

CITY OF BISBEE, ARIZONA

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

Year Ended June 30, 2004

CITY OF BISBEE, ARIZONA
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JUNE 30, 2004

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Independent Auditors' Report

To the City Council
City of Bisbee, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2004, as listed in the table of contents, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, as of June 30, 2004, and the respective changes in financial position (and cash flows, where applicable,) thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the City adopted the provisions of GASB Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, for the year ended June 30, 2004, to implement a new financial reporting model.

Management's Discussion and Analysis on pages 3 through 14, the Budgetary Comparison Schedules on pages 40 through 41, and the Schedule of Agent Retirement Plans' Funding Progress on page 42 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express opinion on it.

To the City Council
City of Bisbee, Arizona

Our audit was performed for the purpose of forming opinions on the financial statements of the activities and funds that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2004, on our consideration of City's 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 *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Fester & Chapman P.C.

October 28, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Bisbee's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- From a government-wide perspective, the City's total net assets increased by \$1,244,803 over the year, \$794,008 in governmental activities and \$450,795 in business-type activities.
- From a fund perspective, the City's governmental fund balances increased by \$347,997, with capital assets, debt payments and depreciation accounting for the greatest difference between the government-wide and fund basis statements.
- Government-wide revenues totaled \$8,551,516, \$6,382,860 from governmental activities and \$2,168,656 from business-type activities.
- Government-wide expenses totaled \$7,306,713, \$5,588,852 from governmental activities and \$1,717,861 from business-type activities.

Since this is the City's first year to implement the requirements of GASB No. 34, last year's numbers for the government-wide financial statements are not restated and therefore are not available for the basis of comparison to the current year. Next year, this information will be available and our discussion and analysis will address the following:

- | | | |
|----------------------------|---|---------------------------------------------|
| • Governmental Activities | - | Revenues and Expenses Compared to Last Year |
| • Business-Type Activities | - | Revenues and Expenses Compared to Last Year |
| • City as a Whole | - | Revenues and Expenses Compared to Last Year |

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can examine the City of Bisbee as a single operating entity and examine more detailed specific financial conditions. The basic financial statements include two kinds of statements that present different views of the City:

- The *government-wide financial statements* provide information about the activities of the City as a whole and present a longer-term view of the City's finances.
- The *fund financial statements* focus on how general governmental services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business. The fund financial statements also report the City's operations in more detail than the government-wide statements, by providing information about the City's most significant funds.

The financial statements also include *notes*, which further explain information in the financial statements and generally provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Reporting the City as a Whole The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. Unlike previous financial reports, the government-wide statements use an economic resources measurement focus. The Statement of Net Assets includes *all* of the government's assets, including buildings and infrastructure, and *all* liabilities, including debt that does not mature for years. The Statement of Activities accounts for *all* of the current year's revenues and expenses, regardless of when cash is paid or received.

The two government-wide statements report the City's net assets and changes to net assets. The City's net assets, which is the difference between the City's assets and liabilities, is one way to measure the City's financial health or *financial position* at one point in time. Increases or decreases in the City's net assets over time are an indicator of whether its financial health is improving or deteriorating.

To assess the overall health of the City it is also necessary to consider additional non-financial factors such as changes in the City's tax base and the condition of the City's capital assets and infrastructure.

The government-wide financial statements of the City are divided into two categories:

- Governmental Activities – Most of the City's basic services are included in this category, such as police and fire, streets, parks, and general administration. Taxes and state shared revenues finance most of these activities.
- Business-Type Activities – Certain activities of the City are paid for by fees that are charged to customers. The City's Sewer, Sanitation and Queen Mine Funds are reported in this category.

Reporting the City's Most Significant Funds Fund Financial Statements

The fund financial statements present detailed information similar in content to the format used in previous years, with a new emphasis on the City's most significant funds, as opposed to the City as a whole. Funds are established to account for specific financial sources of funding and spending for particular purposes. Some funds, such as the Highway User Revenue Fund (HURF), are required by state law. Other funds, such as the Youth Fund, Bisbee Bus Fund and grant funds, are established by the City to control and manage money to be spent for particular purposes. The City has two categories of funds, which can be used for public purpose. Each category uses a different accounting approach.

- Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on the flow of money into and out of the funds and the balances that are available at the end of the year for future spending. Governmental funds use a method of accounting called modified accrual. The purpose of this method is to measure cash and other *financial* assets that can readily be converted to cash. This approach provides a detailed short-term perspective of the City's general government operations and the basic services it provides. This information does not encompass the additional

long-term focus of the government-wide statements. The relationship between the governmental fund financial statements and the government-wide financial statements is shown in the form of a reconciliation presented on the page following each governmental fund financial statement.

- Proprietary funds - Services provided to outside customers where a fee is charged are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities on the government-wide financial statements. The City's enterprise funds (a component of proprietary funds) are substantially the same as the business-type activities column of the government-wide financial statements, but provide more detail including cash flows.

Note that both governmental and enterprise funds mirror the government-wide activities. The principal differences are that in the fund statements, the City's activities are subdivided into funds, and the different measurement focus, which excludes capital assets and long-term liabilities. It is also worth noting that interfund receivables and payables as well as interfund transfers are reflected in fund statements. These offsetting amounts between funds are eliminated in the government-wide statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The following table summarizes the total assets, liabilities and net assets for the City of Bisbee as of June 30, 2004. As previously indicated, last year's numbers are not available for comparison to the current year, but comparisons will be reported next year.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 1,937,322	\$ 1,277,448	\$ 3,214,770
Capital assets	5,431,914	5,378,024	10,809,938
Total assets	7,369,236	6,655,472	14,024,708
Long-term debt outstanding	517,687	3,566,043	4,083,730
Other liabilities	339,695	301,922	641,617
Total liabilities	857,382	3,867,965	4,725,347
Net assets			
Invested in capital assets, Net of related debt	5,051,273	1,811,981	6,863,254
Restricted	5,941	3,075	9,016
Unrestricted	1,454,640	972,451	2,427,091
Total net assets	\$ 6,511,854	\$ 2,787,507	\$ 9,299,361

Net assets of the City at June 30, 2004 were \$9,299,361. \$6,863,254 or approximately 74% of the net assets consist of capital assets net of related debt. Capital assets include land, buildings, improvements, machinery and equipment and infrastructure, net of depreciation.

Changes in Net Assets

Table 2 summarizes the changes in net assets of the City of Bisbee during the fiscal year. In future years the table will present two years of information and the discussion will be expanded to provide a comparative analysis on a government-wide basis.

	Governmental Activities	Business-Type Activities	Total
Program revenues			
Charges for services	\$ 1,302,552	\$ 2,179,006	\$ 3,481,558
Operating grants and contributions	1,056,221	-	1,056,221
Capital grants and contributions	458,216	-	458,216
Total program revenues	2,816,989	2,179,006	4,995,995
General revenues			
Property taxes	578,943		578,943
Sales taxes	1,442,724		1,442,724
State shared taxes	557,532		557,532
Urban revenue sharing	595,794		595,794
Vehicle license taxes	275,273		275,273
Bed taxes	58,406		58,406
Investment losses	(9,994)	(5,573)	(15,567)
Miscellaneous	47,435	14,981	62,416
Transfers	19,758	(19,758)	-
Total general revenues	3,565,871	(10,350)	3,555,521
Total revenues	6,382,860	2,168,656	8,551,516
Expenses			
General government	1,748,488		1,748,488
Public safety	2,850,323		2,850,323
Transportation	433,356		433,356
Culture and recreation	489,746		489,746
Interest on long-term debt	66,939		66,939
Wastewater	-	775,333	775,333
Sanitation	-	536,608	536,608
Queen Mine	-	405,920	405,920
Total expenses	5,588,852	1,717,861	7,306,713
Change in Net Assets	\$ 794,008	\$ 450,795	\$ 1,244,803

Governmental Activities

Total revenues generated from governmental activities this year were \$6,382,860. Expenses were \$5,588,852, leaving \$794,008 as an increase to net assets.

Program Revenues – Program revenues consist of charges for specific items such as business licenses, planning and zoning fees, fines and recreation fees to defray the cost of services provided. Charges for services accounted for \$1,302,552 or 46% of program revenues. Grants and contributions, which are directed at funding particular operations or projects, are also included in program revenues. Operating and capital grants in 2004 provided \$1,514,437 bringing total program revenues to \$2,816,989.

General Revenues – General revenues consist of taxes, state shared revenues, and other statewide distributions. As shown on the Statement of Activities, the amount taxpayers financed through taxes and other general revenues was \$3,565,871. Sales tax is the largest single source of general revenues and accounted for \$1,442,724 or 40% of the total. Also included are investment earnings, gains and losses on capital asset dispositions and miscellaneous revenues.

Business-Type Activities

Total revenues from business-type activities this year amounted to \$2,168,656. Expenses were \$1,717,861, leaving a \$450,795 increase in net assets.

Revenues for business-type activities were generated by program revenues in the form of user fees in the Wastewater and Sanitation funds and tour sales in the Queen Mine fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

GOVERNMENTAL FUNDS

REVENUES

Table 3 represents a summary of total governmental fund revenues and operating transfers-in for the years ended June 30, 2004 and 2003. Following is a detailed analysis of this information.

Table 3 Comparative Revenues and Transfers-In					
Revenues and Transfers-In	2004	%	2003	Increase (Decrease)	
	Amount	Of Total	Amount	Amount	Percent
Taxes	\$2,912,615	40.83%	\$2,516,429	\$ 396,186	15.74%
Licenses and permits	131,316	1.84%	93,580	37,736	40.33%
Intergovernmental	2,230,730	31.27%	2,573,674	(342,944)	-13.33%
Charges for services	822,438	11.53%	679,930	142,508	20.96%
Rents	52,891	0.74%	51,590	1,301	2.52%
Fines and forfeitures	71,193	1.01%	94,268	(23,075)	-24.48%
Interest	14,444	0.20%	18,822	(4,378)	-23.26%
Contributions	620	0.01%	15,836	(15,216)	-96.08%
Miscellaneous	151,293	2.12%	90,500	60,793	67.18%
Transfers-in	745,469	10.45%	513,868	231,601	45.07%
Total	\$7,133,009	100.00%	\$6,648,497	\$ 484,512	7.29%

Implementation of the new GASB Statement No. 34 reporting model also requires implementation of GASB Statement No. 33, which specifies new revenue recognition requirements. Revenues for 2003 in Table 3 were therefore recorded under a different set of rules than those required for 2004. The impact of the new revenue recognition requirements

primarily affects the comparisons for taxes and intergovernmental revenues. In 2004, revenues in these two categories accounted for 81% of total revenues for governmental activities. The analysis of taxes and intergovernmental revenues below contains a breakdown and explanation of the amounts attributable to the new rules. Impacts on other revenue categories were non-existent or minimal. The comparisons contained in next year's financial statements will be based on consistent recognition requirements.

Taxes

Tax revenues show an increase of \$396,186 or 15.74% for 2004. Of this amount, \$188,814 was attributable to the GASB 33 requirements. The adjusted increase was \$207,372 or 8.24% over 2003. Of particular interest were City Sales Tax and State Sales Tax, which had adjusted increases of 13.00% and 7.57% respectively. There was a 19.25% increase in Transient Room Tax. All of these tax revenues can be linked to increased tourism. On an adjusted basis, property tax increased 3.02%. Net assessed value increased from \$22,348,631 to \$24,260,089.

Licenses and Permits

The 40.33% increase in revenue from licenses and permits is solely attributable to an increase in building permits. A single permit was issued in the amount of \$30,367 for the construction of the new Cochise County office facilities. The average permit cost in 2003 was \$106.56; the average in 2004 was \$166.06, indicating larger building projects. Other revenues in this category were down slightly.

Intergovernmental

Intergovernmental revenues are made up of Bisbee's share of State distributed revenues such as state income tax, Highway User Revenue Fees (HURF), and Local Transportation Assistance Funds (LTAF), state and federal grants, and revenues derived from intergovernmental agreements. This year, intergovernmental revenue decreased 13.33%. The decrease in General Fund was 6% and was due primarily to a \$52,372 decrease in state income tax distributions. Other intergovernmental revenues declined principally due to the completion of a number of large grant projects in the preceding year.

Charges for services

The 20.96% increase in the City's charges for services was driven by a 25% increase in ambulance fees amounting to \$126,938. While the number of service calls increased slightly, the increase was fundamentally due to rate increases. Service call charges increased from \$344 to \$650 and mileage charges increased from \$3.74 to \$7.50. Although the dollar amounts were less significant, other charges demonstrating increases this year were cemetery charges, park use permits, towing fees, pool admission fees and franchise fees. Fees in all other categories declined.

Interest

Interest rates declined in the State Treasurer Investment Pool, where the City deposits its non-operating cash. Year-to-date yields at June 30, 2004 and June 30, 2003 were 1.4426% and 1.8719% respectively.

Contributions

The 96.08% decline in contributions reflects the absence of a large one-time donation for the Bisbee Skate Park in FY 2003.

Miscellaneous

All revenues not otherwise classified are included in this category. The character of these revenues varies year to year. Miscellaneous revenues increased \$60,793.

EXPENDITURES

Table 4 represents a summary of total governmental fund expenditures and operating transfers-out for the years ended June 30, 2004 and 2003. Following is a detailed analysis of this information.

Expenditures and Transfers-Out	Table 4 Comparative Expenditures and Transfers-Out				
	2004 Amount	% of Total	2003 Amount	Increase (Decrease) Amount Percent	
General government	\$1,711,650	25.32%	\$2,405,525	\$ (693,875)	-28.85%
Public safety	2,805,961	41.50%	2,527,387	278,574	11.02%
Highways and streets	469,083	6.94%	469,847	(764)	-0.16%
Culture and recreation	768,604	11.37%	521,634	246,970	47.35%
Capital outlay	13,932	0.21%	193,776	(179,844)	-92.81%
Debt service					
Principal	228,914	3.39%	109,196	119,718	109.64%
Interest	36,718	0.54%	37,972	(1,254)	-3.30%
Transfers-out	725,711	10.73%	482,398	243,313	50.44%
Total	<u>\$6,760,573</u>	<u>100.00%</u>	<u>\$6,747,735</u>	<u>\$ 12,838</u>	<u>.19%</u>

General Government

General government expenditures decreased 28.85% from 2003 expenditures. The decrease is substantially attributable to decreased grant-related expenditures in the non-major governmental funds due to completion of capital projects, which were still active in 2003. Expenditures in General Fund increased 9%. Salary increases of 3% and increases in employee benefit costs are the reason. Arizona State Retirement System (ASRS) rates more than doubled, increasing from 2.49% to 5.7%. Health insurance costs increased 10%.

Public Safety

Public safety expenses increased overall by 11.02% broken down as follows: non-major governmental funds increased from \$61,762 to \$128,851 or 109%; General Fund expenditures for public safety increased from \$2,465,626 to \$2,677,110 or 9%.

The 109% increase in non-major governmental funds was related to expenditures for a large Governor's Office of Highway Safety grant, a FEMA grant for a new fire truck, and availability of funds from federal asset forfeitures. The 9% increase in general fund parallels the increase for general government expenditures and for many of the same reasons. In the police department, salary increases and an increase in overtime (approximately 35% of which was reimbursed by

outside agencies) contributed to the increase. In the fire department, salary increases were offset by a reduction in overtime costs. Arizona Public Safety Retirement System (APRS) rates increased from 11.71% to 19.36% for police and from 10.42% to 16.39% for firefighters. Health insurance costs increased 10%. In both the police department and the fire department expenditures were reduced by the reclassification of property, casualty and liability insurance, which were formerly charged directly, to a general administrative department.

Highways and Streets

Expenses remained steady for this category of expenditures, which is almost entirely streets fund. Although streets fund experienced the same salary and benefit increases as other spending categories, there were many offsetting reductions of smaller expenditures (such as small tools, education and training, parts and labor) to achieve an expenditure level equal to the preceding year.

Culture and Recreation

In General Fund, expenditures for culture and recreation are comprised of the parks and pool operations, the library, and the senior center. These expenditures increased only 2% over the total for 2003. Other culture and recreation expenditures were the result of grant funding for various capital projects and certain programs for the library, cemetery and the arts. The City Park renovation project accounted for 47% of the total expenditures in this category for 2004.

Capital Outlay

In FY 2003, there were several large capital projects including upgrading the City's computer and telephone systems and the cooling system and roof at city hall. During FY 2004 there were no large projects and the difference is reflected in an approximate 92% decrease.

Debt Service

Debt service shows a significant increase because the outstanding principal of \$126,601 on the police station lease-purchase agreement was retired in FY 2004.

PROPRIETARY FUNDS

The City of Bisbee fully operates three enterprise funds: the Wastewater Fund, the Sanitation Fund and the Queen Mine Fund. Under generally accepted accounting principles, these public enterprise funds are accounted for in much the same manner as private enterprises. Therefore, it is of particular note that in the financial statements the two funds that account for wastewater operations and the wastewater construction project are combined into a single reporting entity. Further information will be provided in the discussion of the individual funds, which follows.

The table below summarizes the combined business-type activities for comparative purposes. Discussion from a fund perspective follows Table 4.

Table 4				
Comparative Revenues and Expenses of the Proprietary Funds of the City of Bisbee, Arizona				
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Amount</u>	<u>%</u>
Operating revenues				
Charges for services	\$ 2,179,006	\$ 2,091,860	\$ 87,146	4%
Rents	1,651	900	751	83%
Total operating revenues	2,180,657	2,092,760	87,897	4%
Non-operating revenues				
Transfers in	521,062	338,243	182,819	54%
Interest	5,665	6,586	(921)	-14%
Miscellaneous	13,330	6,900	6,430	93%
Total non-operating revenues	540,057	351,729	188,328	54%
Total revenues	2,720,714	2,444,489	276,225	11%
Operating expenses				
Cost of sales & services	1,550,920	1,471,518	79,402	5%
Depreciation	110,371	-	110,371	
Total operating expenses	1,661,291	1,471,518	189,773	13%
Non-operating expenses				
Transfers-out	540,820	394,714	146,106	37%
Debt service interest	56,570	16,528	40,042	242%
Loss on investments	11,238	-	11,238	
Total non-operating expenses	608,628	411,242	197,386	48%
Total expenses	2,269,919	1,882,760	387,159	21%
Net Income (Loss)	\$ 450,795	\$ 561,729	\$ (110,934)	-20%

Wastewater Fund

Wastewater Fund revenues increased 5% as a direct result of rate increases for user fees. There was virtually no change in the customer base. There were no non-operating revenues. Operating expenses in Wastewater Fund increased a total of \$155,840 or 28%. Of this amount \$84,409 was depreciation expense, which had not been recorded in prior years. Adjusted for depreciation, the increase in operating expenses was \$71,431 or 13%. The 13% increase was caused mostly by increases in salary and salary-related expenses, an increase in property, casualty and liability insurance and an increase in bad-debt expense related to write-off of uncollectible sewer accounts. Non-operating expenses consisted entirely of transfers-out, which increased in proportion to additional revenue generated by rate adjustments and allocated to the wastewater construction project. Net income in the operating fund decreased from \$282,768 in 2003 to \$13,448 in 2004. The drop in net income is largely due to the proper recognition of depreciation expense and the increase in transfers to the construction project fund.

The primary difference between the results of the wastewater operating fund and the combination of that fund with the construction fund is in non-operating revenues and debt service. There are substantial non-operating revenues in the construction fund due to transfers-in of sales tax and rate increase revenues. Debt service interest increased due to larger outstanding loan balances related to borrowing for the construction project.

This year, there was also a one-time loss on investments as the Arizona State Treasury determined the final amount of the loss on bonds in default.

Sanitation Fund

Operating revenues increased only \$302 during FY 2004. There were no rate increases and no change in the customer base. Operating expenses increased \$45,775 or 9%, \$22,621 of which was depreciation expense not recorded in prior years. Adjusted for depreciation, the increase in operating expenses was 5%. This increase was attributable primarily to salary and benefit increases and to increases for county tipping fees and property, casualty and liability insurance. There were numerous reductions in other smaller expenses to largely offset effect of the above increases. Non-operating income increased \$9,726 related to a one-time transfer. Non-operating expense remained constant. Net income in sanitation fund decreased from a surplus of \$10,583 in 2003 to a deficit of \$25,165 in 2004. The drop in net income is largely due to the proper recognition of depreciation expense.

Queen Mine Fund

Queen Mine operating revenues increased 9%. This revenue is generated by sales of mine tours, which are heavily related to tourism. Operating expenses decreased 4% from the previous year. While there was a modest increase in total salaries, benefit costs fell approximately 10% due to a shift from full-time staffing eligible for full benefits to part-time staffing. Depreciation expense was \$3,341. Net income rose from a deficit of \$18,858 to approximately break-even at \$364.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City made no budgetary amendments during the year.

Taxes, intergovernmental revenues, charges for services and miscellaneous revenues met or exceeded budget projections. Licenses and permits and fines and forfeitures experienced budget shortfalls. In total, general fund revenues were at 114% of budget. Total general fund expenditures were 108% of budget. On a budgetary basis, the general fund generated a surplus in 2004 of \$310,272.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 5 illustrates the total capital assets by type for governmental activities and business type activities as shown on the Statement of Net Assets. Next year's report will provide comparative data.

**Table 5
Capital Assets Net of Depreciation at Year-End**

	Governmental Activities	Business-Type Activities	Total Assets Net of Accumulated Depreciation
Land	\$ 623,490	\$ 47,660	\$ 671,150
Work in progress	-	4,186,610	4,186,610
Buildings	2,306,642	49,697	2,356,339
Improvements other than buildings	400,982	721,494	1,122,476
Airport	891,228		891,228
Machinery and equipment	854,566	372,563	1,227,129
Infrastructure	355,006	-	355,006
	\$ 5,431,914	\$ 5,378,024	\$ 10,809,938

It should be noted that infrastructure is only partially included. Historically, infrastructure related to governmental activities has not been reported in the City's financial statements. Under the new reporting requirements, there is a four-year transition period for implementation of infrastructure reporting. The City will report infrastructure no later than the year ending June 30, 2008.

The most significant capital expenditure in governmental activities (\$367,406) was the City Park renovation project funded by a series of Community Development Block Grants (CDBG). Other capital activity included a \$51,000 down payment on a new fire truck and \$21,475 for Saginaw Street improvements also funded by CDBG money.

For business-type activities the overriding capital project is the wastewater construction project, which will rehabilitate old sewer lines throughout the City and construct a new treatment plant. The project, once started, is expected to last approximately two years and will be funded through a series of grants and loans and a City equity contribution of \$2M. The large work-in progress number in Table 5 is associated with pre-construction work for the project.

Debt

At year-end, the City holds the following debt:

- Equipment leases for an ambulance and road grader with outstanding balances totaling \$57,718.
- A lease-purchase agreement for the fire station with an outstanding balance of \$305,665. During 2004, the outstanding principal of \$126,601 for the police station lease-purchase agreement was retired.
- A note payable to the Arizona Department of Transportation Aeronautics Division for the hangar at the airport with an outstanding balance of \$17,258.
- A loan payable to the Water Infrastructure Financing Authority of Arizona (WIFA) with an outstanding balance of \$3,566,043. The City currently makes interest-only payments on this loan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Notable factors which will impact next year's (FY 2005) budget include increases in the Arizona Public Safety Retirement System contributions from 19.36% to 23.27% for police and from 16.39% to 22.0% for firefighters. At current salary levels, the budgetary impact would be approximately \$76,000. Health insurance rates will rise between 8% and 9%. The City will commission a wage and compensation study and budgeted \$50,000 FY 2005 in anticipation of adjustments to salary. It is expected that tourism will continue to increase and a favorable result is expected in sales and bed taxes.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide citizens, taxpayers, customers, investors and creditors with general information about the City's finances and to demonstrate the City's accountability and compliance with respect to fiscal matters. If there are questions concerning this report or if further information is required, please contact the City of Bisbee Finance Department, 118 Arizona Street, Bisbee, AZ 85603.

BASIC FINANCIAL STATEMENTS

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 264,298	\$ 648,216	\$ 912,514
Investments	792,249	364,319	1,156,568
Receivables (net of allowance for uncollectible):			
Property taxes	26,502		26,502
Other	157,450	240,737	398,187
Due from other governments	690,882	21,101	711,983
Prepaid items	5,941	3,075	9,016
Capital assets, not being depreciated	623,490	4,234,270	4,857,760
Capital assets, being depreciated, net	<u>4,808,424</u>	<u>1,143,754</u>	<u>5,952,178</u>
Total assets	<u>7,369,236</u>	<u>6,655,472</u>	<u>14,024,708</u>
Liabilities			
Accounts payable	155,847	251,600	407,447
Accrued payroll and employee benefits	157,924	20,598	178,522
Accrued compensated absences		7,733	7,733
Due to other governments	25,924		25,924
Deposits held for others		21,991	21,991
Non-current liabilities			
Due within one year	77,495		77,495
Due in more than one year	<u>440,192</u>	<u>3,566,043</u>	<u>4,006,235</u>
Total liabilities	<u>857,382</u>	<u>3,867,965</u>	<u>4,725,347</u>
Net Assets			
Invested in capital assets, net of related debt	5,051,273	1,811,981	6,863,254
Restricted for:			
Other purposes	5,941	3,075	9,016
Unrestricted	<u>1,454,640</u>	<u>972,451</u>	<u>2,427,091</u>
Total net assets	<u>\$ 6,511,854</u>	<u>\$ 2,787,507</u>	<u>\$ 9,299,361</u>

See accompanying notes to financial statements.

City of Bisbee, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Governmental activities:							
General government and administration	\$ 1,748,488	\$ 417,948	\$ 45,952	\$ 9,700	\$ (1,274,888)		\$ (1,274,888)
Public safety	2,850,323	861,078	383,981	51,000	(1,554,264)		(1,554,264)
Transportation	433,356	1,300	594,433	21,474	183,851		183,851
Culture and recreation	489,746	22,226	31,855	376,042	(59,623)		(59,623)
Interest on long-term debt	66,939				(66,939)		(66,939)
Total governmental activities	5,588,852	1,302,552	1,056,221	458,216	(2,771,863)		(2,771,863)
Business-type activities:							
Wastewater	775,333	1,077,611				\$ 302,278	302,278
Sanitation	536,608	586,217				49,609	49,609
Queen Mine	405,920	515,178				109,258	109,258
Total business-type activities	1,717,861	2,179,006				461,145	461,145
Total government	\$ 7,306,713	\$ 3,481,558	\$ 1,056,221	\$ 458,216	(2,771,863)	461,145	(2,310,718)
General Revenues:							
Taxes:							
Property taxes					578,943		578,943
Sales taxes					1,442,724		1,442,724
State shared taxes					557,532		557,532
Urban revenue sharing					595,794		595,794
Vehicle license taxes					275,273		275,273
Bed taxes					58,406		58,406
Investment losses					(9,994)	(5,573)	(15,567)
Miscellaneous					47,435	14,981	62,416
Transfers					19,758	(19,758)	
Total general revenues and transfers					3,565,871	(10,350)	3,555,521
Change in net assets					794,008	450,795	1,244,803
Net assets, July 1, 2003, as restated					5,717,846	2,336,712	8,054,558
Net assets, June 30, 2004					\$ 6,511,854	\$ 2,787,507	\$ 9,299,361

See accompanying notes to financial statements.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

City of Bisbee, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 67,024	\$ 197,274	\$ 264,298
Investments	791,904	345	792,249
Receivables (net of allowance for uncollectible):			
Accounts	157,450		<i>157,450</i>
Property taxes	26,502		<i>26,502</i>
Due from:			
Other governments	493,723	197,159	690,882
Prepaid expenses	<u>5,941</u>		<u>5,941</u>
Total assets	<u>\$ 1,542,544</u>	<u>\$ 394,778</u>	<u>\$ 1,937,322</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 73,118	\$ 82,729	\$ 155,847
Accrued payroll and employee benefits	149,676	8,248	157,924
Due to:			
Other funds			
Other governments	<u>6,682</u>	<u>19,242</u>	<u>25,924</u>
Total liabilities	<u>229,476</u>	<u>110,219</u>	<u>339,695</u>
Fund balances:			
Reserved for:			
Other purposes	5,941		5,941
Unreserved, reported in:			
General fund	1,307,127		1,307,127
Special revenue funds		246,355	246,355
Capital projects fund		<u>38,204</u>	<u>38,204</u>
Total fund balances	<u>1,313,068</u>	<u>284,559</u>	<u>1,597,627</u>
Total liabilities and fund balances	<u>\$ 1,542,544</u>	<u>\$ 394,778</u>	<u>\$ 1,937,322</u>

City of Bisbee, Arizona
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2004

Fund balances - total governmental funds	\$1,597,627
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.	5,431,914
Some liabilities, including a note payable, capital leases payable, lease purchase agreements, and compensated absences are not due and payable in the current period and therefore, are not reported in the funds.	<u>(517,687)</u>
Net assets of governmental activities	<u>\$6,511,854</u>

City of Bisbee, Arizona
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 2,854,209	\$ 58,406	\$ 2,912,615
Fines and forfeitures	71,193		71,193
Licenses and permits	131,316		131,316
Intergovernmental	775,392	1,455,338	2,230,730
Charges for services	822,438		822,438
Interest	14,316	128	14,444
Rent	52,891		52,891
Contributions		620	620
Miscellaneous	93,857	57,436	151,293
Total revenues	<u>4,815,612</u>	<u>1,571,928</u>	<u>6,387,540</u>
Expenditures:			
Current:			
General government	1,527,821	183,829	1,711,650
Public safety	2,677,110	128,851	2,805,961
Transportation		469,083	469,083
Cultural, parks and recreation	346,088	422,516	768,604
Capital outlay		13,932	13,932
Debt service:			
Principal	130,367	98,547	228,914
Interest and other charges	13,057	23,661	36,718
Total expenditures	<u>4,694,443</u>	<u>1,340,419</u>	<u>6,034,862</u>
Excess of revenues over expenditures	121,169	231,509	352,678
Other financing sources(uses):			
Transfers in	567,566	177,903	745,469
Transfers out	(355,594)	(370,117)	(725,711)
Investment loss	(22,869)	(1,570)	(24,439)
Total other financing sources and (uses)	<u>189,103</u>	<u>(193,784)</u>	<u>(4,681)</u>
Net changes in fund balances	310,272	37,725	347,997
Fund balances, July 1, 2003, as restated	1,002,796	246,834	1,249,630
Fund balances, June 30, 2004	<u>\$ 1,313,068</u>	<u>\$ 284,559</u>	<u>\$ 1,597,627</u>

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, 2004

Net changes in fund balances - total governmental funds	\$ 347,997
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those costs over the lives of the assets. This is the amount by which capital outlays exceeded depreciation in current period.	247,318
Repayment of capital lease, lease purchase agreements, and note payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the Statement of Net Assets.	212,830
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<u>(14,137)</u>
Change in net assets of governmental activities	<u>\$ 794,008</u>

PROPRIETARY FUNDS FINANCIAL STATEMENTS

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 362,977	\$ 150	\$ 285,089	\$ 648,216
Investments	364,319			364,319
Receivables (net allowance from uncollectibles)	154,290	86,171	276	240,737
Prepaid expense			3,075	3,075
Due from:				
Other funds	213,614			213,614
Other governments	21,101			21,101
Total current assets	<u>1,116,301</u>	<u>86,321</u>	<u>288,440</u>	<u>1,491,062</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation, where applicable:				
Land		47,660		47,660
Construction in progress	4,186,610			4,186,610
Buildings, net			49,696	49,696
Equipment, net	864,102	214,873	15,083	1,094,058
Capital assets, net	<u>5,050,712</u>	<u>262,533</u>	<u>64,779</u>	<u>5,378,024</u>
Total noncurrent assets	<u>5,050,712</u>	<u>262,533</u>	<u>64,779</u>	<u>5,378,024</u>
Total assets	<u>\$ 6,167,013</u>	<u>\$ 348,854</u>	<u>\$ 353,219</u>	<u>\$ 6,869,086</u>
Liabilities:				
Current liabilities:				
Accounts payable	227,614	16,989	6,997	251,600
Accrued payroll and employee benefits	8,518	5,799	6,281	20,598
Due to:				
Other funds		213,614		213,614
Deposits held for others	21,500		491	21,991
Compensated absences	4,435	1,142	2,156	7,733
Total current liabilities	<u>262,067</u>	<u>237,544</u>	<u>15,925</u>	<u>515,536</u>
Noncurrent liabilities:				
WIFA debt	3,566,043			3,566,043
Total noncurrent liabilities	<u>3,566,043</u>			<u>3,566,043</u>
Total liabilities	<u>3,828,110</u>	<u>237,544</u>	<u>15,925</u>	<u>4,081,579</u>
Total net assets	<u>\$ 2,338,903</u>	<u>\$ 111,310</u>	<u>\$ 337,294</u>	<u>\$ 2,787,507</u>

City of Bisbee, Arizona
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Operating revenues:				
Charges for sales and services	\$ 1,077,611	\$ 586,217	\$ 515,178	\$ 2,179,006
Rent			1,651	1,651
Miscellaneous	13,330			13,330
Total operating revenues	<u>1,090,941</u>	<u>586,217</u>	<u>516,829</u>	<u>2,193,987</u>
Operating expenses:				
Cost of sales and services	634,354	513,987	402,579	1,550,920
Depreciation expense	84,409	22,621	3,341	110,371
Total operating expenses	<u>718,763</u>	<u>536,608</u>	<u>405,920</u>	<u>1,661,291</u>
Operating income	372,178	49,609	110,909	532,696
Nonoperating revenues (expenses)				
Interest income	5,665			5,665
Interest expense	(56,570)			(56,570)
Investment loss	(11,238)			(11,238)
Total nonoperating revenues (expenses)	<u>(62,143)</u>			<u>(62,143)</u>
Income before transfers	310,035	49,609	110,909	470,553
Transfers:				
Transfers in	511,334	9,728		521,062
Transfers out	(345,775)	(84,500)	(110,545)	(540,820)
Total transfers	<u>165,559</u>	<u>(74,772)</u>	<u>(110,545)</u>	<u>(19,758)</u>
Increase (decrease) in net assets	475,594	(25,163)	364	450,795
Total net assets, July 1, 2003, as restated	<u>1,863,309</u>	<u>136,473</u>	<u>336,930</u>	<u>2,336,712</u>
Total net assets, June 30, 2004	<u>\$ 2,338,903</u>	<u>\$ 111,310</u>	<u>\$ 337,294</u>	<u>\$ 2,787,507</u>

City of Bisbee, Arizona
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,089,151	\$ 586,207	\$ 515,669	\$ 2,191,027
Other operating receipts	13,331		1,650	14,981
Cash payments to employees	(377,564)	(247,744)	(282,963)	(908,271)
Cash payments to suppliers for goods and services	(808,435)	(282,634)	(124,301)	(1,215,370)
Net cash (used for) provided by operating activities	<u>(83,517)</u>	<u>55,829</u>	<u>110,055</u>	<u>82,367</u>
Cash flows from noncapital financing activities:				
Payments on advances to other funds	(213,614)			(213,614)
Payments on advances from other funds		53,020		53,020
Cash transfers from other funds	511,334	9,726		521,060
Cash transfers to other funds	(345,775)	(84,500)	(110,545)	(540,820)
Net cash used for noncapital financing activities	<u>(48,055)</u>	<u>(21,754)</u>	<u>(110,545)</u>	<u>(180,354)</u>
Cash flows from capital and related financing activities:				
Proceeds from WIFA loan	937,021			937,021
Purchases of capital assets	(663,113)	(34,075)		(697,188)
Interest paid	(56,570)			(56,570)
Net cash provided by (used for) capital and related financing activities	<u>217,338</u>	<u>(34,075)</u>		<u>183,263</u>
Cash flows from investing activities:				
Proceeds from the sale of investments	6,737			6,737
Interest received on investments	3,543			3,543
Loss on investments	(11,238)			(11,238)
Net cash provided by investing activities	<u>(958)</u>			<u>(958)</u>
Net increase (decrease) in cash and cash equivalents	84,808		(490)	84,318
Cash and cash equivalents, July 1, 2003	278,169	150	285,579	563,898
Cash and cash equivalents, June 30, 2004	<u>\$ 362,977</u>	<u>\$ 150</u>	<u>\$ 285,089</u>	<u>\$ 648,216</u>
Reconciliation of Operating Income to net cash (used for) provided by operating activities				
Operating income	\$ 372,178	\$ 49,609	\$ 110,909	\$ 532,696
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:				
Depreciation	84,409	22,621	3,341	110,371
Changes in assets and liabilities:				
Accounts receivable	(9,960)	(10)		(9,970)
Prepaid expenses			(3,075)	(3,075)
Accounts payable	(557,268)	(17,111)	378	(574,001)
Accrued payroll	(2,976)	582	855	(1,539)
Accrued compensated absences	8,600	138	(2,844)	5,894
Deposits held for others	21,500		491	21,991
Net cash (used for) provided by operating activities:	<u>\$ (83,517)</u>	<u>\$ 55,829</u>	<u>\$ 110,055</u>	<u>\$ 82,367</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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). During the year ended June 30, 2004, the City implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The City also implemented GASB Statement No. 38, which prescribes new and revised note disclosures. 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, 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. 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. The BMPC's debt is reported as part of the long-term debt account. Separate financial statements for the BMPC are not prepared.

