



**City of Tombstone, Arizona**  
**Financial Statements**  
Year Ended June 30, 2016

# CITY OF TOMBSTONE, ARIZONA

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# CITY OF TOMBSTONE, ARIZONA

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**CITY OF TOMBSTONE, ARIZONA  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council  
City of Tombstone, Arizona

### **Report on the Financial Statements**

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 Tombstone, Arizona (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Tombstone, Arizona, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and net pension liability information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, on our consideration of City of Tombstone, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Tombstone, Arizona's internal control over financial reporting and compliance.

*Heinfeld, Meech & Co., P.C.*

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
March 29, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**(Required Supplementary Information)**



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**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

As management of the City of Tombstone, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The City's total net position of governmental activities increased \$231,840 to \$2.0 million primarily due to renovations on the old City Hall funded by the Arizona Department of Environmental Quality, and business-type activities increased \$115,142 to \$1.8 million. The governmental and business-type activities net positions represent 54 percent and 46 percent respectively, of the total net position of \$3.8 million.
- General revenues from governmental activities accounted for \$1.7 million in revenue, or 75 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$545,902 or 25 percent of total governmental activities revenues. The City had \$938,888 of program revenues related to business-type activities.
- The City had \$2.0 million in expenses related to governmental activities, an increase of six percent from the prior fiscal year. The City had \$825,282 in expenses related to business-type activities, a decrease of six percent from the prior fiscal year.
- Among major funds, the General Fund had \$1.8 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues, and \$1.8 million in expenditures. The General Fund's fund balance increase from \$1.5 million at the prior fiscal year end to \$2.0 million at the end of the current fiscal year was primarily due to capital lease agreement proceeds.
- The Highway User Revenue Fund had \$99,597 in revenues, which consisted of intergovernmental revenues, and \$325,891 in expenditures. The Highway User Revenue Fund's fund balance decrease from a deficit of \$14,480 at the prior fiscal year end to a deficit of \$97,009 at the end of the current fiscal year was primarily due to capital expenditures for vehicles.
- The total Wastewater, Water, and Sanitation Funds net position increased \$115,142. Operating revenues of \$938,888 exceeded operating expenses by \$129,026.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

## **OVERVIEW OF FINANCIAL STATEMENTS**

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

In the government-wide financial statements the City's activities are presented in the following categories:

- **Governmental activities** – Most of the City's basic services are included here, such as general government, public safety, highways and streets, culture and recreation, redevelopment and housing, and health and welfare. Property taxes, sales taxes, intergovernmental revenues, and charges for services finance most of these activities.
- **Business-type activities** – The services provided by the City included here are wastewater, water, and sanitation operations. The services are primarily financed through user fees and charges.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF FINANCIAL STATEMENTS**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and Highway User Revenue Funds, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules.

**Proprietary funds.** The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, and sanitation funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the utilities funds all of which are considered to be major funds of the City.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process and pension plans. The City adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund and the major Special Revenue Fund as required supplementary information. Schedules for the pension plans have been provided as required supplementary information.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$3.8 million at the current fiscal year end.

A portion of the City's net position reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure, vehicles, machinery and equipment and construction in progress), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	2016 Governmental Activities	2015 Governmental Activities	2016 Business-type Activities	2015 Business-type Activities	2016 Total	2015 Total
Current and other assets	\$ 2,603,792	\$ 2,072,764	\$ 160,580	\$ 447,434	\$ 2,764,372	\$ 2,520,198
Capital assets, net	1,697,436	1,439,073	2,393,865	2,146,725	4,091,301	3,585,798
<b>Total assets</b>	<b>4,301,228</b>	<b>3,511,837</b>	<b>2,554,445</b>	<b>2,594,159</b>	<b>6,855,673</b>	<b>6,105,996</b>
Deferred outflows	106,066	73,068	50,082	35,030	156,148	108,098
Current and other liabilities	143,009	111,156	104,782	277,852	247,791	389,008
Long-term liabilities	2,053,538	1,447,249	708,010	649,078	2,761,548	2,096,327
<b>Total liabilities</b>	<b>2,196,547</b>	<b>1,558,405</b>	<b>812,792</b>	<b>926,930</b>	<b>3,009,339</b>	<b>2,485,335</b>
Deferred inflows	164,748	212,341	30,787	56,453	195,535	268,794
Net position:						
Net investment in capital assets	1,543,729	1,439,073	2,022,605	1,809,725	3,566,334	3,248,798
Restricted	479,401	18,334	461,443	729,153	940,844	747,487
Unrestricted	22,869	356,752	(723,100)	(893,072)	(700,231)	(536,320)
<b>Total net position</b>	<b>\$ 2,045,999</b>	<b>\$ 1,814,159</b>	<b>\$ 1,760,948</b>	<b>\$ 1,645,806</b>	<b>\$ 3,806,947</b>	<b>\$ 3,459,965</b>

The City's financial position is the product of several financial transactions including the net results of activities, the issuance and payment of debt, the acquisition of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

- Governmental capital asset additions of \$339,278 and business type capital asset additions of \$313,241.
- Depreciation expense of \$80,915 related to governmental assets and \$66,101 for business-type assets.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

- Governmental activity principal payments of \$100,000 for general obligation bonds.
- Business-type activity principal payments of \$24,000 for revenue bonds.
- The addition of \$639,708 in governmental capital lease obligations.
- The addition of \$60,292 in business-type capital lease obligations.

**Changes in net position.** The City's total revenues for the current fiscal year were \$3.2 million. The total cost of all programs and services was \$2.8 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	2016 Governmental Activities	2015 Governmental Activities	2016 Business-type Activities	2015 Business-type Activities	2016 Total	2015 Total
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 164,746	\$ 117,666	\$ 938,888	\$ 924,793	\$ 1,103,634	\$ 1,042,459
Operating grants and contributions	242,866	239,537			242,866	239,537
Capital grants and contributions	138,290				138,290	
General revenues:						
Property taxes	238,768	269,544			238,768	269,544
City sales taxes	996,378	966,195			996,378	966,195
Franchise taxes	56,134	56,709			56,134	56,709
Unrestricted state revenues	360,346	368,913			360,346	368,913
Investment income	2,414	1,422	1,536	903	3,950	2,325
Miscellaneous	16,435	29,599			16,435	29,599
<b>Total revenues</b>	<u>2,216,377</u>	<u>2,049,585</u>	<u>940,424</u>	<u>925,696</u>	<u>3,156,801</u>	<u>2,975,281</u>
<b>Expenses:</b>						
General government	628,705	579,764			628,705	579,764
Public safety	730,336	665,359			730,336	665,359
Highways and streets	178,653	154,810			178,653	154,810
Culture and recreation	255,805	277,644			255,805	277,644
Redevelopment and housing	54,438	62,883			54,438	62,883
Health and welfare	112,229	101,384			112,229	101,384
Interest on long-term debt	24,371	33,250			24,371	33,250
Wastewater			274,977	329,216	274,977	329,216
Water			363,822	393,806	363,822	393,806
Sanitation			186,483	156,933	186,483	156,933
<b>Total expenses</b>	<u>1,984,537</u>	<u>1,875,094</u>	<u>825,282</u>	<u>879,955</u>	<u>2,809,820</u>	<u>2,755,049</u>
<b>Changes in net position</b>	231,840	174,491	115,142	45,741	346,982	220,232
<b>Net position, beginning restated</b>	1,814,159	1,639,668	1,645,806	1,600,065	3,459,965	3,239,733
<b>Net position, ending</b>	<u>\$ 2,045,999</u>	<u>\$ 1,814,159</u>	<u>\$ 1,760,948</u>	<u>\$ 1,645,806</u>	<u>\$ 3,806,947</u>	<u>\$ 3,459,965</u>

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

- Capital grants and contributions increased \$138,290 primarily due to additional funding from the Arizona Department of Environmental Quality for building renovations.
- Property tax revenues decreased \$30,776 due to a decline in property values and tax rates during the tax year.
- Public safety expenses increased \$64,977 due primarily to the addition of marshal's office employees.
- