

CITY OF BISBEE, ARIZONA
General Purpose Financial Statements
Year Ended June 30, 2001

CITY OF BISBEE, ARIZONA
TABLE OF CONTENTS
JUNE 30, 2001

	<u>Page</u>
Independent Auditors' Report.....	1
<u>General Purpose Financial Statements</u>	
Combined Balance Sheet - All Fund Types and Account Group.....	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types.....	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types.....	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund Type.....	6
Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Fund Type - Enterprise Funds.....	7
Statement of Cash Flows - Proprietary Fund Type - Enterprise Funds.....	8
Notes to Financial Statements.....	9

Independent Auditors' Report

To the City Council
City of Bisbee, Arizona

We have audited the accompanying general purpose financial statements of the City of Bisbee, Arizona, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient evidential matter to support the amounts reported on the combined balance sheet as of June 30, 2000. Those beginning balances materially affect the determination of the results of operations and cash flows for the year ended June 30, 2001.

Because of the matter discussed in paragraph three, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the results of operations and cash flows for the year ended June 30, 2001.

The city does not maintain detailed records of its fixed assets accounted for in the General Fixed Asset Account Group or the Enterprise Funds. Accordingly, the combined balance sheet as of June 30, 2001 does not include the general fixed assets account group, which should be included in order to conform with U.S. generally accepted accounting principles, and we do not express an opinion on the amounts reported as fixed assets in the Enterprise Funds on the combined balance as of June 30, 2001.

In our opinion, except for the effect on the combined balance sheet of the omission described in paragraph five, the accompanying combined balance sheet presents fairly, in all material respects, the financial position of the City of Bisbee, Arizona, as of June 30, 2001, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2002, on our consideration of the City of Bisbee, Arizona internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Fester & Chagnon P.C.

February 28, 2002

CITY OF BISBEE, ARIZONA
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
 JUNE 30, 2001

	Governmental Fund Types			Proprietary Fund Type	Account Group	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Enterprise	General Long-Term Debt	
ASSETS AND OTHER DEBITS						
Assets:						
Cash in bank		\$ 92,049	\$ 780,863	\$ 172,019		\$ 1,044,931
Investments	\$ 1,003,905	116,059				1,119,964
Receivables (net of allowance for uncollectibles):						
Accounts	37,101		3,669	205,253		246,023
Due from other governments	180,432	64,339				244,771
Fixed assets (net, where applicable, of accumulated depreciation)				3,711,424		3,711,424
Other Debits:						
Amount to be provided for retirement of general long-term debt					\$ 976,905	976,905
Total assets and other debits	<u>\$ 1,221,438</u>	<u>\$ 272,447</u>	<u>\$ 784,532</u>	<u>\$ 4,088,696</u>	<u>\$ 976,905</u>	<u>\$ 7,344,018</u>
LIABILITIES, EQUITY AND OTHER CREDITS						
Liabilities:						
Accounts payable	\$ 167,989			\$ 1,340		\$ 169,329
Accrued payroll and related liabilities	73,512	\$ 3,133	\$ 1,402	18,776		96,823
Intergovernmental payable		6,621				6,621
Note payable					\$ 27,883	27,883
Compensated absences payable				21,399	138,533	159,932
Capital leases payable					260,838	260,838
Lease purchase agreements payable					549,651	549,651
Total liabilities	<u>241,501</u>	<u>9,754</u>	<u>1,402</u>	<u>41,515</u>	<u>976,905</u>	<u>1,271,077</u>
Equity and other credits:						
Contributed capital				3,499,226		3,499,226
Retained earnings, unreserved				547,955		547,955
Fund balances -						
Unreserved, undesignated	<u>979,937</u>	<u>262,693</u>	<u>783,130</u>			<u>2,025,760</u>
Total equity and other credits	<u>979,937</u>	<u>262,693</u>	<u>783,130</u>	<u>4,047,181</u>		<u>6,072,941</u>
Total liabilities, equity and other credits	<u>\$ 1,221,438</u>	<u>\$ 272,447</u>	<u>\$ 784,532</u>	<u>\$ 4,088,696</u>	<u>\$ 976,905</u>	<u>\$ 7,344,018</u>

The accompanying notes are an integral part of these statements.