B. Basis of Presentation

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government-wide statements - provide information about the primary government (the City) and its component unit. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, 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.

The 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, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, 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-based 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 statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major 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 subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The City reports the following major governmental fund:

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:

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

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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-based 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 all 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. Proceeds 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 assets available to finance the program. The City applies grant resources to such programs before using general revenues.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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.

For the year ended June 30, 2004, expenditures exceeded appropriations in the public safety department of the general and special funds by \$158,249 and \$23,851, respectively, as well as the general government and cultural, parks and recreation department of the special revenue funds by \$135,829 and \$412,516, respectively. The over-expenditures were funded by new grants received during the year or by the fund's available fund balance.

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.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Pronouncements of GASB and FASB - Continued

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.
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. 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.

G. Allowance for Doubtful Accounts

The allowance for doubtful accounts in the proprietary funds is estimated at approximately 50% of the year-end accounts receivable balance.

H. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at cost. Donated assets are recorded at the estimated fair market 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 thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) are \$1,000 for all assets.

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

Buildings and improvements	5-30 years
Machinery and equipment	3-20 years
Vehicles	10 years
Wastewater system and improvements	5-30 years
Wastewater plant	15-30 years

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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 governmental funds is immaterial, and therefore no amounts are recorded as an expenditure and a current liability at June 30, 2004, 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 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 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, 2004

NOTE 2 - BEGINNING BALANCES RESTATED

As a result of the City incorrectly including activity related to the City's bed tax, which is restricted by statute, in the general fund last year, the beginning fund balances in the general and other governmental funds as of July 1, 2003, have been restated. The reconciliation below summarizes the differences between fund balances as of June 30, 2003, as previously reported, to fund balances as of July 1, 2003, reported in the general and other governmental funds columns on the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

General fund: fund balance as of June 30, 2003	\$ 1,021,486
Less: bed tax fund balance reported in other governmental funds	<u>(18,690)</u>
General fund: fund balance as of July 1, 2003	<u>\$ 1,002,796</u>
Other governmental funds: fund balance as of June 30, 2003	\$ 228,144
Plus: bed tax fund balance reported in the general fund last year	<u>18,690</u>
Other governmental funds: fund balance as of July 1, 2003	<u>\$ 246,834</u>

As a result of the City properly recording enterprise funds beginning fixed assets and accumulated depreciation, business-type activities and proprietary funds net assets as of July 1, 2003, have been restated. The reconciliation below summarizes the differences between net assets as of June 30, 2003, as previously reported, to net assets as of July 1, 2003, reported on the government-wide Statement of Activities and the proprietary funds Statement of Revenues, Expenses and Changes in Fund Net Assets.

Net assets as of June 30, 2003	\$ 5,339,875
Less: reduction in capital assets	(1,918,583)
Less: increase in accumulated depreciation	<u>(1,084,580)</u>
Net assets as of July 1, 2003	<u>\$ 2,336,712</u>

As a result of implementing GASB No. 34, the City made the following adjustments to properly state beginning net assets at July 1, 2003 in the government-wide financial statements:

Aggregate fund balances of governmental fund types as of June 30, 2003	\$ 1,249,630
Add: Capital assets, net of accumulated depreciation	5,184,596
Less: Long-term liabilities	<u>(716,380)</u>
Net assets of governmental activities as of July 1, 2003	<u>\$ 5,717,846</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2004, the City had cash on hand of \$1,197. The carrying amount of the City's total cash in bank was \$911,317, and the bank balance was \$967,718. Of the bank balance, \$133,443 was covered by federal depository insurance and \$834,275 was covered by collateral held by the pledging financial institution's trust department in the City's name.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED

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, 2004, , the City's investments were as follows:

Investments not subject to categorization:	<u>Carrying Amount</u>	<u>Fair Value</u>
State Treasurer's investment pool	\$ 1,156,568	\$ 1,156,568

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2004, include the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
Arizona State Treasurer				
State sales tax	\$ 88,945			\$ 88,945
City sales tax	257,800			257,800
Local government investment pool	3,200		\$ 1,543	4,743
Lottery		\$ 4,430		4,430
Arizona Governor's Office		27,427		27,427
Arizona Department of Commerce		21,474		21,474
Arizona Department of Transportation	45,217	113,381		158,598
Arizona State Land Department				
Fire suppression	9,783			9,783
Arizona State Highway Department				
Urban Revenue Fund	46,662			46,662
Water Infrastructure Financing				
Authority			19,558	19,558
Cochise County Treasurer	<u>42,116</u>	<u>30,447</u>		<u>72,563</u>
Total	<u>\$ 493,723</u>	<u>\$ 197,159</u>	<u>\$ 21,101</u>	<u>\$ 711,983</u>

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2004</u>
Governmental activities:			
Land	\$ 622,240	\$ 1,250	\$ 623,490 ✓
Buildings	3,009,455	180,199	3,189,654
Improvements other than buildings	445,492	152,901	598,393
Airport	1,714,902	135,000	1,849,902 ✓
Machinery and equipment	2,009,518	111,747	2,121,265
Infrastructure	<u>434,126</u>	<u> </u>	<u>434,126</u>
	8,235,733	581,097	8,816,830
Less: accumulated depreciation	<u>(3,051,137)</u>	<u>(333,779)</u>	<u>(3,384,916)</u>
Net governmental assets	<u>\$ 5,184,596</u>	<u>\$ 247,318</u>	<u>\$ 5,431,914</u>

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2004</u>
Business-type activities:			
Land	\$ 47,660		\$ 47,660 ✓
Construction in progress	3,528,991	\$ 657,619	4,186,610
Buildings	111,200	4,000	115,200 ✓
Improvements other than buildings	1,515,408		1,515,408
Machinery and equipment	<u>635,040</u>	<u>73,058</u>	<u>708,098</u>
	5,838,299	734,677	6,572,976
Less: accumulated depreciation	<u>(1,084,581)</u>	<u>(110,371)</u>	<u>(1,194,952)</u>
Net business-type assets	<u>\$ 4,753,718</u>	<u>\$ 624,306</u>	<u>\$ 5,378,024</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government and administration	\$ 45,554
Public safety	133,978
Transportation	100,005
Cultural and recreational	<u>54,242</u>
Total governmental activities depreciation expense	<u>\$ 333,779</u>

