

**CITY OF BISBEE, ARIZONA**

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

**Year Ended June 30, 2005**

CITY OF BISBEE, ARIZONA  
 TABLE OF CONTENTS  
 JUNE 30, 2005

	<b>Page</b>
<b><u>FINANCIAL SECTION</u></b>	
<b>Independent Auditors' Report</b> .....	1-2
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements	
Statement of Net Assets.....	3
Statement of Activities.....	4
Fund Based Financial Statements	
Governmental Funds:	
Balance Sheet .....	5
Reconciliation of the Balance Sheet to the Statement of Net Assets .....	6
Statement of Revenues, Expenditures, and Changes In Fund Balances .....	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	8
Proprietary Funds:	
Statement of Net Assets.....	9
Statement of Revenues, Expenses, and Changes in Net Assets.....	10
Statement of Cash Flows.....	11
Notes to Financial Statements.....	12-27
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedules.....	28-29
Schedule of Agent Retirement Plans' Funding Progress.....	30
<b><u>Single Audit Reports Section</u></b>	
Schedule of Expenditures of Federal Awards.....	31
Notes to the Schedule of Expenditures of Federal Awards.....	32
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	33-34
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.....	35-36
Schedule of Findings and Questioned Costs.....	37-38
Corrective Action Plan.....	39

## 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, 2005, 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, 2005, 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 implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 40, *Deposit and Investment Risk Disclosure*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Budgetary Comparison Schedules on pages 28 through 39, and the Schedule of Agent Retirement Plans' Funding Progress on page 30 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 no opinion on it.

To the City Council  
City of Bisbee, Arizona

The City of Bisbee, Arizona, has not presented management's discussion and analysis that U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 November 10, 2005, 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.

A handwritten signature in black ink that reads "Fester & Chapman P.C." in a cursive style.

November 10, 2005

**BASIC FINANCIAL STATEMENTS**

City of Bisbee, Arizona  
**STATEMENT OF NET ASSETS**  
June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 148,896	\$ 854,091	\$ 1,002,987
Investments	812,100	373,447	1,185,547
Receivables (net of allowance for uncollectible):			
Property taxes	16,323		16,323
Other	144,165	276,235	420,400
Due from other governments	822,796	981	823,777
Prepaid items	9,886		9,886
Capital assets, not being depreciated	623,490	20,480,051	21,103,541
Capital assets, being depreciated, net	<u>5,047,635</u>	<u>1,053,202</u>	<u>6,100,837</u>
Total assets	<u>7,625,291</u>	<u>23,038,007</u>	<u>30,663,298</u>
<b>Liabilities</b>			
Accounts payable	235,987	109,143	345,130
Accrued payroll and employee benefits	155,983	24,546	180,529
Accrued compensated absences		8,726	8,726
Due to other governments	22,420		22,420
Deposits held for others		14	14
Non-current liabilities			
Due within one year	88,450		88,450
Due in more than one year	<u>479,628</u>	<u>10,636,436</u>	<u>11,116,064</u>
Total liabilities	<u>982,468</u>	<u>10,778,865</u>	<u>11,761,333</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	5,240,093	10,896,817	16,136,910
Restricted for:			
Other purposes	9,886		9,886
Unrestricted	<u>1,392,844</u>	<u>1,362,325</u>	<u>2,755,169</u>
Total net assets	<u>\$ 6,642,823</u>	<u>\$ 12,259,142</u>	<u>\$ 18,901,965</u>

See accompanying notes to financial statements.

