

CITY OF BISBEE, ARIZONA

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

Year Ended June 30, 2014

CITY OF BISBEE, ARIZONA
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Independent Auditors' Report

To the City Council of
City of Bisbee, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information - Schedule of Expenditures of Federal Awards

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

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

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

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

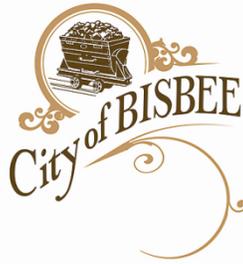
The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the City Council, management and other responsible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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Fester & Chapman P.C.

December 8, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

This discussion and analysis of the City of Bisbee, Arizona's financial performance is offered by management to provide an easily readable overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read this Management's Discussion and Analysis in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position increased \$1.1 million (4.5%) to \$26.69 million. Of this amount, \$3.6 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. Net position from governmental activities increased \$1.6 million (14%) to \$12.6 million. Net assets from business-type activities decreased \$430 thousand (3.1%) to \$14.5 million.
- The City's revenues from governmental activities increased \$429 thousand (6.6%). Revenues from business-type activities increased \$304 thousand (8.3%).
- Expenditures from governmental activities increased \$287 thousand (4.2%). Expenses from business-type activities increased \$823 thousand (22.4%).
- The total outstanding non-current liabilities decreased \$794 thousand to \$12.7 million.
- The General Fund reported a fund balance this year of \$2.017 million or 36.8% of General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements (the Statement of Net Position and the Statement of Activities) distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Government activities include the City's basic services such as public safety, public works, culture and recreation, community development, and general government and administration. Taxes, charges for services, and intergovernmental revenues such as state and federal grants finance most of these activities. Business-type activities include the Queen Mine, Sewer and Sanitation services.

Fund Financial Statements

The fund financial statements are next and provide detailed information about the most significant funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental and proprietary.

- *Governmental funds*– Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more, or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation presented after the governmental funds' financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

Notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 19-37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City’s combined net position increased from a year ago from \$25.554 million to \$26,691 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City’s combined activities.

Table 1		
Condensed Statements of Net Position		
(thousands)		
Years ended June 30,		
	Primary Government	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 5,785	\$ 6,332
Capital assets	<u>34,397</u>	<u>33,487</u>
Total assets	40,182	39,819
Current and other liabilities	763	741
Long-term debt outstanding	<u>12,729</u>	<u>13,523</u>
Total liabilities	13,492	14,264
Net position:		
Net investment in capital assets	21,868	20,167
Restricted	1,236	1,068
Unrestricted	<u>3,587</u>	<u>4,319</u>
Total net position	<u>\$ 26,691</u>	<u>\$ 25,554</u>

Net position of the City represents the difference between the City’s resources and its obligations. As of June 30, 2014, the largest portion of the City’s net position, approximately 82%, reflects the investment in capital assets, less related debt outstanding used to acquire capital assets. These capital assets are used by the City to provide services to its citizens. A small portion of the City’s net position, approximately 5%, is restricted for use in accordance with agreements with lenders and grantors. The remainder of the City’s net position, approximately 13%, is unrestricted – the part of assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

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

	Primary Government	
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 5,216	\$ 5,048
Operating grants and contributions	897	691
Capital grants and contributions	2,242	387
General revenues:		
Property taxes	933	877
Sales taxes	1,931	1,802
State shared taxes	486	458
Urban revenue sharing	626	574
Vehicle license taxes	232	242
Bed taxes	80	73
Other general revenues and transfers	<u>73</u>	<u>131</u>
Total revenues	<u>12,716</u>	<u>10,283</u>
Expenses:		
Governmental activities:		
General government	1,846	2,014
Public safety	4,043	3,850
Transportation	727	704
Culture and recreation	451	431
Interest on long-term debt	8	9
Business type activities:		
Wastewater	2,955	2,336
Sanitation	985	756
Queen Mine	<u>564</u>	<u>589</u>
Total expenses	<u>11,579</u>	<u>10,689</u>
Increase (decrease) in net position	1,137	(406)
Net position - beginning	<u>25,554</u>	<u>25,960</u>
Net position - ending	<u>\$ 26,691</u>	<u>\$ 25,554</u>

The City's total revenues were \$12.716 million. The total cost of all programs and services was \$11,579 million.

Our analysis below separately considers the operations of governmental activities.

Governmental Activities

On the revenue side, charges for services were up from \$1.42 million to \$1.47 million, or 3.6%. Operating and grants and contributions were down from \$976 thousand to \$708 thousand, or 27.5%. This was due in large part to the reduction in grant funding from the preceding year.

On the expenditure side, governmental activities expenses increased from \$7 million to \$7.1 million, or 1.4%. This was due in large to increased personnel costs.

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

Table 3		
<i>Governmental Activities</i>		
(thousands)		
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2014</u>	<u>2014</u>
General government and administration	\$ 1,846	\$ (857)
Public safety	4,043	2,897
Transportation	727	329
Culture and recreation	451	443
All others	<u>8</u>	<u>8</u>
Totals	<u><u>\$ 7,075</u></u>	<u><u>\$ 2,820</u></u>

CITY FUNDS FINANCIAL ANALYSIS

Governmental Funds

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

The City’s governmental funds reported a combined fund balance of \$2.9 million, which is a decrease from last year’s total of \$3.01 million.

Proprietary Funds

The City accounts for three funds in its Proprietary Funds – Wastewater, Sanitation, and the Queen Mine. Net position for the proprietary funds decreased from \$14.52 million to \$14.1 million, or 2.7%. This decrease is attributable largely to an increase in the Wastewater and Sanitation funds’ operating expenses.

General Fund Budgetary Highlights

Over the course of the year, the City was faced with several budget issues. On the revenue side, we did see an increase of sales taxes collected of \$31 thousand over what was budgeted. However, total revenues still fell short by \$15 thousand, excluding the budgeted use of reserves, due to a reduction in ambulance revenues. However, expenditures were monitored closely throughout the year and kept well within budget, resulting in a net increase of \$191 thousand in General Fund’s fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the City had \$44.4 million invested in a broad range of capital assets, including land, buildings, vehicles, equipment, and the new wastewater treatment facility. This amount represents a \$10.9 million increase (including additions and deductions) over last year. This is mostly due to the capitalization of Arizona Street and Airport projects.