Business-type activities:	
Wastewater	\$ 84,409
Sanitation	22,621
Queen Mine	<u>3,341</u>
Total business-type activities depreciation expense	<u>\$ 110,371</u>

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

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, 2004:

Governmental activities

	Note Payable	Capital Leases Payable	Lease Purchase Agreements Payable	Compensated Absences	Total
Debt payable at July 1, 2003	\$ 21,025	\$ 110,652	\$ 461,794	\$ 122,909	\$ 716,380
Additions				14,137	14,137
Reductions	<u>3,767</u>	<u>52,934</u>	<u>156,129</u>		<u>212,830</u>
Debt payable at June 30, 2004	<u>\$ 17,258</u>	<u>\$ 57,718</u>	<u>\$ 305,665</u>	<u>\$ 137,046</u>	<u>\$ 517,687</u>

Business-type activities

	WIFA Loan
Debt payable at July 1, 2003	\$ 2,609,464
Additions	<u>956,579</u>
Debt payable at June 30, 2004	<u>\$ 3,566,043</u>

Long-term debt payable at June 30, 2004, is comprised of the following:

Notes 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. \$ 17,258

Loan agreement with the Water Infrastructure Financing Authority to fund rehabilitation of the City's wastewater infrastructure; payable in annual installments of interest only at 1.66%. Beginning in 2005, annual installments will be \$302,564 including interest at 3.472%; matures July 2022. 3,566,043

3,583,301

Less current maturities (4,011)

3,579,290

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

NOTE 6 - LONG-TERM DEBT - CONTINUED

Capital Leases Payable

Capital lease agreement for Ford ambulance; payable in monthly installments of \$1,233 including interest at 6.03% ; matures July 2004. \$ 2,448

Capital lease agreement for Caterpillar road grader; payable in monthly installments of \$3,598 including interest at 9.14%; matures October 2005 55,270
 57,718
 Less current maturities (42,271)
 15,447

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. 305,665
 Less current maturities (31,213)
274,452
\$ 3,869,189

Annual cash requirements to amortize all the outstanding debt at June 30, 2004, including interest payments, are as follows:

Governmental activities

Year Ending June 30,	Note Payable		Capital Leases Payable		Lease Purchase Agreement	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 4,011	\$ 1,120	\$ 42,271	\$ 2,139	\$ 31,213	\$ 16,761
2006	4,271	860	15,447	178	32,993	14,980
2007	4,549	583			34,875	13,098
2008	4,427	287			36,865	11,109
2009					38,967	9,006
2010-2012					130,752	13,169
Total	<u>\$ 17,258</u>	<u>\$ 2,850</u>	<u>\$ 57,718</u>	<u>\$ 2,317</u>	<u>\$ 305,665</u>	<u>\$ 78,123</u>

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

NOTE 6 - LONG-TERM DEBT - CONTINUED

Business-type activities

Year Ending June 30,	Note Payable	
	Principal	Interest
2005		\$ 59,161
2006	\$ 81,701	148,344
2007	157,619	144,945
2008	164,176	138,388
2009	171,005	131,559
2010-2014	967,838	544,982
2015-2019	1,186,604	326,217
2020-2022	<u>837,100</u>	<u>70,590</u>
Total	<u>\$ 3,566,043</u>	<u>\$ 1,564,186</u>

In July 2002, the City of Bisbee entered into a loan agreement with the Water Infrastructure Financing Authority (WIFA) to help fund improvements to the City's wastewater infrastructure system. The City will borrow a total of \$4,000,000 as needed to fund the ongoing costs of the construction project. The loan repayment schedule will be completed in July 2022. Under the terms of the loan, the City is required to make interest payments only in the amount of \$59,161 in 2005. The first annual payment including principal and interest, totaling \$230,045, is due July 1, 2005. The interest rate in effect for 2004 and 2005 will be 1.659%. Subsequent annual payments will be \$302,564 and the interest rate will be 3.472%. The amount drawn down on the loan at June 30, 2004, was \$3,566,043 and that amount has been recorded as a liability of the Enterprise Funds.

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, 2004

NOTE 8 - COMMITMENTS AND CONTINGENCIES

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 concerning its Queen Mine Tour. In the opinion of the City Attorney, all known claims against the City are fully insurable. The City's attorney has indicated that there is no legal action that will likely result in material damages being paid to the litigants

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.

NOTE 9 - 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.

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

NOTE 9 - RETIREMENT PLANS - CONTINUED

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 (602) 240-2200 or (800) 621-3778	PSPRS 1020 E. Missouri Ave. Phoenix, AZ 85014 (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, 2004, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and .50 percent long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2004, 2003, and 2002 were \$110,719, \$48,997, and \$44,475, respectively, which were equal to the required contributions for the year.

Agent plans - For the year ended June 30, 2004, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by the statute. The current rate is 23.27% of annual covered payroll for police and 22.00% of annual covered payroll for firefighters.

Annual Pension Cost - The City's pension cost for the agent plans for the year ended June 30, 2003, the date of the most recent actuarial valuation, and related information follows.

	<u>Bisbee Police PSPRS</u>	<u>Bisbee Fire Fighters PSPRS</u>
Contribution rates:		
City	23.27%	22.00%
Plan members	7.65%	7.65%
Annual pension cost	\$116,391	\$117,330
Contributions made	\$116,391	\$117,330
Actuarial valuation date	6/30/04	6/30/04
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%

City of Bisbee, Arizona
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

NOTE 9 - RETIREMENT PLANS - CONTINUED

Cost-of-living adjustments	none	none
Amortization method	level percent open	level percent open
Remaining amortization period from 7/1/04	20 years	20 years
Asset valuation method	smoothed market value	smoothed market value

Trend Information - Annual pension cost information for the current and two preceding years follows for each of the agent plans.

Bisbee Police				
Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
2004	\$116,391	100.0	%	\$ 0
2003	62,662	100.0	%	0
2002	81,690	100.0	%	0

Bisbee Fire Fighters				
Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
2004	\$117,330	100.0	%	\$ 0
2003	63,281	100.0	%	0
2002	83,924	100.0	%	0

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 10 - SUBSEQUENT EVENT

In October, 2004, the City of Bisbee entered into contracts to begin the construction phase of its wastewater system improvement project. There were three contracts as listed below:

Brown and Caldwell	engineering services	\$ 853,032
Gila Management, LLC	construction management services	1,500,000
Barnard Construction, Inc.	construction	<u>24,239,000</u>
Total contractual commitments		<u>\$26,592,032</u>

The project's duration is expected to be two years and it will be funded through a series of grants and loans from the North American Development Bank (NADB), the Water Infrastructure Financing Authority of Arizona (WIFA), the United States Department of Agriculture (USDA) - Rural Development, the Border Environmental Cooperation Commission (BECC), and a \$2 million contribution from the City.