City of Bisbee, Arizona  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-type Activities	Total
<b>Governmental activities:</b>							
General government and administration	\$ 1,700,244	\$ 381,878	\$ 295,057	\$ 16,300	\$ (1,007,009)		\$ (1,007,009)
Public safety	3,120,235	753,201	304,999		(2,062,035)		(2,062,035)
Transportation	925,130	45	598,241	213,630	(113,214)		(113,214)
Culture and recreation	500,373	26,026	18,481	23,853	(432,013)		(432,013)
Interest on long-term debt	18,795				(18,795)		(18,795)
Total governmental activities	<u>6,264,777</u>	<u>1,161,150</u>	<u>1,216,778</u>	<u>253,783</u>	<u>(3,633,066)</u>		<u>(3,633,066)</u>
<b>Business-type activities:</b>							
Wastewater	860,730	1,130,400		9,191,277		\$ 9,460,947	9,460,947
Sanitation	590,041	590,343				302	302
Queen Mine	455,331	518,777				63,446	63,446
Total business-type activities	<u>1,906,102</u>	<u>2,239,520</u>		<u>9,191,277</u>		<u>9,524,695</u>	<u>9,524,695</u>
Total government	<u>\$ 8,170,879</u>	<u>\$ 3,400,670</u>	<u>\$ 1,216,778</u>	<u>\$ 9,445,060</u>	<u>(3,633,066)</u>	<u>9,524,695</u>	<u>5,891,629</u>
<b>General Revenues:</b>							
Taxes:							
Property taxes					603,975		603,975
Sales taxes					1,494,716		1,494,716
State shared taxes					568,772		568,772
Urban revenue sharing					566,291		566,291
Vehicle license taxes					278,978		278,978
Bed taxes					81,891		81,891
Investment income					24,593	8,374	32,967
Miscellaneous					60,165	23,220	83,385
Transfers					84,654	(84,654)	
Total general revenues and transfers					<u>3,764,035</u>	<u>(53,060)</u>	<u>3,710,975</u>
Change in net assets					130,969	9,471,635	9,602,604
Net assets, July 1, 2004					6,511,854	2,787,507	9,299,361
Net assets, June 30, 2005					<u>\$ 6,642,823</u>	<u>\$ 12,259,142</u>	<u>\$ 18,901,965</u>

See accompanying notes to financial statements.

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

City of Bisbee, Arizona  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 69,637	\$ 79,259	\$ 148,896
Investments	811,623	477	812,100
Receivables (net of allowance for uncollectible):			
Accounts	141,754	2,411	144,165
Property taxes	16,323		16,323
Due from:			
Other governments	543,769	279,027	822,796
Other funds	11,111		11,111
Prepaid expenses	<u>9,341</u>	<u>545</u>	<u>9,886</u>
Total assets	<u>\$ 1,603,558</u>	<u>\$ 361,719</u>	<u>\$ 1,965,277</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 43,503	\$ 192,484	\$ 235,987
Accrued payroll and employee benefits	148,296	7,687	155,983
Due to:			
Other funds		11,111	11,111
Other governments		<u>22,420</u>	<u>22,420</u>
Total liabilities	<u>191,799</u>	<u>233,702</u>	<u>425,501</u>
Fund balances:			
Reserved for:			
Other purposes	9,341	545	9,886
Unreserved, reported in:			
General fund	1,402,418		1,402,418
Special revenue funds		89,268	89,268
Capital projects fund		<u>38,204</u>	<u>38,204</u>
Total fund balances	<u>1,411,759</u>	<u>128,017</u>	<u>1,539,776</u>
Total liabilities and fund balances	<u>\$ 1,603,558</u>	<u>\$ 361,719</u>	<u>\$ 1,965,277</u>

City of Bisbee, Arizona  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
June 30, 2005

Fund balances - total governmental funds	\$ 1,539,776
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.	5,671,125
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>(568,078)</u>
Net assets of governmental activities	<u>\$ 6,642,823</u>

City of Bisbee, Arizona  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 3,028,331		\$ 3,028,331
Fines and forfeitures	66,659		66,659
Licenses and permits	93,049		93,049
Intergovernmental	949,747	\$ 1,194,136	2,143,883
Charges for services	798,491		798,491
Interest	24,584	8	24,592
Rent	53,640		53,640
Contributions		45	45
Miscellaneous	97,189	5,213	102,402
Total revenues	<u>5,111,690</u>	<u>1,199,402</u>	<u>6,311,092</u>
<b>Expenditures:</b>			
Current:			
General government	1,539,594	235,754	1,775,348
Public safety	3,105,948	179,614	3,285,562
Transportation	56,735	772,846	829,581
Cultural, parks and recreation	377,895	53,342	431,237
Capital outlay	122,309	34,353	156,662
Debt service:			
Principal	78,721		78,721
Interest and other charges	18,795		18,795
Total expenditures	<u>5,299,997</u>	<u>1,275,909</u>	<u>6,575,906</u>
Excess of revenues over expenditures	(188,307)	(76,507)	(264,814)
<b>Other financing sources(uses):</b>			
Transfers in	621,517	189,334	810,851
Transfers out	(456,828)	(269,369)	(726,197)
Capital leases	122,309		122,309
Total other financing sources and (uses)	<u>286,998</u>	<u>(80,035)</u>	<u>206,963</u>
Net changes in fund balances	98,691	(156,542)	(57,851)
Fund balances, July 1, 2004	1,313,068	284,559	1,597,627
Fund balances, June 30, 2005	<u>\$ 1,411,759</u>	<u>\$ 128,017</u>	<u>\$ 1,539,776</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, 2005

Net changes in fund balances - total governmental funds	\$ (57,851)
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.	116,902
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.	78,721
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>(6,803)</u>
Change in net assets of governmental activities	<u>\$ 130,969</u>

**PROPRIETARY FUNDS FINANCIAL STATEMENTS**

City of Bisbee, Arizona  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	<u>Total</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 605,189	\$ 150	\$ 248,752	\$ 854,091
Investments	373,447			373,447
Receivables (net allowance from uncollectibles)	179,158	97,077		276,235
Due from:				
Other funds	274,265			274,265
Other governments	981			981
Total current assets	<u>1,433,040</u>	<u>97,227</u>	<u>248,752</u>	<u>1,779,019</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation, where applicable:				
Land		47,660		47,660
Construction in progress	20,432,391			20,432,391
Buildings, net			48,272	48,272
Equipment, net	780,636	211,127	13,167	1,004,930
Capital assets, net	<u>21,213,027</u>	<u>258,787</u>	<u>61,439</u>	<u>21,533,253</u>
Total noncurrent assets	<u>21,213,027</u>	<u>258,787</u>	<u>61,439</u>	<u>21,533,253</u>
Total assets	<u>\$ 22,646,067</u>	<u>\$ 356,014</u>	<u>\$ 310,191</u>	<u>\$ 23,312,272</u>
Liabilities:				
Current liabilities:				
Accounts payable	64,722	36,658	7,763	109,143
Accrued payroll and employee benefits	8,134	7,323	9,089	24,546
Due to:				
Other funds		274,265		274,265
Deposits held for others			14	14
Compensated absences	1,556	1,731	5,439	8,726
Total current liabilities	<u>74,412</u>	<u>319,977</u>	<u>22,305</u>	<u>416,694</u>
Noncurrent liabilities:				
WIFA debt	10,636,436			10,636,436
Total noncurrent liabilities	<u>10,636,436</u>			<u>10,636,436</u>
Total liabilities	<u>10,710,848</u>	<u>319,977</u>	<u>22,305</u>	<u>11,053,130</u>
Total net assets	<u>\$ 11,935,219</u>	<u>\$ 36,037</u>	<u>\$ 287,886</u>	<u>\$ 12,259,142</u>

City of Bisbee, Arizona  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Operating revenues:				
Charges for sales and services	\$ 1,130,400	\$ 590,343	\$ 518,777	\$ 2,239,520
Rent			1,800	1,800
Miscellaneous	12,004	8,925	491	21,420
Total operating revenues	<u>1,142,404</u>	<u>599,268</u>	<u>521,068</u>	<u>2,262,740</u>
Operating expenses:				
Cost of sales and services	746,213	566,370	451,990	1,764,573
Depreciation expense	83,466	23,671	3,341	110,478
Total operating expenses	<u>829,679</u>	<u>590,041</u>	<u>455,331</u>	<u>1,875,051</u>
Operating income	312,725	9,227	65,737	387,689
Nonoperating revenues (expenses)				
Investment income	8,374			8,374
Interest expense	(31,051)			(31,051)
Total nonoperating revenues (expenses)	<u>(22,677)</u>			<u>(22,677)</u>
Income before transfers and capital contributions	290,048	9,227	65,737	365,012
Capital contributions - NADBank	9,191,277			9,191,277
Transfers:				
Transfers in	1,207,545			1,207,545
Transfers out	(1,092,554)	(84,500)	(115,145)	(1,292,199)
Total transfers	<u>114,991</u>	<u>(84,500)</u>	<u>(115,145)</u>	<u>(84,654)</u>
Increase (decrease) in net assets	9,596,316	(75,273)	(49,408)	9,471,635
Total net assets, July 1, 2004	<u>2,338,903</u>	<u>111,310</u>	<u>337,294</u>	<u>2,787,507</u>
Total net assets, June 30, 2005	<u>\$ 11,935,219</u>	<u>\$ 36,037</u>	<u>\$ 287,886</u>	<u>\$ 12,259,142</u>

City of Bisbee, Arizona  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,084,032	\$ 579,437	\$ 519,530	\$ 2,182,999
Other operating receipts	12,004	8,925	2,291	23,220
Cash payments to employees	(352,073)	(257,073)	(287,084)	(896,230)
Cash payments to suppliers for goods and services	(560,295)	(287,514)	(155,929)	(1,003,738)
Net cash provided by operating activities	<u>183,668</u>	<u>43,775</u>	<u>78,808</u>	<u>306,251</u>
Cash flows from noncapital financing activities:				
Payments on advances to other funds	(60,651)			(60,651)
Payments on advances from other funds		60,651		60,651
Cash transfers from other funds	1,207,545			1,207,545
Cash transfers to other funds	(1,092,554)	(84,500)	(115,145)	(1,292,199)
Net cash provided by (used for) noncapital financing activities	<u>54,340</u>	<u>(23,849)</u>	<u>(115,145)</u>	<u>(84,654)</u>
Cash flows from capital and related financing activities:				
Proceeds from WIFA loan	7,090,513			7,090,513
Purchases of capital assets	(16,245,781)	(19,926)		(16,265,707)
Capital contributions - NADBank	9,191,277			9,191,277
Interest paid	(31,051)			(31,051)
Net cash provided by (used for) capital and related financing activities	<u>4,958</u>	<u>(19,926)</u>		<u>(14,968)</u>
Cash flows from investing activities:				
Funds used to purchase investments	(9,128)			(9,128)
Interest received on investments	8,374			8,374
Net cash used for investing activities	<u>(754)</u>			<u>(754)</u>
Net increase (decrease) in cash and cash equivalents	242,212		(36,337)	205,875
Cash and cash equivalents, July 1, 2004	362,977	150	285,089	648,216
Cash and cash equivalents, June 30, 2005	<u>\$ 605,189</u>	<u>\$ 150</u>	<u>\$ 248,752</u>	<u>\$ 854,091</u>
Reconciliation of Operating Income to net cash provided by operating activities				
Operating income	\$ 312,725	\$ 9,227	\$ 65,737	\$ 387,689
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	83,466	23,671	3,341	110,478
Changes in assets and liabilities:				
Accounts receivable	(24,868)	(10,905)	276	(35,497)
Prepaid expenses			3,075	3,075
Accounts payable	(162,892)	19,669	(189)	(143,412)
Accrued payroll	(384)	1,524	2,808	3,948
Accrued compensated absences	(2,879)	589	3,283	993
Deposits held for others	(21,500)		477	(21,023)
Net cash provided by operating activities:	<u>\$ 183,668</u>	<u>\$ 43,775</u>	<u>\$ 78,808</u>	<u>\$ 306,251</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

During the year ended June 30, 2005, the City implemented the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosures. GASB Statement No. 40 establishes and modifies the risk disclosures about the City's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

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, 2005

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, 2005

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, 2005

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, 2005, expenditures exceeded appropriations in the cultural, parks and recreation department of the general and special funds by \$2,331, as well as the public safety, transportation and cultural, parks and recreation department of the special revenue funds by \$60,614, \$70,808, and \$412,516, respectively. The over-expenditures were funded by new grants received during the year and not budgeted for or by the general 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, 2005

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 48% 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, 2005

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, 2005, 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, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Credit risk:

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk:

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk:

Statutes do not include requirements for concentration of credit risk.

Interest rate risk:

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk:

Statutes do not allow foreign investments.

**A. Deposits**

Custodial Credit Risk - In the case of deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned. As of June 30, 2005, the carrying amount of deposits was \$912,514. The Federal Deposit Insurance Corporation protects the City against loss on the first \$100,000 on deposit with each separate financial institution. The remaining balance 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, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

**B. Investments**

The City has few investments and chooses to disclose its investments by specifically identifying each. The City has not adopted a formal investment policy. At June 30, 2005, the City's investments were as follows:

	<u>Amount</u>	<u>Maturities</u>
State Treasurer's investment pool 7	\$ 1,185,547	n/a

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

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

**Interest Rate Risk** – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - At June 30, 2005, credit risk for the City's investments was as follows:

State Treasurer's investment pool 7 – not rated

**Concentration of Credit Risk** – The City places no limit on the amount the City may invest in any one issuer. At June 30, 2005, all the City's investments were with the State Treasurer's investment pool 7.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2005, 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	\$ 99,535			\$ 99,535
City sales tax	300,733			300,733
Local Government Investment Pool	1,825	\$ 309	\$ 981	3,115
Lottery		8,702		8,702
Arizona Governor's Office		1,212		1,212
Arizona Department of Housing		2,665		2,665
Arizona Department of Transportation	63,732	130,578		194,310
Federal Aviation Administration		52,867		52,867
Arizona State Highway Department				
Urban Revenue Fund	53,115			53,115
Highway User Revenue Fund		77,945		77,945
Cochise County Treasurer	15,813	3,292		19,105
Other	9,016	1,457		10,473
<b>Total</b>	<b>\$ 543,769</b>	<b>\$ 279,027</b>	<b>\$ 981</b>	<b>\$ 823,777</b>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2005</u>
Governmental activities:			
Land	\$ 623,490		\$ 623,490
Buildings	3,189,654	\$ 52,604	3,242,258
Improvements other than buildings	598,393	5,180	603,573
Airport	1,849,902	9,300	1,859,202
Machinery and equipment	2,121,265	601,471	2,722,736
Infrastructure	<u>434,126</u>		<u>434,126</u>
	8,816,830	668,555	9,485,385
Less: accumulated depreciation	<u>(3,384,916)</u>	<u>(429,344)</u>	<u>(3,814,260)</u>
Net governmental assets	<u>\$ 5,431,914</u>	<u>\$ 239,211</u>	<u>\$ 5,671,125</u>

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2005</u>
Business-type activities:			
Land	\$ 47,660		\$ 47,660
Construction in progress	4,186,610	\$16,245,781	20,432,391
Buildings	115,200		115,200
Improvements other than buildings	1,515,408		1,515,408
Machinery and equipment	<u>708,098</u>	<u>19,926</u>	<u>728,024</u>
	6,572,976	16,265,707	22,838,683
Less: accumulated depreciation	<u>(1,194,952)</u>	<u>(110,478)</u>	<u>(1,305,430)</u>
Net business-type assets	<u>\$ 5,378,024</u>	<u>\$16,155,229</u>	<u>\$21,533,253</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government and administration	\$ 72,450
Public safety	183,950
Transportation	103,420
Cultural and recreational	<u>69,524</u>
Total governmental activities depreciation expense	<u>\$ 429,344</u>

Business-type activities:	
Wastewater	\$ 83,466
Sanitation	23,671
Queen Mine	<u>3,341</u>
Total business-type activities depreciation expense	<u>\$ 110,478</u>

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2005:

Governmental activities

	Note Payable	Capital Leases Payable	Lease Purchase Agreements Payable	Compensated Absences	Total
Debt payable at July 1, 2004	\$ 17,258	\$ 57,718	\$ 305,665	\$ 137,046	\$ 517,687
Additions		122,309		6,803	129,112
Reductions	<u>4,011</u>	<u>43,497</u>	<u>31,213</u>		<u>78,721</u>
Debt payable at June 30, 2005	<u>\$ 13,247</u>	<u>\$ 136,530</u>	<u>\$ 274,452</u>	<u>\$ 143,849</u>	<u>\$ 568,078</u>

Business-type activities

	WIFA Loan
Debt payable at July 1, 2004	\$ 3,566,043
Additions	10,636,436
Reductions	<u>(3,566,043)</u>
Debt payable at June 30, 2005	<u>\$10,636,436</u>

Long-term debt payable at June 30, 2005, 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.

\$ 13,247

Loan agreement with the Water Infrastructure Financing Authority to fund rehabilitation of the City's wastewater infrastructure and refund a previous loan with the Authority; payable in annual principal installments beginning in 2007, varying from \$554,789 to \$792,375, maturing July 2025. In addition, semi-annual interest payments at varying rates from 2.000% to 2.721% are due.

10,636,436

10,649,683

Less current maturities

(4,271)

10,645,412

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 5 - LONG-TERM DEBT - CONTINUED

Capital Leases Payable

Capital lease agreement for an ambulance; payable in semi-annual installments of \$8,413 including interest at 4.53% ; matures May 2010. \$ 74,530

Capital lease agreement for four police vehicles less the original down payment of \$100,000; payable in annual installments of \$25,514 including interest at 4.50%; matures August 2006. 47,779

Capital lease agreement for Caterpillar road grader; payable in monthly installments of \$3,598 including interest at 9.14%; matures October 2005 14,221

136,530

Less current maturities (51,186)

85,344

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. 274,452

Less current maturities (32,993)

241,459

\$10,972,215

At June 30, 2005, accumulated amortization on the assets purchased under capital leases was \$52,238.