Table 4
Capital Assets at Year-end
(thousands)

	Total Assets	
	2014	2013
Land	\$ 619	\$ 619
Buildings and improvements	17,298	17,225
Airport	4,388	3,833
Improvements other than buildings	3,664	3,658
Machinery and equipment	4,710	4,469
Infrastructure	20,781	18,216
Construction in progress	508	1,340
Less: accumulated depreciation	<u>(17,571)</u>	<u>(15,873)</u>
Totals	<u>\$ 34,397</u>	<u>\$ 33,487</u>

Long-term debt

At June 30, 2014, the City had \$12.7 million in long-term debt outstanding. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's total long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City continues to face major financial challenges in the years ahead. Some important issues that will influence the preparation of future budgets include:

- Maintain a reasonable level of services for the citizens of the City of Bisbee in these continually challenging economic times.
- Increased personnel costs due to escalating costs of fringe benefits, the Affordable Healthcare Act and PSPRS retirement costs.
- Secure additional funding for the City's deferred maintenance costs.
- Voter approved sales tax increase for streets and infrastructure repairs and improvements.
- Voter approved bed tax increase to promote the City of Bisbee as a unique cultural and recreational destination.
- Acquire funding for capital equipment and vehicles.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, City of Bisbee, 118 Arizona Street, Bisbee, Arizona 85603.

City of Bisbee, Arizona
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,691,037	\$ 802,296	\$ 2,493,333
Investments	528,783		528,783
Receivables (net of allowance for uncollectibles):			
Accounts	296,921	430,524	727,445
Property taxes	63,951		63,951
Restricted cash and cash equivalents		1,086,386	1,086,386
Inventory		106,243	106,243
Due from other governments	618,822	74,231	693,053
Prepaid items	61,197	25,406	86,603
Capital assets, not being depreciated	587,437	540,421	1,127,858
Capital assets, being depreciated, net	<u>9,373,119</u>	<u>23,896,172</u>	<u>33,269,291</u>
Total assets	<u>13,221,267</u>	<u>26,961,679</u>	<u>40,182,946</u>
Liabilities			
Accrued payroll and employee benefits	97,202	25,050	122,252
Accounts payable	262,780	150,034	412,814
Accrued interest payable		226,525	226,525
Deposits held for others		1,493	1,493
Noncurrent liabilities:			
Due within one year	46,313	769,257	815,570
Due in more than one year	<u>209,623</u>	<u>11,703,680</u>	<u>11,913,303</u>
Total liabilities	<u>615,918</u>	<u>12,876,039</u>	<u>13,491,957</u>
Net Position			
Net investment in capital assets	9,862,271	12,005,804	21,868,075
Restricted for:			
Highways and streets	38,995		38,995
Transportation	84,341		84,341
Culture and recreation	26,852		26,852
Debt service		1,086,386	1,086,386
Unrestricted	<u>2,592,890</u>	<u>993,450</u>	<u>3,586,340</u>
Total net position	<u>\$ 12,605,349</u>	<u>\$ 14,085,640</u>	<u>\$ 26,690,989</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 1,846,355	\$ 471,379	\$ 194,806	\$ 2,037,037	\$ 856,867		\$ 856,867
Public safety	4,042,906	984,259	144,719	16,683	(2,897,245)		(2,897,245)
Transportation	727,144	4,550	368,088	25,831	(328,675)		(328,675)
Culture and recreation	451,060	7,142			(443,918)		(443,918)
Interest on long-term debt	7,722				(7,722)		(7,722)
Total governmental activities	<u>7,075,187</u>	<u>1,467,330</u>	<u>707,613</u>	<u>2,079,551</u>	<u>(2,820,693)</u>		<u>(2,820,693)</u>
Business-type activities:							
Wastewater	2,955,326	2,228,272	189,344	159,109		\$ (378,601)	(378,601)
Sanitation	984,581	862,745				(121,836)	(121,836)
Queen Mine	563,704	657,547		3,150		96,993	96,993
Total business-type activities	<u>4,503,611</u>	<u>3,748,564</u>	<u>189,344</u>	<u>162,259</u>		<u>(403,444)</u>	<u>(403,444)</u>
Total	<u>\$ 11,578,798</u>	<u>\$ 5,215,894</u>	<u>\$ 896,957</u>	<u>\$ 2,241,810</u>	<u>(2,820,693)</u>	<u>(403,444)</u>	<u>(3,224,137)</u>
General revenues:							
Taxes:							
Property taxes					933,152		933,152
Sales taxes					1,930,977		1,930,977
State shared taxes					486,038		486,038
Urban revenue sharing					625,814		625,814
Vehicle license taxes					231,897		231,897
Bed taxes					79,658		79,658
Investment earnings					1,606	214	1,820
Gain on disposal of capital assets						350	350
Miscellaneous					36,867	34,411	71,278
Transfers					61,702	(61,702)	
Total general revenues and transfers					<u>4,387,711</u>	<u>(26,727)</u>	<u>4,360,984</u>
Change in net assets					1,567,018	(430,171)	1,136,847
Net position, July 1, 2013					11,038,331	14,515,811	25,554,142
Net position, June 30, 2014					<u>\$ 12,605,349</u>	<u>\$ 14,085,640</u>	<u>\$ 26,690,989</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 942,203	\$ 748,834	\$ 1,691,037
Investments	406,727	122,056	528,783
Receivables (net of allowance for uncollectibles):			
Accounts	291,002	5,919	296,921
Property taxes	63,951		63,951
Due from other governments	467,409	151,413	618,822
Prepaid items	<u>57,877</u>	<u>3,320</u>	<u>61,197</u>
Total assets	<u><u>\$ 2,229,169</u></u>	<u><u>\$ 1,031,542</u></u>	<u><u>\$ 3,260,711</u></u>
Liabilities and Fund Balances			
Liabilities:			
Accrued payroll and employee benefits	\$ 94,233	\$ 2,969	\$ 97,202
Accounts payable	<u>118,095</u>	<u>144,685</u>	<u>262,780</u>
Total liabilities	<u><u>212,328</u></u>	<u><u>147,654</u></u>	<u><u>359,982</u></u>
Fund balances:			
Nonspendable	57,877	3,320	61,197
Restricted		150,188	150,188
Committed	14,900	764,969	779,869
Assigned	207,079		207,079
Unassigned (deficit)	<u>1,736,985</u>	<u>(34,589)</u>	<u>1,702,396</u>
Total fund balances	<u><u>2,016,841</u></u>	<u><u>883,888</u></u>	<u><u>2,900,729</u></u>
 Total liabilities and fund balances	 <u><u>\$ 2,229,169</u></u>	 <u><u>\$ 1,031,542</u></u>	 <u><u>\$ 3,260,711</u></u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
June 30, 2014

