	9,315	9,315	9,315	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(9,315)</u>	<u>-</u>
Fund balance, end of year	<u>\$ 9,315</u>	<u>\$ 9,315</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF BISBEE, ARIZONA
YOUTH PROGRAM
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Investment earnings	\$ -	\$ -	\$ 886	\$ 886
Total revenues	<u>-</u>	<u>-</u>	<u>886</u>	<u>886</u>
EXPENDITURES				
Current:				
General government	-	-	500	(500)
Total expenditures	<u>-</u>	<u>-</u>	<u>500</u>	<u>(500)</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>386</u>	<u>386</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(55,000)	(55,000)	-	(55,000)
Total other financing sources (uses)	<u>(55,000)</u>	<u>(55,000)</u>	<u>-</u>	<u>(55,000)</u>
Net change in fund balances	(55,000)	(55,000)	386	(54,614)
Fund balance, beginning of year	<u>125,108</u>	<u>125,108</u>	<u>125,108</u>	<u>-</u>
Fund balance, end of year	<u>\$ 70,108</u>	<u>\$ 70,108</u>	<u>\$ 125,494</u>	<u>\$ (54,614)</u>

CITY OF BISBEE, ARIZONA
BISBEE BUS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 324,800	\$ 324,800	\$ 338,446	\$ 13,646
Charges for services	11,500	11,500	15,322	3,822
Total revenues	336,300	336,300	353,768	17,468
EXPENDITURES				
Current:				
Transportation	336,300	336,300	263,651	72,649
Capital outlay	-	-	120,950	(120,950)
Total expenditures	336,300	336,300	384,601	(48,301)
Excess of revenues over (under) expenditures	-	-	(30,833)	(30,833)
OTHER FINANCING SOURCES (USES)				
Transfers out	(19,665)	(19,665)	-	(19,665)
Transfers in	19,665	19,665	9,833	(9,832)
Total other financing sources (uses)	-	-	9,833	(29,497)
Net change in fund balances	-	-	(21,000)	(60,330)
Fund balance (deficit), beginning of year	(18,097)	(18,097)	(18,097)	-
Fund balance (deficit), end of year	\$ (18,097)	\$ (18,097)	\$ (39,097)	\$ (60,330)

**CITY OF BISBEE, ARIZONA
CAPITAL IMPROVEMENT
CAPITAL PROJECTS FUND**
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 6,118	\$ 6,118
Total revenues	<u>-</u>	<u>-</u>	<u>6,118</u>	<u>6,118</u>
EXPENDITURES				
Current:				
Public works	80,000	80,000	-	80,000
Capital outlay	791,000	791,000	-	791,000
Total expenditures	<u>871,000</u>	<u>871,000</u>	<u>-</u>	<u>871,000</u>
Excess of revenues over (under) expenditures	<u>(871,000)</u>	<u>(871,000)</u>	<u>6,118</u>	<u>877,118</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	321,000	321,000	-	(321,000)
Total other financing sources (uses)	<u>321,000</u>	<u>321,000</u>	<u>-</u>	<u>(321,000)</u>
Net change in fund balances	(550,000)	(550,000)	6,118	556,118
Fund balance, beginning of year	<u>636,790</u>	<u>636,790</u>	<u>636,790</u>	<u>-</u>
Fund balance, end of year	<u>\$ 86,790</u>	<u>\$ 86,790</u>	<u>\$ 642,908</u>	<u>\$ 556,118</u>

This page intentionally left blank

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

This page intentionally left blank

**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***

The Honorable Mayor and
City Council
Bisbee, Arizona

We have audited, 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, 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 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Bisbee, Arizona's basic financial statements, and have issued our report thereon dated February 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Bisbee, Arizona'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 of Bisbee, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bisbee, Arizona'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 entity's 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 in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies.

2017-001

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bisbee, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HintonBurdick, PLLC
Flagstaff, Arizona
February 13, 2018

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
City Council
Bisbee, Arizona

We have audited the basic financial statements of the City of Bisbee, Arizona for the year ended June 30, 2017, and have issued our report thereon dated February 13, 2018. Our audit also included test work on the City of Bisbee's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the City of Bisbee is responsible for the City's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:


The City of Bisbee has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the City of Bisbee pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the City's compliance with annual expenditure limitations has been issued separately with the City's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The City of Bisbee complied, in all material respects, with the requirements identified above for the year ended June 30, 2017.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.


HintonBurdick, PLLC
Flagstaff, Arizona
February 13, 2018

This page intentionally left blank