REQUIRED SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
 REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 2,478,166	\$ 2,478,166	\$ 2,854,209	\$ 376,043
Fines and forfeitures	131,100	131,100	71,193	(59,907)
Licenses and permits	153,000	153,000	131,316	(21,684)
Intergovernmental	549,654	549,654	775,392	225,738
Charges for services	558,500	558,500	822,438	263,938
Interest			14,316	14,316
Rent			52,891	52,891
Miscellaneous	373,197	373,197	93,857	(279,340)
Total revenues	<u>4,243,617</u>	<u>4,243,617</u>	<u>4,815,612</u>	<u>571,995</u>
Expenditures:				
Current:				
General government	1,633,476	1,633,476	1,527,821	105,655
Public safety	2,518,861	2,518,861	2,677,110	(158,249)
Cultural, parks and recreation	350,092	350,092	346,088	4,004
Total expenditures	<u>4,502,429</u>	<u>4,502,429</u>	<u>4,551,019</u>	<u>(48,590)</u>
Excess of revenues over expenditures	(258,812)	(258,812)	264,593	523,405
Other financing sources(uses):				
Transfers in	408,290	408,290	567,566	159,276
Transfers out	(269,478)	(269,478)	(355,594)	(86,116)
Total other financing sources and (uses)	<u>138,812</u>	<u>138,812</u>	<u>211,972</u>	<u>73,160</u>
Net changes in fund balances	(120,000)	(120,000)	476,565	596,565
Fund balances, July 1, 2003, as restated	1,002,796	1,002,796	1,002,796	
Fund balances, June 30, 2004	<u>\$ 882,796</u>	<u>\$ 882,796</u>	1,479,361	<u>\$ 596,565</u>
Less debt service payments not budgeted for			(143,424)	
Less investment loss not budgeted for			(22,869)	
Fund balances: statement of revenues, expenditures, and changes in fund balances			<u>\$ 1,313,068</u>	

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 48,000	\$ 48,000	\$ 58,406	\$ 10,406
Intergovernmental	856,177	856,177	1,455,338	599,161
Interest	1,077	1,077	128	(949)
Contributions			620	620
Miscellaneous	10,000	10,000	30,993	20,993
Total revenues	<u>915,254</u>	<u>915,254</u>	<u>1,545,485</u>	<u>630,231</u>
Expenditures:				
Current:				
General government	48,000	48,000	183,829	(135,829)
Public safety	105,000	105,000	128,851	(23,851)
Transportation	779,153	779,153	469,083	310,070
Cultural, parks and recreation	10,000	10,000	422,516	(412,516)
Total expenditures	<u>942,153</u>	<u>942,153</u>	<u>1,204,279</u>	<u>(262,126)</u>
Excess of revenues over expenditures	(26,899)	(26,899)	341,206	368,105
Other financing sources(uses):				
Transfers in			67,552	67,552
Transfers out	(32,575)	(32,575)	(360,390)	(327,815)
Total other financing sources and (uses)	<u>(32,575)</u>	<u>(32,575)</u>	<u>(292,838)</u>	<u>(260,263)</u>
Net changes in fund balances	(59,474)	(59,474)	48,368	107,842
Fund balances, July 1, 2003, as restated	199,557	199,557	199,557	
Fund balances, June 30, 2004	<u>\$ 140,083</u>	<u>\$ 140,083</u>	247,925	<u>\$ 107,842</u>
Less investment loss not budgeted for			(1,570)	
Fund balances: statement of revenues, expenditures, and changes in fund balances			<u>\$ 246,355</u>	

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
Year Ended June 30, 2004

Analysis of Funding Progress - The following was obtained from the three most recent actuarial valuations of the agent plans:

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)
2004	\$ 2,401,205	\$ 4,280,553	\$ (1,879,348)	56.1%	\$ 630,170	298.2%
2003	2,534,766	3,834,521	(1,299,755)	66.1%	527,477	246.4%
2002	2,679,937	3,474,121	(794,184)	77.1%	553,414	143.5%

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)
2004	\$ 3,642,912	\$ 5,696,243	\$ (2,053,331)	64.0%	\$ 724,622	283.4%
2003	3,860,157	5,354,722	(1,494,565)	72.1%	694,715	215.1%
2002	3,992,589	4,665,678	(673,089)	85.6%	770,972	87.3%

SINGLE AUDIT REPORTS

City of Bisbee, Arizona
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2004

<u>Federal Grantor/ Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Passed through:			
Governor's Office of Housing Development Community Development Block Grant State's Program	14.228	063-02H	\$ 367,406
U.S. Department of Interior			
Passed through:			
Arizona State Parks Historic Preservation Fund Grants-in-Aid	15.904	640215	20,000
Passed through:			
Arizona State Parks Historic Preservation Fund Grants-in-Aid	15.904	2002-2423	<u>3,349</u>
Total U.S. Department of Interior			<u>23,349</u>
Office of National Drug Control Policy			
Passed through:			
Cochise County Sheriff's Office High Intensity Drug Trafficking Areas	15.unknown	HIDTA 2003 Bisbee	76,774
U.S. Department of Transportation			
Federal Transit Formula Grants	20.507		106,707
Passed through:			
Governor's Office of Highway Safety State and Community Highway Safety	20.600	GHA 2003 PS 001	<u>30,913</u>
Total U.S. Department of Transportation			137,620
National Foundation on the Arts and Humanities			
Promotion of the Humanities Public Programs	45.164		929
State Library Program	45.310		<u>4,325</u>
Total National Foundation on the Arts and Humanities			5,254
Department of Homeland Security			
Passed through:			
Arizona Grants Management Branch Assistance to Firefighters Grant	97.044	2003-FG-17115	<u>50,831</u>
Total expenditures of federal awards			<u>\$ 661,234</u>

City of Bisbee, Arizona
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

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 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 2004 Catalog of Federal Domestic Assistance Update.

NOTE 3 - SUBRECIPIENTS

The City did not award any federal funds to subrecipients.

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

To the City Council
City of Bisbee, Arizona

We have audited the general purpose financial statements of City of Bisbee, Arizona (the City), as of and for the year ended June 30, 2004, and have issued our report thereon dated October 28, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether City of Bisbee, Arizona's general purpose financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 that are required to be reported under *Government Auditing Standards*.

Highway User Revenue Fund Compliance

As required by Arizona Revised Statutes, we reviewed the City's financial records to evaluate whether the City used Highway User Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes. However, the Arizona Auditor General's office has requested an opinion from the Arizona Attorney General about whether certain types of city transportation department expenditures are for transportation purposes authorized by the Constitution and state laws, but the Auditor General has not yet received a response to their request. Once an opinion is received, we will complete our review and report on any instances of noncompliance in a separate letter.

To the City Council
City of Bisbee, Arizona

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Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to the management of the City in a seperate letter dated October 28, 2004.

This report is intended solely for the information and use of management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Testa & Chapman P.C.

October 28, 2004

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

To the City Council
City of Bisbee, Arizona

Compliance

We have audited the compliance of City of Bisbee, Arizona (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2004. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of City of Bisbee, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the City Council
City of Bisbee, Arizona

Page Two

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Fester & Chapman P.C.

October 28, 2004

City of Bisbee, Arizona
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2004

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	YES	NO
Material weakness identified in internal control over financial reporting?	_____	_____ <u>X</u>
Reportable condition identified not considered to be material weakness?	_____	_____ <u>X</u>
Noncompliance material to the financial statements noted?	_____	_____ <u>X</u>

Federal Awards

Material weakness identified in internal control over major programs?	_____	_____ <u>X</u>
Reportable condition identified not considered to be material weakness?	_____	_____ <u>X</u>
Type of auditors' report issued on compliance for major programs:	Unqualified	

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant State's Program

Dollar threshold used to distinguish between Type A and Type B programs: **\$ 300,000**

Auditee qualified as low-risk auditee?	_____	_____ <u>X</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>X</u>
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City of Bisbee, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

B. Findings - Financial Statement Audit

None

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

None