Fund balances - total governmental funds	\$ 2,900,729
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,960,556
Some liabilities including capital leases payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(255,936)</u>
Net position of governmental activities	<u>\$ 12,605,349</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 3,661,722		\$ 3,661,722
Fines and forfeitures	23		23
Licenses and permits	129,876		129,876
Intergovernmental	697,540	\$ 1,062,979	1,760,519
Charges for services	1,186,306	35,303	1,221,609
Investment earnings	1,474	132	1,606
Rent	46,500	11,309	57,809
Contributions	33,371	43,716	77,087
Miscellaneous	34,351	7,400	41,751
Total revenues	<u>5,791,163</u>	<u>1,160,839</u>	<u>6,952,002</u>
Expenditures:			
Current:			
General government	1,402,762	393,584	1,796,346
Public safety	3,675,714	142,390	3,818,104
Transportation		569,884	569,884
Culture and recreation	354,582	22,924	377,506
Capital outlay		509,734	509,734
Debt service:			
Principal	42,457		42,457
Interest	7,722		7,722
Total expenditures	<u>5,483,237</u>	<u>1,638,516</u>	<u>7,121,753</u>
Excess (deficiency) of revenues over expenditures	307,926	(477,677)	(169,751)
Other financing sources (uses):			
Proceeds from sale of assets	500		500
Transfers in	301,319	263,831	565,150
Transfers out	(475,160)	(28,288)	(503,448)
Total other financing sources (uses)	<u>(173,341)</u>	<u>235,543</u>	<u>62,202</u>
Net change in fund balances	134,585	(242,134)	(107,549)
Fund balances, July 1, 2013	1,882,256	1,126,022	3,008,278
Fund balances, June 30, 2014	<u>\$ 2,016,841</u>	<u>\$ 883,888</u>	<u>\$ 2,900,729</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

Net changes in fund balances - total governmental funds \$ (107,549)

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

In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets sold. (500)

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

Capital outlay	\$ 2,168,016	
Depreciation expense	<u>(553,741)</u>	1,614,275

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

Principal payments	42,457
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

Decrease in compensated absences	<u>18,335</u>
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Change in net position of governmental activities	<u><u>\$ 1,567,018</u></u>
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City of Bisbee, Arizona
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 399,966		\$ 402,330	\$ 802,296
Accounts receivable, net of allowance for uncollectibles, current	213,411	\$ 86,084		299,495
Restricted cash and cash equivalents, current	747,489			747,489
Inventory			106,243	106,243
Prepaid items			25,406	25,406
Due from other funds	326,150			326,150
Due from other governments	74,231			74,231
Total current assets	<u>1,761,247</u>	<u>86,084</u>	<u>533,979</u>	<u>2,381,310</u>
Noncurrent assets:				
Restricted cash and cash equivalents, noncurrent	338,897			338,897
Accounts receivable, net of allowance for uncollectibles, noncurrent	100,652	30,377		131,029
Capital assets (net of accumulated depreciation):				
Land	47,660			47,660
Construction in progress	487,061		5,700	492,761
Buildings, net	9,624,189		93,188	9,717,377
Improvements other than buildings, net	1,286,601			1,286,601
Machinery and equipment, net	171,649	230,203	3,761	405,613
Infrastructure, net	12,486,581			12,486,581
Total capital assets, net	<u>24,103,741</u>	<u>230,203</u>	<u>102,649</u>	<u>24,436,593</u>
Total noncurrent assets	<u>24,543,290</u>	<u>260,580</u>	<u>102,649</u>	<u>24,906,519</u>
Total assets	<u>26,304,537</u>	<u>346,664</u>	<u>636,628</u>	<u>27,287,829</u>
Liabilities				
Current liabilities:				
Accrued payroll and employee benefits	9,485	7,921	7,644	25,050
Accounts payable	91,308	44,263	14,463	150,034
Accrued interest payable	226,525			226,525
Due to other funds		326,150		326,150
Deposits held for others			1,493	1,493
Current portion of long-term debt	747,489	21,768		769,257
Total current liabilities	<u>1,074,807</u>	<u>400,102</u>	<u>23,600</u>	<u>1,498,509</u>
Noncurrent liabilities:				
Long-term debt, net of current portion	11,616,541	74,796	12,343	11,703,680
Total noncurrent liabilities	<u>11,616,541</u>	<u>74,796</u>	<u>12,343</u>	<u>11,703,680</u>
Total liabilities	<u>12,691,348</u>	<u>474,898</u>	<u>35,943</u>	<u>13,202,189</u>
Net Position				
Net investment in capital assets	11,752,409	150,746	102,649	12,005,804
Restricted for debt service	1,086,386			1,086,386
Unrestricted (deficit)	774,394	(278,980)	498,036	993,450
Total net position (deficit)	<u>\$ 13,613,189</u>	<u>\$ (128,234)</u>	<u>\$ 600,685</u>	<u>\$ 14,085,640</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	<u>Total</u>
Operating revenues:				
Charges for sales and services	\$ 2,103,233	\$ 862,745	\$ 657,547	\$ 3,623,525
Customer penalties and interest	125,039			125,039
Miscellaneous	34,411			34,411
Total operating revenues	<u>2,262,683</u>	<u>862,745</u>	<u>657,547</u>	<u>3,782,975</u>
Operating expenses:				
Cost of sales and services	1,512,735	932,410	550,873	2,996,018
Depreciation	<u>1,093,233</u>	<u>52,171</u>	<u>12,831</u>	<u>1,158,235</u>
Total operating expenses	<u>2,605,968</u>	<u>984,581</u>	<u>563,704</u>	<u>4,154,253</u>
Operating (loss) income	(343,285)	(121,836)	93,843	(371,278)
Nonoperating revenues (expenses):				
Intergovernmental	189,344			189,344
Interest income	214			214
Interest expense	<u>(349,358)</u>			<u>(349,358)</u>
Total nonoperating revenues (expenses)	<u>(159,800)</u>			<u>(159,800)</u>
(Loss) income before capital contributions, gain and transfers	(503,085)	(121,836)	93,843	(531,078)
Capital contributions	159,109		3,150	162,259
Gain on disposal of assets		350		350
Transfers in	389,923			389,923
Transfers out	<u>(263,255)</u>	<u>(138,135)</u>	<u>(50,235)</u>	<u>(451,625)</u>
(Decrease) increase in net position	(217,308)	(259,621)	46,758	(430,171)
Total net position, July 1, 2013	<u>13,830,497</u>	<u>131,387</u>	<u>553,927</u>	<u>14,515,811</u>
Total net position (deficit), June 30, 2014	<u>\$ 13,613,189</u>	<u>\$ (128,234)</u>	<u>\$ 600,685</u>	<u>\$ 14,085,640</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,573,169	\$ 978,611	\$ 658,984	\$ 4,210,764
Other operating receipts	34,411			34,411
Cash payments to employees	(445,762)	(383,668)	(320,056)	(1,149,486)
Cash payments to suppliers for goods and services	<u>(1,002,714)</u>	<u>(538,866)</u>	<u>(232,026)</u>	<u>(1,773,606)</u>
Net cash provided by operating activities	1,159,104	56,077	106,902	1,322,083
Cash flows from noncapital financing activities:				
Proceeds from grants	189,344			189,344
(Payments to) advances from other funds	(154,950)	154,950		
Payments to other governments	(74,231)			(74,231)
Cash transfers from other funds	389,923			389,923
Cash transfers to other funds	<u>(263,255)</u>	<u>(138,135)</u>	<u>(50,235)</u>	<u>(451,625)</u>
Net cash provided (used) by noncapital financing activities	86,831	16,815	(50,235)	53,411
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(730,353)	(17,902)		(748,255)
Interest paid on long-term debt	(359,718)			(359,718)
Purchases of capital assets	(237,004)	(55,340)		(292,344)
Proceeds from the sale of capital assets		350		350
Net cash used by capital and related financing activities	<u>(1,327,075)</u>	<u>(72,892)</u>		<u>(1,399,967)</u>
Cash flows from investing activities:				
Interest income	214			214
Net cash provided by investing activities	<u>214</u>			<u>214</u>
Net (decrease) increase in cash and cash equivalents	(80,926)		56,667	(24,259)
Cash and cash equivalents, June 30, 2013	<u>1,567,278</u>		<u>345,663</u>	<u>1,912,941</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 1,486,352</u>	<u>\$</u>	<u>\$ 402,330</u>	<u>\$ 1,888,682</u>
Cash and cash equivalents consisted of the following at June 30, 2014:				
Unrestricted cash and cash equivalents	\$ 399,966		\$ 402,330	\$ 802,296
Restricted cash and cash equivalents, current	747,489			747,489
Restricted cash and cash equivalents, noncurrent	338,897			338,897
	<u>\$ 1,486,352</u>	<u>\$</u>	<u>\$ 402,330</u>	<u>\$ 1,888,682</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	\$ (343,285)	\$ (121,836)	\$ 93,843	\$ (371,278)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation	1,093,233	52,171	12,831	1,158,235
Changes in assets and liabilities:				
Accounts receivable	344,897	115,866		460,763
Inventory			(14,799)	(14,799)
Prepaid items			(1,205)	(1,205)
Accrued payroll and employee benefits	3,827	1,808	2,527	8,162
Accounts payable	55,197	2,444	8,558	66,199
Compensated absences payable	5,235	5,624	3,710	14,569
Deposits held for others			1,437	1,437
Net cash provided by operating activities	<u>\$ 1,159,104</u>	<u>\$ 56,077</u>	<u>\$ 106,902</u>	<u>\$ 1,322,083</u>
<u>Supplemental disclosure of noncash financing activities:</u>				
Contributed capital assets	\$ 159,109		\$ 3,150	

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Financial Reporting Entity

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

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

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

B. Basis of Presentation

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

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

- charges to customers or applicants for services provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes levied or imposed by the City, are reported as general revenues.

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

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

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values.

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

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

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus/Basis of Accounting

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

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

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

Under the terms of grant agreements, the City funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net position resources available to finance the program. The City applies grant resources to such programs before using general revenues.

D. Budgeting and Budgetary Control

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

1. On or before the third Monday in July, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to September 1, the budget is legally enacted through passage of a resolution.
4. Any revisions that alter the total expenditures of any fund or department must be approved by the City Council.
5. The budget is used as a management control device during the year for the general fund, special revenue funds and capital project fund.
6. Budgets for the general fund, special revenue funds, and capital project fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The level of budgetary control is at the department level for all governmental fund types, as reported in the Official Budget Forms prepared pursuant to guidelines established by the State of Arizona, Office of the Auditor General, and included as an attachment to the resolution adopting the annual City budget. The City Council may transfer appropriations between funds and departments.

Encumbrances - Encumbrance accounting is used for budgetary and control purposes; however, encumbrances outstanding at year-end do not constitute expenditures or liabilities, and are reversed before financial statements are prepared.

For the year ended June 30, 2014, expenditures exceeded appropriations in the General Fund in the following departments:

General government:		
Information systems	\$	8,253
Cemetery		118
Building maintenance		8,728
Public works administration		4,112
Culture and recreation:		
Swimming pool		3,675

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

E. Cash and Cash Equivalents

For purposes of its statement of cash flows, the City considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and cash equivalents includes amounts the City is contractually required to maintain in a separate bank account for purposes of debt service on the WIFA note payable (see Note 5), and for repairs, maintenance and capital improvements to the City's wastewater treatment plant.