CITY OF BISBEE, ARIZONA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2001
 (Unaudited)

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Taxes	\$ 2,363,918			\$ 2,363,918
Intergovernmental	805,527	\$ 955,567	\$ 409,130	2,170,224
Fines and forfeitures	633,454	7,236		640,690
Licenses and permits	405,557			405,557
Charges for services	205,621	1,599		207,220
Rents and royalties	52,876			52,876
Contributions and donations	3,060	349	1,000	4,409
Sale of City property	398,454			398,454
Interest income	92,005			92,005
Miscellaneous	393,095	80		393,175
Total revenues	<u>5,353,567</u>	<u>964,831</u>	<u>410,130</u>	<u>6,728,528</u>
Expenditures:				
Current				
General government	1,408,256	286,747		1,695,003
Public safety	2,680,196			2,680,196
Highways and streets		437,876		437,876
Culture and recreation	401,480	81,905		483,385
Capital outlay			997,087	997,087
Debt service:				
Principal	184,078			184,078
Interest	53,167			53,167
Total expenditures	<u>4,727,177</u>	<u>806,528</u>	<u>997,087</u>	<u>6,530,792</u>
Excess of revenues over (under) expenditures	626,390	158,303	(586,957)	197,736
Other financing sources (uses)				
Operating transfers in	386,634		854,362	1,240,996
Operating transfers out	(440,485)	(233,484)		(673,969)
Total other financing sources (uses)	<u>(53,851)</u>	<u>(233,484)</u>	<u>854,362</u>	<u>567,027</u>
Excess of revenues and other sources over (under) expenditures and other uses	572,539	(75,181)	267,405	764,763
Fund balances, beginning of year	407,398	337,874	515,725	1,260,997
Fund balances, end of year	<u>\$ 979,937</u>	<u>\$ 262,693</u>	<u>\$ 783,130</u>	<u>\$ 2,025,760</u>

The accompanying notes are an integral part of these statements.

CITY OF BISBEE, ARIZONA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL -
 GENERAL AND SPECIAL REVENUE FUND TYPES
 YEAR ENDED JUNE 30, 2001
 (Unaudited)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 2,364,871	\$ 2,363,918	\$ (953)			
Intergovernmental	755,990	805,527	49,537	\$ 4,450,608	\$ 955,567	\$ (3,495,041)
Fines and forfeitures	203,410	633,454	430,044		7,236	7,236
Licenses and permits	121,500	405,557	284,057			
Charges for services	505,525	205,621	(299,904)	17,800	1,599	(16,201)
Rents and royalties	45,400	52,876	7,476			
Contributions and donations	110	3,060	2,950		349	349
Sale of City property	520,000	398,454	(121,546)			
Interest income	55,880	92,005	36,125	4,000		(4,000)
Miscellaneous	916,250	393,095	(523,155)		80	80
Total revenues	<u>5,488,936</u>	<u>5,353,567</u>	<u>(135,369)</u>	<u>4,472,408</u>	<u>964,831</u>	<u>(3,507,577)</u>
Expenditures:						
Current:						
General government	2,273,631	1,408,256	865,375	3,603,192	286,747	3,316,445
Public safety	2,727,445	2,680,196	47,249			
Highways and streets				467,353	437,876	29,477
Culture and recreation	415,636	401,480	14,156	15,420	81,905	(66,485)
Debt service:						
Lease payments	<u>134,757</u>	<u>237,245</u>	<u>(102,488)</u>			
Total expenditures	<u>5,551,469</u>	<u>4,727,177</u>	<u>824,292</u>	<u>4,085,965</u>	<u>806,528</u>	<u>3,279,437</u>
Excess of revenues over (under) expenditures	(62,533)	626,390	688,923	386,443	158,303	(228,140)
Other financing sources (uses)						
Operating transfers in	386,634	386,634				
Operating transfers out	<u>(460,101)</u>	<u>(440,485)</u>	<u>19,616</u>	<u>(386,443)</u>	<u>(233,484)</u>	<u>152,959</u>
Total other financing sources (uses)	<u>(73,467)</u>	<u>(53,851)</u>	<u>19,616</u>	<u>(386,443)</u>	<u>(233,484)</u>	<u>152,959</u>
Excess of revenues and other sources over (under) expenditures and other uses	(136,000)	572,539	708,539		(75,181)	(75,181)
Fund balances, beginning of year	<u>407,398</u>	<u>407,398</u>		<u>337,874</u>	<u>337,874</u>	
Fund balances, end of year	<u>\$ 271,398</u>	<u>\$ 979,937</u>	<u>\$ 708,539</u>	<u>\$ 337,874</u>	<u>\$ 262,693</u>	<u>\$ (75,181)</u>