Annual cash requirements to amortize all the outstanding debt at June 30, 2005, including interest payments, are as follows:

Governmental activities

Year Ending June 30,	<u>Note Payable</u>		<u>Capital Leases Payable</u>		<u>Lease Purchase Agreement</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 4,271	\$ 860	\$ 51,186	\$ 5,546	\$ 32,993	\$ 14,980
2007	4,549	583	38,640	3,699	34,875	13,098
2008	4,427	287	14,876	1,949	36,865	11,109
2009			15,558	1,268	38,967	9,006
2010			16,270	555	41,189	6,784
2011-2012					89,563	6,385
Total	<u>\$ 13,247</u>	<u>\$ 1,730</u>	<u>\$ 136,530</u>	<u>\$ 13,017</u>	<u>\$ 274,452</u>	<u>\$ 61,362</u>

City of Bisbee, Arizona  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005

NOTE 5 - LONG-TERM DEBT - CONTINUED

Business-type activities

Year Ending June 30,	Note Payable	
	Principal	Interest
2006		\$ 168,251
2007		253,434
2008	\$ 554,789	247,886
2009	565,885	236,679
2010	577,202	238,430
2011-2015	3,063,859	1,069,829
2016-2020	3,382,747	780,018
2021-2025	<u>2,491,954</u>	<u>355,075</u>
Total	<u>\$10,636,436</u>	<u>\$ 3,349,602</u>

In January 2006, 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 \$12,671,685 as needed to fund the ongoing costs of the construction project and repay a previous previous WIFA loan. The loan repayment schedule will be completed in July 2025. Under the terms of the loan, the City is required to make interest payments only in the amount of \$168,251 in 2006. The first annual payment including principal and interest, totaling \$808,222, is due July 1, 2007. The amount drawn down on the loan at June 30, 2005, was \$10,636,436 and that amount has been recorded as a liability of the Enterprise Funds.

NOTE 6 - 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, 2005

NOTE 7 - 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.

Construction Contracts - In October 2004, the City of Bisbee entered into contracts to complete its wastewater system improvement project. The contracts details follow:

Total contractual commitments:

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		26,592,032
Completed through June 30, 2005		<u>20,432,391</u>
Remaining contractual commitments		<u>\$ 6,159,641</u>

The project is expected to be completed within a year, 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.

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 8 - RETIREMENT PLANS

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

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

The Public Safety Personnel Retirement System (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

ASRS	PSPRS
3300 N. Central Ave.	3010 East Camelback Road, Suite 200
P.O. Box 33910	Phoenix, AZ 85014
Phoenix, AZ 85067-3910	
(602) 240-2200 or (800) 621-3778	(602) 255-5575

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

Cost-sharing plans - For the year ended June 30, 2005, 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, 2005, 2004, and 2003 were \$111,587, \$110,719, and \$48,997, respectively, which were equal to the required contributions for the year.

Agent plans - For the year ended June 30, 2005, 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 31.44% of annual covered payroll for police and 33.31% of annual covered payroll for firefighters.

City of Bisbee, Arizona  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005

NOTE 8 - RETIREMENT PLANS - CONTINUED

**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</u> <u>PSPRS</u>	<u>Bisbee Fire Fighters</u> <u>PSPRS</u>
Contribution rates:		
City	31.44%	33.31%
Plan members	7.65%	7.65%
Annual pension cost	\$148,061	\$163,097
Contributions made	\$148,061	\$163,097
Actuarial valuation date	6/30/05	6/30/05
Actuarial cost method	individual entry age	individual entry age
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases includes inflation at 5.0%	6.00%-9.00%	6.00%-9.00%
Cost-of-living adjustments	none	none
Amortization method	level percent open	level percent open
Remaining amortization period from 7/1/05	20 years	20 years
Asset valuation method	smoothed market value	smoothed market value

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**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
2005	\$148,061	100.0	%	\$ 0
2004	116,391	100.0	%	0
2003	62,662	100.0	%	0

Bisbee Fire Fighters				
Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
2005	\$163,097	100.0	%	\$ 0
2004	117,330	100.0	%	0
2003	63,281	100.0	%	0