F. Allowance for Doubtful Accounts

The allowance for doubtful accounts in the proprietary funds is estimated at approximately 11% of the current portion of the year-end accounts receivable balance, and 90% 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.

G. Inventories

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

H. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at cost. Donated assets are recorded at the estimated fair value at the time received. Capital assets are reported on the government-wide financial statements for both governmental activities and business-type activities and on the proprietary fund financial statements for business-type activities. No long-term assets or depreciation are shown in the governmental fund financial statements. The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is \$3,000 for all assets.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

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

I. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures (or expenses) during the reporting period. Actual results could differ from those estimates.

J. Compensated Absences

Compensated absences consist of paid time off which can be used as vacation or sick leave. Fire Department employees may accumulate up to 312 hours of paid time off depending on years of service. The City's non-exempt and other exempt employees may accumulate up to 208 and 247 hours of vacation, respectively, depending on years of service. Any paid time off in excess of the maximum amount that is unused at year-end is forfeited. An employee may be allowed to carry forward paid time off to the first six months of the following year if staffing shortages prevent the employee from utilizing their paid time off. An employee taking leave for a serious illness of a family member under the Family Medical Leave Act may use the paid time off as part of the unpaid twelve week period allowed by law.

The amounts of compensated absences expected to be paid by available financial resources in the governmental funds is immaterial, and therefore no amounts are recorded as an expenditure and a current liability at June 30, 2014 in those funds. Amounts of compensated absences that are not expected to be liquidated with expendable available financial resources of the governmental funds are recorded in the governmental activities column of the government-wide statements. Vested compensated absences of the enterprise funds are recorded as expenses and liabilities of those funds as the benefits accrue to employees.

K. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

L. Property Tax Revenues

Property tax revenues are recognized as revenue in the year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues. However, these amounts were not material to the financial statements and therefore, were not deferred.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

M. Investment Earnings

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

N. Fund Balance Classifications

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk

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

As of June 30, 2014, the carrying amount of deposits was \$3,579,719 and the bank balance was \$3,691,134. At June 30, 2014, the City's deposits were fully insured by the Federal Deposit Insurance Corporation or covered by collateral held by the pledging financial institution's trust department in the City's name. Certain proceeds of the City's revenue bonds, as well as certain resources set aside for bond repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

B. Investments

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

The City has few investments and chooses to disclose its investments by specifically identifying each. The City has adopted a formal investment policy that is aligned with Arizona Revised Statutes; however, it does not allow investments in bonds, debentures, and notes issued by corporations organized and doing business in the United States. At June 30, 2014, the City's investments were as follows:

	Amount	Maturities
State Treasurer's investment pool 5	\$ 528,783	n/a

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

Custodial Credit Risk

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

Interest Rate Risk

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

Credit Risk

- Statutes have the following requirements for credit risk:
 1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
 2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
 3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.
- At June 30, 2014, credit risk for the City's investments being held by the State Treasurer's investment pool 5 was not rated.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

- Statutes do not include requirements for concentration of credit risk.
- The City places no limit on the amount the City may invest in any one issuer. At June 30, 2014, 100% of the City's investments were in the State Treasurer's investment pool 5.

Foreign Currency Risk

- Statutes do not allow foreign investments.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2014, included the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Wastewater Fund</u>	<u>Total</u>
Arizona State Treasurer:				
State sales tax	\$ 81,036			\$ 81,036
City sales tax	297,920			297,920
Highway user revenue fund		\$ 66,578		66,578
Vehicle license tax	32,121			32,121
Urban revenue sharing	56,241			56,241
Arizona Department of Transportation		28,271		28,271
Arizona Department of Homeland Security		16,286		16,286
Arizona Department of Housing		10,866		10,866
Water Infrastructure Financing Authority			\$ 74,231	74,231
Other	91	29,412		29,503
Total	<u>\$ 467,409</u>	<u>\$ 151,413</u>	<u>\$ 74,231</u>	<u>\$ 693,053</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 571,670			\$ 571,670
Construction in progress	<u>1,196,125</u>	<u>\$ 250,776</u>	<u>\$ (1,431,134)</u>	<u>15,767</u>
Total capital assets not being depreciated	<u>1,767,795</u>	<u>250,776</u>	<u>(1,431,134)</u>	<u>587,437</u>
Capital assets being depreciated:				
Buildings	3,667,280	73,421		3,740,701
Improvements other than buildings	1,060,383	5,291		1,065,674
Airport	3,833,032	554,961		4,387,993
Machinery and equipment	3,311,329	148,484	(13,700)	3,446,113
Infrastructure	<u>1,188,281</u>	<u>2,565,316</u>		<u>3,753,597</u>
	13,060,305	3,347,473	(13,700)	16,394,078
Less: accumulated depreciation	<u>6,481,319</u>	<u>553,741</u>	<u>(14,101)</u>	<u>7,020,959</u>
Total capital assets being depreciated, net	<u>6,578,986</u>	<u>2,793,732</u>	<u>401</u>	<u>9,373,119</u>
Total capital assets, net	<u>\$ 8,346,781</u>	<u>\$ 3,044,508</u>	<u>\$ (1,430,733)</u>	<u>\$ 9,960,556</u>
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Construction in progress	144,308	\$ 348,453		492,761
Buildings	13,557,466			13,557,466
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	1,157,572	106,150		1,263,722
Infrastructure	<u>17,027,156</u>			<u>17,027,156</u>
	34,532,244	454,603		34,986,847
Less: accumulated depreciation	<u>9,392,019</u>	<u>1,158,235</u>		<u>10,550,254</u>
Net business-type assets	<u>\$25,140,225</u>	<u>\$ (703,632)</u>	<u>\$</u>	<u>\$ 24,436,593</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 18,953
Public safety	224,802
Public works	79,172
Transportation	157,260
Culture and recreation	<u>73,554</u>
Total governmental activities depreciation	<u>\$ 553,741</u>
Business-type activities:	
Wastewater	\$ 1,093,233
Sanitation	52,171
Queen Mine	<u>12,831</u>
Total business-type activities depreciation	<u>\$ 1,158,235</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2014, was as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases payable	\$ 140,742		\$ (42,457)	\$ 98,285	\$ 46,313
Compensated absences payable	<u>175,986</u>	<u>\$ 150,354</u>	<u>(168,689)</u>	<u>157,651</u>	<u> </u>
Total governmental activities	<u>\$ 316,728</u>	<u>\$ 150,354</u>	<u>\$ (211,146)</u>	<u>\$ 255,936</u>	<u>\$ 46,313</u>
Business-type activities:					
WIFA note payable	\$ 9,172,010		\$ (624,806)	\$ 8,547,204	\$ 637,278
USDA note payable	2,720,941		(73,464)	2,647,477	76,344
USDA note payable	<u>1,188,734</u>	<u> </u>	<u>(32,083)</u>	<u>1,156,651</u>	<u>33,867</u>
Total notes payable	13,081,685		(730,353)	12,351,332	747,489
Capital leases payable	97,359		(17,902)	79,457	21,768
Compensated absences payable	<u>27,578</u>	<u>\$ 51,527</u>	<u>(36,957)</u>	<u>42,148</u>	<u> </u>
Total business-type activities	<u>\$13,206,622</u>	<u>\$ 51,527</u>	<u>\$ (785,212)</u>	<u>\$12,472,937</u>	<u>\$ 769,257</u>
Total	<u>\$13,523,350</u>	<u>\$ 201,881</u>	<u>\$ (996,358)</u>	<u>\$12,728,873</u>	<u>\$ 815,570</u>