The accompanying notes are an integral part of these statements.

CITY OF BISBEE, ARIZONA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL -
 CAPITAL PROJECTS FUND TYPE
 YEAR ENDED JUNE 30, 2001
 (Unaudited)

	Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$ 2,180,583	\$ 409,130	\$ (1,771,453)
Contributions and donations	<u>29,500</u>	<u>1,000</u>	<u>(28,500)</u>
Total revenues	<u>2,210,083</u>	<u>410,130</u>	<u>(1,799,953)</u>
Expenditures:			
Capital outlay	<u>3,154,878</u>	<u>997,087</u>	<u>2,157,791</u>
Total expenditures	<u>3,154,878</u>	<u>997,087</u>	<u>2,157,791</u>
Excess of revenues over (under) expenditures	(944,795)	(586,957)	357,838
Other financing sources			
Operating transfers in	<u>944,795</u>	<u>854,362</u>	<u>(90,433)</u>
Total other financing sources	<u>944,795</u>	<u>854,362</u>	<u>(90,433)</u>
Excess of revenues and other sources over expenditures		267,405	267,405
Fund balances, beginning of year	<u>515,725</u>	<u>515,725</u>	
Fund balances, end of year	<u>\$ 515,725</u>	<u>\$ 783,130</u>	<u>\$ 267,405</u>

The accompanying notes are an integral part of these statements.

CITY OF BISBEE, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2001
(Unaudited)

Operating revenues	
Charges for sales and services	\$ <u>1,973,119</u>
Total operating revenues	1,973,119
Operating expenses	
Costs of sales and services	<u>1,245,552</u>
Total operating expenses	<u>1,245,552</u>
Operating income	727,567
Operating transfers	
Operating transfers in	144,306
Operating transfers out	<u>(711,333)</u>
Total operating transfers	<u>(567,027)</u>
Net income	160,540
Retained earnings, beginning of year	<u>387,415</u>
Retained earnings, end of year	<u>\$ 547,955</u>

The accompanying notes are an integral part of these statements.

CITY OF BISBEE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2001
(Unaudited)

Cash flows from operating activities:	
Cash received from customers	\$ 1,909,994
Cash payments to suppliers for goods and services	(508,326)
Cash payments to employees for services	<u>(732,442)</u>
Net cash provided by operating activities	669,226
Cash flows from non-capital financing activities:	
Decrease in due to General Fund of the City	(67,097)
Decrease in advances to General Fund of the City	(28,266)
Operating transfers in	144,306
Operating transfers out	<u>(711,333)</u>
Net cash used by noncapital financing activities	(662,390)
Cash flows from capital and related financing activities:	
Interest paid on capital leases	(223)
Principal paid on capital leases	<u>(7,746)</u>
Net cash used by capital and related financing activities	<u>(7,969)</u>
Net decrease in cash and cash equivalents	(1,133)
Cash and cash equivalents, beginning of year	<u>173,152</u>
Cash and cash equivalents, end of year	<u>\$ 172,019</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 727,567
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts receivable	(63,125)
Increase in accounts payable	194
Decrease in intergovernmental payable	(681)
Increase in accrued payroll	3,235
Increase compensated absences payable	<u>2,036</u>
Net cash provided by operating activities	<u>\$ 669,226</u>

The accompanying notes are an integral part of these statements.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Bisbee, Arizona (the City) conform to U.S. generally accepted accounting principles applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB), except for the omission of the general fixed assets account group on the combined balance sheet and recording of depreciation expense on the enterprise funds statement of revenues, expenses and changes in retained earnings. 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 units.

A. Reporting Entity

The City is a general purpose local government that is governed by a separately elected city council. These general purpose financial statements present all the fund types and the general long term debt account group of the City (a primary government) and its component units.

Component units are legally separate entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations, and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statement to emphasize they are legally separate from the City. Each 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. The BMPC's debt is reported as part of the general long-term debt account group. Separate financial statements for the BMPC are not prepared.

B. Fund Accounting

The City's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the City's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses). Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the City's fund categories, types, and account groups follows.

1. Governmental Funds account for the City's general government activities using the flow of current financial resources measurement focus and include the following fund types.

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

The *Special Revenue Funds* account for specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Capital Projects Fund* accounts for the acquisition or construction of major capital facilities.

2. Proprietary Funds account for the City's ongoing activities that are similar to those found in the private sector using the flow of economic resources measurement focus. The City applies all applicable FASB Statements and Interpretations, APB Opinions, and ARBs to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The City's proprietary funds include the following fund type.

The *Enterprise Fund* accounts for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the City Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the City Council has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Account Groups are used to establish control and accountability for certain City liabilities that are not recorded in the funds and include the following group.

The *General Long-Term Debt Account Group* accounts for all long-term obligations of the City, except those accounted for in the Proprietary Funds.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenditures (or expenses) are recognized in the accounts and reports in the financial statements. The financial statements of the Governmental Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due.

Those revenues susceptible to accrual prior to receipt are franchise taxes; special assessments; 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.

The City reports deferred revenue and expense on its combined balance sheet. Deferred revenues and expenses arise when a potential revenue and expense does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues and expenses also arise when resources are received or expended by the City before it has a legal claim to them. In subsequent periods, when both revenue and expense recognition criteria are met, or when the City has a legal claim to the resources or expenses, the liability for deferred revenue and the asset for deferred charges are removed from the combined balance sheet and revenue and/or expense is recognized.

The financial statements of the proprietary fund are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 an ordinance.
4. Any revisions that alter the total expenditures of any Fund or department must be approved by the City Council.
5. The budget is used as a management control device during the year for the general fund, special revenue funds and capital project fund.
6. Budgets for the general fund, special revenue funds, and capital project fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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

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

E. Pronouncements of GASB and FASB

Government Accounting Standards Board (GASB) Statement No. 20 states that the Financial Accounting Standards Board (FASB) and its predecessor body pronouncements issued before November 30, 1989, continue to be applicable to enterprise funds unless they conflict with or contradict GASB guidance.

Enterprise Funds may take either of the following approaches to FASB guidance issued subsequent to November 30, 1989.

1. An entity may elect to continue to follow FASB guidance that does not conflict with or contradict GASB guidance. If this election is made, it must be followed consistently. It would not be appropriate to follow some FASB pronouncements, issued subsequent to the cutoff date, but not others.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Pronouncements of GASB and FASB (Continued)

2. An entity may elect not to subject itself to FASB guidance issued subsequent to the cutoff date. In that case, even FASB amendments of guidance issued prior to the cutoff date would not be applicable to proprietary operations.

The City of Bisbee has elected to subject itself to FASB guidance issued subsequent to November 30, 1989.

F. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Amounts in these columns do not present the financial position, results of operations, or changes in financial position of the City in conformity with generally accepted accounting principles. Such amounts are not comparable to a consolidation and interfund eliminations have not been made in the aggregation of these amounts.