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bisbee, Arizona  
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 2,769,587	\$ 2,769,587	\$ 3,028,331	\$ 258,744
Fines and forfeitures	98,680	98,680	66,659	(32,021)
Licenses and permits	158,000	158,000	93,049	(64,951)
Intergovernmental	1,143,694	1,143,694	949,747	(193,947)
Charges for services	735,700	735,700	798,491	62,791
Interest			24,584	24,584
Rent			53,640	53,640
Miscellaneous	612,338	612,338	97,189	(515,149)
<b>Total revenues</b>	<u>5,517,999</u>	<u>5,517,999</u>	<u>5,111,690</u>	<u>(406,309)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	1,749,573	1,749,573	1,539,594	209,979
Public safety	3,330,256	3,330,256	3,105,948	224,308
Transportation	62,223	62,223	56,735	5,488
Cultural, parks and recreation	375,564	375,564	377,895	(2,331)
<b>Total expenditures</b>	<u>5,517,616</u>	<u>5,517,616</u>	<u>5,080,172</u>	<u>437,444</u>
<b>Excess of revenues over expenditures</b>	383	383	31,518	31,135
<b>Other financing sources(uses):</b>				
Transfers in	524,086	524,086	621,517	97,431
Transfers out	(524,469)	(524,469)	(456,828)	67,641
<b>Total other financing sources and (uses)</b>	<u>(383)</u>	<u>(383)</u>	<u>164,689</u>	<u>165,072</u>
Net changes in fund balances	-	-	196,207	196,207
Fund balances, July 1, 2004	1,313,068	1,313,068	1,313,068	
Fund balances, June 30, 2005	<u>\$ 1,313,068</u>	<u>\$ 1,313,068</u>	1,509,275	<u>\$ 196,207</u>
Less debt service payments not budgeted for			(97,516)	
Fund balances: statement of revenues, expenditures, and changes in fund balances			<u>\$ 1,411,759</u>	

City of Bisbee, Arizona  
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUNDS  
Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Intergovernmental	\$ 826,157	\$ 826,157	\$ 1,194,136	\$ 367,979
Interest	1,077	1,077	8	(1,069)
Contributions			45	45
Miscellaneous	<u>15,250</u>	<u>15,250</u>	<u>5,213</u>	<u>(10,037)</u>
Total revenues	<u>842,484</u>	<u>842,484</u>	<u>1,199,402</u>	<u>356,918</u>
<b>Expenditures:</b>				
Current:				
General government	303,777	303,777	235,754	68,023
Public safety	119,000	119,000	179,614	(60,614)
Transportation	713,891	713,891	784,699	(70,808)
Cultural, parks and recreation	<u>37,500</u>	<u>37,500</u>	<u>75,842</u>	<u>(38,342)</u>
Total expenditures	<u>1,174,168</u>	<u>1,174,168</u>	<u>1,275,909</u>	<u>(101,741)</u>
Excess of revenues over expenditures	(331,684)	(331,684)	(76,507)	255,177
<b>Other financing sources(uses):</b>				
Transfers in	310,229	310,229	189,334	120,895
Transfers out	<u>(68,718)</u>	<u>(68,718)</u>	<u>(269,369)</u>	<u>(200,651)</u>
Total other financing sources and (uses)	<u>241,511</u>	<u>241,511</u>	<u>(80,035)</u>	<u>(79,756)</u>
Net changes in fund balances	(90,173)	(90,173)	(156,542)	(66,369)
Fund balances, July 1, 2004	<u>284,559</u>	<u>284,559</u>	<u>284,559</u>	
Fund balances, June 30, 2005	<u>\$ 194,386</u>	<u>\$ 194,386</u>	<u>\$ 128,017</u>	<u>\$ (66,369)</u>

City of Bisbee, Arizona  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS  
 Year Ended June 30, 2005

**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)
2005	\$ 2,356,734	\$ 4,718,809	\$ (2,362,075)	49.9%	\$ 636,273	371.2%
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%

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)
2005	\$ 3,541,111	\$ 6,436,858	\$ (2,895,747)	55.0%	\$ 739,390	391.6%
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%