A. Notes Payable

The City received loans from the Water Infrastructure Financing Authority (WIFA) and the United States Department of Agriculture (USDA) for the rehabilitation of wastewater collection lines and facilities. The debt is secured by, and to be repaid from, amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are received. Notes payable at June 30, 2014, are as follows:

	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Year of Maturity</u>	<u>Outstanding Principal</u>
Business-type activities:				
WIFA	\$ 12,671,685	2.000% to 2.721%	2025	\$ 8,547,204
USDA, 2006	3,050,000	4.25%	2035	2,647,477
USDA, 2006	<u>1,332,000</u>	4.25%	2035	<u>1,156,651</u>
	<u>\$ 17,053,685</u>			<u>\$ 12,351,332</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 - LONG-TERM DEBT - CONTINUED

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

Year ending June 30,	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 747,489	\$ 350,453
2016	764,233	340,755
2017	781,945	319,759
2018	800,111	298,243
2019	818,745	276,192
2020-2024	4,390,572	1,065,319
2025-2029	2,461,467	484,756
2030-2034	1,092,103	242,002
2035	494,667	31,131
Total	<u>\$ 12,351,332</u>	<u>\$ 3,408,610</u>

B. Capital leases

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Machinery and equipment	\$ 303,131	\$ 176,424	\$ 479,555
Less accumulated depreciation	<u>(132,451)</u>	<u>(113,205)</u>	<u>(245,656)</u>
Total	<u>\$ 170,680</u>	<u>\$ 63,219</u>	<u>\$ 233,899</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Year ending June 30,		
2015	\$ 46,313	\$ 21,768
2016	31,437	21,768
2017	16,561	21,768
2018	<u>8,280</u>	<u>21,768</u>
Total minimum lease payments	102,591	87,072
Less amount representing interest	<u>(4,306)</u>	<u>(7,615)</u>
Present value of future minimum payments	<u>\$ 98,285</u>	<u>\$ 79,457</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

Interfund Receivables and Payables:

Interfund balances at June 30, 2014, were as follows:

	Payable to
Payable from	Wastewater Fund
Sanitation Fund	\$ 326,150

The Sanitation Fund maintained a negative cash balance at June 30, 2014. The negative cash balance was reduced by interfund borrowing from the Wastewater Fund.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2014, were as follows:

Transfers In	Transfers Out					Total
	General Fund	Other Governmental Funds	Wastewater Fund	Sanitation Fund	Queen Mine Fund	
Governmental Funds:						
General Fund		\$ 28,288	\$ 151,806	\$ 90,475	\$ 30,750	\$ 301,319
Other Governmental Funds	\$ 85,237		111,449	47,660	19,485	263,831
Wastewater Fund	389,923					389,923
Total	\$ 475,160	\$ 28,288	\$ 263,255	\$ 138,135	\$ 50,235	\$ 955,073

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 - GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

Details of governmental fund balance classifications at June 30, 2014, are as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Fund balances:</u>			
Nonspendable - prepaid items	\$ 57,877	\$ 3,320	\$ 61,197
Restricted for:			
Highways and streets		38,995	38,995
Transportation		84,341	84,341
Culture and recreation		<u>26,852</u>	<u>26,852</u>
Total restricted		<u>150,188</u>	<u>150,188</u>
Committed to:			
Cemetery maintenance	14,900		14,900
Bisbee Arts		34,044	34,044
Airport maintenance		2,754	2,754
Youth programs		125,366	125,366
Donor designated contributions		22,308	22,308
Capital improvements		<u>580,497</u>	<u>580,497</u>
Total committed	<u>14,900</u>	<u>764,969</u>	<u>779,869</u>
Assigned - contingency reserves	207,079		207,079
Unassigned	<u>1,736,985</u>	<u>(34,589)</u>	<u>1,702,396</u>
Total fund balances	<u>\$ 2,016,841</u>	<u>\$ 883,888</u>	<u>\$ 2,900,729</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Arizona Municipal Risk Retention Pool (AMRRP), a public entity risk pool currently operating as a common risk management and insurance program for Arizona municipalities. The City pays an annual premium to AMRRP for its general insurance coverage. The Agreement for Formation of the AMRRP provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for excess claims for each insured event.

The City is also a member of the Arizona Municipal Workers Compensation Pool (AMWCP), a public entity risk pool. The pool provides member cities with workers' compensation coverage, as required by law, and risk management services. The City is responsible for paying premiums based on an experience rating formula that allocates pool expenditures and liabilities among the members.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 9 - CONTINGENT LIABILITIES

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

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

NOTE 10 - RETIREMENT PLANS

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

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - RETIREMENT PLANS - CONTINUED

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

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

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

Cost-sharing plans - For the year ended June 30, 2014, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

<u>Year Ended June 30th.</u>	<u>Retirement and Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2014	\$ 199,109	\$ 4,229
2013	194,748	4,288
2012	202,603	4,631

Agent plans - For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members' annual covered payroll and the City was required to contribute 57.67 percent (Police) and 58.05 percent (Fire Fighters), which are the actuarially required amounts. The health insurance premium portion of the contribution rate was actuarially set at 2.21 percent (Police) and 1.19 percent (Fire Fighters) of covered payroll.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2014 were established by the June 30, 2012 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - RETIREMENT PLANS - CONTINUED

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

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

The significant actuarial methods and assumptions used are the same for both plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal-year 2014 contribution requirements are as follows:

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

Annual Pension Cost - The City's pension/OPEB cost for the agent plans for the year ended June 30, 2014, and related information follows:

	PSPRS			
	<u>Police</u>		<u>Fire Fighters</u>	
	<u>Pension</u>	Health <u>Insurance</u>	<u>Pension</u>	Health <u>Insurance</u>
Annual pension/OPEB cost	\$347,406	\$13,844	\$473,817	\$9,916
Contributions made	347,406	13,844	473,817	9,916

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - RETIREMENT PLANS - CONTINUED

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

PSPRS				
<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension/OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net Pension/ OPEB Obligation</u>
<u>Police</u>				
Pension	2014	\$ 347,406	100.0%	\$0
Health insurance	2014	13,844	100.0%	0
Pension	2013	314,119	100.0%	0
Health insurance	2013	14,006	100.0%	0
Pension	2012	261,028	100.0%	0
Health insurance	2012	14,058	100.0%	0
<u>Fire Fighters</u>				
Pension	2014	\$ 473,817	100.0%	\$0
Health insurance	2014	9,916	100.0%	0
Pension	2013	376,434	100.0%	0
Health insurance	2013	11,329	100.0%	0
Pension	2012	368,136	100.0%	0
Health insurance	2012	13,116	100.0%	0

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - RETIREMENT PLANS - CONTINUED

Funded Status - The funded status of the plans as of the most recent valuation date, June 30, 2013, along with the actuarial assumptions and methods used in that valuation follow.

PSPRS

	<u>Bisbee Police</u>		<u>Bisbee Fire Fighters</u>	
	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>
Actuarial accrued liability (a)	\$7,959,261	\$214,857	\$8,981,980	\$130,265
Actuarial value of assets (b)	1,989,934	0	1,396,623	0
Unfunded actuarial accrued liability (a) - (b)	5,969,327	214,857	7,585,357	130,265
Funded ratio (b)/(a)	25.0%	0.0%	15.5%	0.0%
Annual covered payroll (c)	649,299	649,299	798,782	798,782
Unfunded actuarial accrued liability as a percentage of covered payroll [(a) - (b)]/(c)	919.3%	33.1%	949.6%	16.3%

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

	PSPRS
Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	23 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market 80% / 120% market
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5% - 8.5%
Includes inflation at	4.5%

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 11 - COMMITMENTS

The City had major contractual commitments related to various capital projects at June 30, 2014. These included the construction of the solar power generation system at the San Jose Wastewater Plant and the Tintown wastewater collection system. At June 30, 2014, the City had spent \$407,521 on those projects and had remaining contractual commitments of approximately \$2.7 million. These projects are being financed by a \$1.2 million WIFA loan, \$400,000 in federal grant funding and the City's cash reserves.

SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 3,652,378	\$ 3,652,378	\$ 3,661,722	\$ 9,344
Fines and forfeitures			23	23
Licenses and permits	86,600	86,600	129,876	43,276
Intergovernmental	621,974	621,974	697,540	75,566
Charges for services	1,296,750	1,296,750	1,186,306	(110,444)
Investment earnings			1,474	1,474
Rent			46,500	46,500
Contributions			33,371	33,371
Miscellaneous	146,050	146,050	34,351	(111,699)
Total revenues	<u>5,803,752</u>	<u>5,803,752</u>	<u>5,791,163</u>	<u>(12,589)</u>
Expenditures:				
General government:				
Mayor and council	37,955	37,955	33,722	4,233
City manager	132,100	132,100	118,048	14,052
Finance department	407,082	407,082	344,829	62,253
City clerk	150,301	150,301	114,985	35,316
Community development	100,522	100,522	76,486	24,036
Administrative and general government	687,525	687,525	167,779	519,746
Personnel	77,235	77,235	66,089	11,146
Legal services	51,385	51,385	47,891	3,494
Water systems	6,100	6,100	4,445	1,655
Information systems	53,670	53,670	61,923	(8,253)
Cemetery	8,603	8,603	8,721	(118)
Building maintenance	25,600	25,600	34,328	(8,728)
Public works administration	133,098	133,098	137,210	(4,112)
Garage	118,517	118,517	92,483	26,034
Building inspector	68,741	68,741	57,117	11,624
Contingency	100,000	100,000	36,706	63,294
Total general government	<u>2,158,434</u>	<u>2,158,434</u>	<u>1,402,762</u>	<u>755,672</u>
Public safety:				
Police department	1,885,498	1,885,498	1,769,256	116,242
Fire department	1,873,449	1,873,449	1,859,711	13,738
City magistrate	48,000	48,000	46,747	1,253
Total public safety	<u>3,806,947</u>	<u>3,806,947</u>	<u>3,675,714</u>	<u>131,233</u>
Culture and recreation:				
Parks	141,639	141,639	140,093	1,546
Swimming pool	15,300	15,300	18,975	(3,675)
Library	181,154	181,154	171,636	9,518
Senior citizens' center	24,190	24,190	23,878	312
Total culture and recreation	<u>362,283</u>	<u>362,283</u>	<u>354,582</u>	<u>7,701</u>
Total expenditures	<u>6,327,664</u>	<u>6,327,664</u>	<u>5,433,058</u>	<u>894,606</u>
Excess of revenues over (under) expenditures	(523,912)	(523,912)	358,105	(907,195)
Other financing sources (uses):				
Proceeds from sale of assets			500	500
Principal payments on leases	(60,359)	(60,359)	(42,457)	17,902
Interest payments on leases	(7,722)	(7,722)	(7,722)	
Transfers in	523,912	523,912	301,319	(222,593)
Transfers out	(477,352)	(477,352)	(475,160)	(2,192)
Total other financing sources (uses)	<u>(21,521)</u>	<u>(21,521)</u>	<u>(223,520)</u>	<u>(201,999)</u>
Net change in fund balances	(545,433)	(545,433)	134,585	680,018
Fund balance, July 1, 2013	646,048	646,048	1,882,256	1,236,208
Fund balance, June 30, 2014	<u>\$ 100,615</u>	<u>\$ 100,615</u>	<u>\$ 2,016,841</u>	<u>\$ 1,916,226</u>