G. Deposits and Investments

Arizona Revised Statutes authorize the City to invest public monies in the State Treasurer's investment pool; interest bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; and bonds of the State of Arizona counties, cities, towns, school districts, and special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by Federal depository insurance.

The State Board of Deposit 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.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost.

H. Allowance for Doubtful Accounts

The allowance for doubtful accounts in the proprietary fund is estimated at approximately 50% of the year-end accounts receivable balance and has a balance of \$194,890 at June 30, 2001.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 year of service, and all other city employees may accumulate up to 208 hours of vacation depending on years of service, but any paid time off in excess of the maximum amount that is unused at year-end is forfeited. An employee may be allowed to carry forward paid time off to the first six months of the following year if staffing shortages prevented 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 general fund, special revenue fund, and the capital projects fund are immaterial, and therefore no amounts are recorded as an expenditure and a current liability at June 30, 2001 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 general long-term debt account group. Vested compensated absences of the proprietary fund are recorded as expenses and liabilities of that fund 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 collected or if collected within 60 days thereafter.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2 - DEPOSITS AND INVESTMENTS

The City's deposits at June 30, 2001, were entirely covered by Federal depository insurance or by collateral held by the City's custodial bank in the City's name.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered in the City's name, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent, but not in the City's name.

At June 30, 2001, the City's investments were as follows:

	Carrying Amount	Fair Value
Investments not subject to categorization:		
State Treasurer's investment pool	\$ 1,119,964	\$ 1,119,964

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2001 include the following:

	General Fund	Special Revenue Fund	Total
Arizona State Treasurer			
State sales tax	\$ 40,291		\$ 40,291
City sales tax	95,470		95,470
LTAF		\$ 15,291	15,291
Arizona Land Department	300		300
Arizona Department of Transportation		40,656	40,656
Cochise County Treasurer			
Auto lieu tax	24,226		24,226
Property tax	18,771		18,771
Other	1,374	8,392	9,766
Total	\$ 180,432	\$ 64,339	\$ 244,771

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 4 - GENERAL FIXED ASSETS

The management of the City of Bisbee has determined that sufficient records do not currently exist to support an amount that should be reported in the general fixed asset account group. Accordingly, no balance has been reported in the combined balance sheet for the general fixed asset account group.

NOTE 5 - ENTERPRISE FUND FIXED ASSETS

The City maintains three enterprise funds which account for the operation of the City's sewers, landfill/sanitation, and the Queen Mine, a historic tourist attraction. Property, plant and equipment for the enterprise funds are normally stated at historical cost and depreciated over the assets' estimated useful lives. However, the balance reported on the combined balance sheet for fixed assets for the enterprise fund was not audited for the same reason indicated in Note 4. This amount represents an estimate by management and no assurance is provided on this balance by the auditor's report. As a result, no depreciation expense was recorded in the enterprise fund for the year ended June 30, 2001.

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2001:

	Note Payable	Capital Leases Payable	Lease Purchase Agreements Payable	Total
Debt payable at July 1, 2000	\$ 31,002	\$ 217,116	\$ 590,028	\$ 838,146
Additions		184,304		184,304
Principal retired	<u>3,119</u>	<u>140,582</u>	<u>40,377</u>	<u>184,078</u>
Debt payable at June 30, 2001	<u>\$ 27,883</u>	<u>\$ 260,838</u>	<u>\$ 549,651</u>	<u>\$ 838,372</u>

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 6 - LONG-TERM DEBT - CONTINUED

Long-term debt payable at June 30, 2001 is comprised of the following:

Note Payable

Loan agreement with the State of Arizona Department of Transportation, Aeronautics Division, to fund improvements to the City's airport; payable in yearly installments of \$5,131 including interest at 6.49%; matures March 2008.	\$ <u>27,883</u>
---	------------------

Capital Leases Payable

Capital lease for utility truck	\$ 2,833
---------------------------------	----------

Capital lease agreement for Ford police vehicle; payable in monthly installments of \$393 including interest at 8.65% ; matures November 2002.	6,356
--	-------

Capital lease agreement for three Chevrolet Tahoe police vehicles; payable in monthly installments of \$3,032 including interest at 7.22% ; matures September 2002.	43,923
---	--------

Capital lease agreement for Ford ambulance; payable in monthly installments of \$1,233 including interest at 6.03%; matures July 2004.	42,647
--	--------

Capital lease agreement for Caterpillar road grader; payable in monthly installments of \$3,598 including interest at 9.14%; matures October 2005.	165,079
	\$ <u>260,838</u>

Lease Purchase Agreements Payable

City of Bisbee Municipal Property Corporation lease purchase agreement for remodeling of the City's police station; payable in semi-annual installments of \$12,624 including interest at 5.71%; lease payments have been assigned to investors; matures January 2009.	\$ 160,096
--	------------

City of Bisbee Municipal Property Corporation lease purchase agreement for construction of a Fire Station; payable in semi-annual installments of \$23,987 including interest at 5.65%; lease payments have been assigned to investors; matures June 2112.	389,555
	\$ <u>549,651</u>

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 6 - LONG-TERM DEBT - CONTINUED

Annual cash requirements to amortize all the outstanding debt at June 30, 2001, including interest payments are as follows:

Year Ending June 30,	Note Payable	Capital Leases Payable	Lease Purchase Agreements Payable	Total
2002	\$ 5,131	\$ 101,925	\$ 73,221	\$ 180,277
2003	5,131	69,028	73,322	147,481
2004	5,131	57,969	73,220	136,320
2005	5,131	45,643	73,221	123,995
2006	5,131	14,392	73,221	92,744
Thereafter	9,846	288,957	363,585	373,431
	<u>35,501</u>	<u>288,957</u>	<u>729,790</u>	<u>1,054,248</u>
Interest	7,618	28,119	180,139	215,876
Principal	<u>\$ 27,883</u>	<u>\$ 260,838</u>	<u>\$ 549,651</u>	<u>\$ 838,372</u>

NOTE 7 - 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.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 8 - COMPENSATED ABSENCES

A summary of the change in the liability for compensated absences recorded in the general long-term debt account group for the year ended June 30, 2001 follows:

Balance at July 1, 2000	\$ 124,321
Net increase in liability	<u>14,212</u>
Balance at June 30, 2001	<u>\$ 138,533</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Litigation - The City receives numerous notices of claims for damages occurring generally from false arrest, negligence, bodily injury, breach of contract, defamation of character and invasion of privacy. The filing of such claims commences a statutory period for initiating judicial action, and the City currently carries excess general liability insurance to cover possible losses arising therefrom. The City's attorney has indicated that there is one such legal action that will likely result in damages being paid, but these amounts cannot be estimated and said amounts will be referred to the City's insurance carrier for payment.

Lease Purchase Agreements - The City leases a fire station from the BMPC (see Note 1) under a lease purchase agreement that transfers ownership to the City at the conclusion of the lease on June 1, 2012. Also, the City leases the City's police station from the BMPC under a lease purchase agreement that transfers ownership of the police station to the City at the conclusion of the lease on January 1, 2009. Both of these leases stipulate that the City has the option to purchase the properties held by the BMPC before the terms of the leases are concluded, by paying the Prepayment Price (the total of all unpaid principal amounts).

The BMPC obtained the funds for the construction of the fire station and remodel of the police station from investors. In return, the BMPC has assigned the lease payments from the City for the fire station and police station directly to the investors. As a result, lease payments from the City are paid to the investors through the underwriter who acts as a fiduciary agent.

Also, to secure the lease payments to the investors, the City has pledged excise, transaction, privilege, franchise and income taxes which the City now collects and may collect in the future or which are allocated or apportioned to the City by the State. This includes any amounts received from any political subdivision or governmental unit or agency of the State, except those amounts which by law must be expended for other purposes.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 10 - RETIREMENT PLANS

Plan Descriptions - The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The Public Safety Personnel Retirement System (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its 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 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

ASRS
3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910

PSPRS
1020 E. Missouri Ave.
Phoenix, AZ 85014

(602) 240-2200 or (800) 621-3778

(602) 255-5575

Funding Policy - The Arizona State Legislature established and may amend active plan members' and the City's contribution rates.

Cost-sharing plans - For the year ended June 30, 2001, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2001, 2000, and 1999 were \$46,545, \$51,360, and \$46,437, respectively, which were equal to the required contributions for the year.

Agent plans - For the year ended June 30, 2001, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 10.55 percent.

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 10 - RETIREMENT PLANS - CONTINUED

Annual Pension Cost - The City's pension cost for the agent plans for the year ended June 30, 2001, the date of the most recent actuarial valuation, and related information follows.

	<u>Bisbee Police</u> <u>PSPRS</u>	<u>Bisbee Fire Fighters</u> <u>PSPRS</u>
Contribution rates:		
City	11.71%	10.42%
Plan members	7.65%	7.65%
Annual pension cost	\$180,630	\$311,235
Contributions made	\$97,121	\$80,737
Actuarial valuation date	6/30/01	6/30/01
Actuarial cost method	individual entry age	individual entry age
Actuarial assumptions:		
Investment rate of return	9%	9%
Projected salary increases		
Includes inflation at 5.5%	6.5%-9.5%	6.5%-9.5%
Cost-of-living adjustments	none	none
Amortization method	level percent open	level percent open
Remaining amortization		
period from 7/1/01	20 years	20 years
Asset valuation method	smoothed market value	smoothed market value

Trend Information - Information for the agent plans as of most recent actuarial valuations follows.

<u>Bisbee Police</u>			
<u>Year</u> <u>Ended</u> <u>June 30,</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2001	\$ 97,121	100.0 %	\$ 0
2000	61,246	100.0	0
1999	52,131	100.0	0

<u>Bisbee Fire Fighters</u>			
<u>Year</u> <u>Ended</u> <u>June 30,</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2001	\$ 80,737	100.0 %	\$ 0
2000	82,955	100.0	0
1999	74,828	100.0	0

CITY OF BISBEE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 10 - RETIREMENT PLANS - CONTINUED

Funding Progress - An analysis of funding progress for the agent plans as of the most recent actuarial valuations, June 30, 2001, follows.

Bisbee Police						
Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2001	\$ 2,743,544	\$ 2,901,605	\$ (158,061)	94.6 %	\$ 641,859	24.6 %
2000	2,501,850	2,895,397	(393,547)	86.4 %	683,937	57.5 %
1999	2,265,728	2,699,305	(433,577)	83.9 %	595,646	72.8 %

Bisbee Fire Fighters						
Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2001	\$ 4,164,816	\$ 4,204,615	\$ (39,799)	99.1 %	\$ 754,800	5.3 %
2000	3,981,272	4,053,632	(72,360)	98.2	782,328	9.2
1999	3,542,762	3,647,080	(104,318)	97.1	668,763	15.6

NOTE 11 - ADJUSTMENTS TO REVENUE

Revenue for the year ended June 30, 2001 has been adjusted to include amounts that had been incorrectly recorded in various fund balance accounts.

NOTE 12 - SUBSEQUENT EVENT

The City of Bisbee operates a tour of the Queen Mine, a historic copper mine that is no longer in operation. In October of 2001, a fatality occurred in the Queen Mine involving a person who was participating in an event related to the Halloween holiday. Although this event was being managed by an unrelated civic organization, the City of Bisbee has been named in the Notices of Claims filed by the family and estate of the victim. It is the City's position that the unrelated civic organization has complete exposure in this case and legal counsel has indicated an unfavorable outcome is not probable. Regardless, monetary damages resulting from this death are deemed to be covered under the AMRRP described in Note 7.