## SINGLE AUDIT REPORTS

City of Bisbee, Arizona  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

<u>Federal Grantor/ Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Passed through:			
North America Development Bank Water and Waste Disposal Loans and Grants	10.770	BEIF 52-91/04	\$10,212,541
<b>U.S. Department of Housing and Urban Development</b>			
Passed through:			
Arizona Department of Housing Community Development Block Grant Special Purpose Grants Insular Areas	14.225	157-04, 156-04	84,718
<b>U.S. Department of Interior</b>			
Passed through:			
Arizona State Parks Historic Preservation Fund Grants-in-Aid	15.904	2002-2423	2,153
<b>U.S. Department of Justice</b>			
Passed through:			
Cochise County Sheriff's Office High Intensity Drug Trafficking Areas	16.unknown	HIDTA 2004 Bisbee	40,009
<b>Federal Aviation Administration</b>			
Airport Improvement Program	20.106		135,150
<b>U.S. Department of Transportation</b>			
Passed through:			
Arizona Department of Transportation Federal Transit Formula Grants	20.507	KR05-0739TRN	60,516
Governor's Office of Highway Safety State and Community Highway Safety	20.600	GHA 2003 PS 001	<u>2,062</u>
Total U.S. Department of Transportation			<u>62,578</u>
<b>National Endowment for the Humanities</b>			
State Library Program	45.310		11,369
<b>Department of Homeland Security</b>			
Passed through:			
Arizona Grants Management Branch Assistance to Firefighters Grant	97.044	2003-FG-17115	<u>84,000</u>
<b>Total expenditures of federal awards</b>			<u><b>\$10,632,518</b></u>

City of Bisbee, Arizona  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2005

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

To the City Council  
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, 2005, and have issued our report thereon dated November 10, 2005. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. 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.

**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 opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the City ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

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 caused by error or fraud in amounts that would be material in relation to the basic 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. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to the City's management in separate letter dated November 10, 2005.

To the City Council  
City of Bisbee, Arizona

Page Two

### **Compliance and Other Matters**

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

#### 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 as defined by the Arizona Attorney General's opinion about whether certain types of city transportation department expenditures are for transportation purposes authorized by the Constitution and state laws. 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 Highway User Fund monies and any other dedicated state transportation monies being spent on unauthorized purposes.

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.



November 10, 2005

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, 2005. 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, 2005.

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.*

November 10, 2005

City of Bisbee, Arizona  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2005

**A. Summary of Audit Results**

***Financial Statements***

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

***Federal Awards***

Material weakness identified in internal control over major programs?	<u>      </u>	<u>  X  </u>
Reportable condition identified not considered to be material weakness?	<u>      </u>	<u>  X  </u>
Type of auditors' report issued on compliance for major programs:	<b>Unqualified</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>      </u>	<u>  X  </u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.770	Water and Waste Disposal Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs:	<b>\$ 318,976</b>
Auditee qualified as low-risk auditee?	<u>      </u> <u>  X  </u>
<b>Other Matters</b>	
Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>      </u> <u>  X  </u>

City of Bisbee, Arizona  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005

**B. Findings - Financial Statement Audit**

Material Weakness

05-1 Accounts Payable

**Condition:** The City did not adhere to its policies and procedures to help ensure that all of its accounts payable were properly recorded at year-end.

**Context:** During our search for unrecorded liabilities we discovered three invoices totaling \$130,412, that were improperly excluded from accounts payable.

**Criteria:** The City should record accounts payable and corresponding expenditures or expenses in the period that the goods or services are received.

**Effects:** The City's accounts payable and expenditures and expenses were materially understated.

**Cause:** The City failed to adhere to its prescribed cut-off procedures and review invoices paid subsequent to year-end, to verify that the expenditures or expenses are recorded in the proper period.

**Recommendation:** We recommend that the City consistently adhere to its cut-off procedures and review invoices paid subsequent to year-end to help ensure that accounts payable are properly recorded.

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

None



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### Corrective Action Plan

June 30, 2005

The City of Bisbee, Arizona, respectfully submits the following corrective action plan for the year ended June 30, 2005.

Name and address of the independent public accounting firm: Fest & Chapmen P.C. 4001 North 3<sup>rd</sup> Street, Phoenix, Arizona 85012

Audit Period: July 1, 2004 to June 30, 2005

Finding-Financial Statement Audit

05-1 Accounts Payable

Recommendation: We recommend that the City consistently adhere to its cut-off procedures and review invoices paid subsequent to year-end to help ensure that accounts payable are properly recorded.

Action Taken: We concur with the recommendation, and it will be implemented effective immediately.

Lisa Pratt  
Interim Finance Director