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
 Year Ended June 30, 2014

Public Safety Personnel Retirement System

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</u>
<u>POLICE</u>						
Pension 6/30/13	\$1,989,934	\$7,959,261	\$(5,969,327)	25.0%	\$649,299	919.3%
Health insurance 6/30/13	0	214,857	(214,857)	0.0%	649,299	33.1%
Pension 6/30/12	2,100,380	7,710,369	(5,609,989)	27.2%	637,562	879.9%
Health insurance 6/30/12	0	205,900	(205,900)	0.0%	637,562	32.3%
Pension 6/30/11	2,234,527	7,090,863	(4,856,336)	31.5%	675,996	718.4%
Health insurance 6/30/11	0	196,266	(196,266)	0.0%	675,996	29.0%
<u>FIRE FIGHTERS</u>						
Pension 6/30/13	\$1,396,623	\$8,981,980	\$(7,585,357)	15.5%	\$798,782	949.6%
Health insurance 6/30/13	0	130,265	(130,265)	0.0%	798,782	16.3%
Pension 6/30/12	1,720,702	8,933,649	(7,212,947)	19.3%	826,905	872.3%
Health insurance 6/30/12	0	124,156	(124,156)	0.0%	826,905	15.0%
Pension 6/30/11	2,301,687	9,261,560	(6,959,873)	24.9%	952,079	731.0%
Health insurance 6/30/11	0	169,285	(169,285)	0.0%	952,079	17.8%

City of Bisbee, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Numbers	Expenditures
U.S. Department of Housing and Urban Development			
Passed through:			
Arizona Department of Housing:			
Community Development Block Grants/Entitlement Grants	14.228	129-12, 124-14	\$ 227,226
U.S. Department of Transportation			
Passed through:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-04-0004-011-2011	589
Passed through:			
Arizona Department of Transportation:			
Formula Grants for Rural Areas	20.509	JPA 12-004 G45, GRT 13-0003853-T	<u>270,083</u>
Total Department of Transportation			<u>270,672</u>
Environmental Protection Agency			
Passed through:			
Water Infrastructure Finance Authority:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	CW-013-2013	189,344
Executive Office of the President			
Passed through:			
City of Tucson:			
High Intensity Drug Trafficking Areas Program	95.001	HT-12-2231	28,448
U.S. Department of Homeland Security			
Passed through:			
Arizona Department of Homeland Security:			
Homeland Security Grant Program	97.067	999421-01, 130415-01	<u>113,841</u>
Total Expenditures of Federal Awards			<u><u>\$ 829,531</u></u>

The accompanying notes are an integral part of this schedule.

City of Bisbee, Arizona
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Bisbee, Arizona, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - SUBRECIPIENTS

The City did not award any federal funds to subrecipients during the year ended June 30, 2014.

NOTE 4 - U.S. DEPARTMENT OF AGRICULTURE LOAN AGREEMENT

The City of Bisbee Municipal Property Corporation received two loans from the U.S. Department of Agriculture (USDA) to assist in the funding of the rehabilitation of the City's wastewater infrastructure. The outstanding balance of the loans as of June 30, 2014 was \$3,804,128, however there were no significant ongoing compliance requirements. (See Financial Statement Note 5).

SINGLE AUDIT REPORTS

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

To the City Council of
City of Bisbee, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 8, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

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

City of Bisbee's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Fester & Chapman P.C.

December 8, 2014

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

To the City Council of
City of Bisbee, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Bisbee, Arizona (the City)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2014. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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

Fester & Chapman P.C.

December 8, 2014

City of Bisbee, Arizona
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2014

A. Summary of Audit Results

Financial Statements:

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

Federal Awards:

Internal control over major programs:		
Material weakness(es) identified?	<u> </u>	<u>X</u>
Significant deficiency(ies) identified?	<u> </u>	<u>X</u> (None reported)
Type of auditors' report issued on compliance for major programs:		<u>Unmodified</u>

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u> </u>	<u>X</u>
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Identification of major program:

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

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u> </u>	<u>X</u>
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City of Bisbee, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

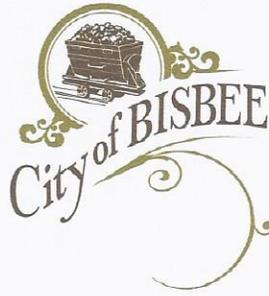
B. Findings - Financial Statement Audit

2014-001 - Internal Control Over Financial Reporting

- Criteria: OMB Circular A-133 *Audits of States, Local Government, and Non-Profit Organizations*, Section.500(b) requires the auditor to give an opinion on financial statements that are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP)
- Condition: Management posted journal entries detected as a result of our audit procedures to fairly state beginning net position, revenue and expenses in accordance with GAAP.
- Cause: Transfers of capital assets to the City's enterprise funds from the capital projects fund were not recorded in accordance with GAAP.
- Effect: Prior to the City posting audit adjustments, beginning net position in the enterprise funds was overstated by \$339,400, related revenue accounts were understated by approximately \$150,000, and expense accounts were overstated by approximately \$190,000.
- Recommendation: Accounting policies and procedures should be developed and implemented to help ensure the City's financial statements are prepared in accordance with GAAP. These procedures should include recording capital assets for enterprise funds on the full accrual basis of accounting in accordance with GAAP.

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

None reported.



City of Bisbee, Arizona
Corrective Action Plan
Year Ended June 30, 2014

Financial Statement Finding:

Item: 2014-101

Subject: Internal Controls Over Financial Reporting

Contact Person: Sharon Buono, Finance Director

Anticipated Completion Date: June 30, 2015

Corrective Action: The City will develop procedures to ensure the capital assets for enterprise funds are recorded on the full accrual basis of accounting in accordance with GAAP.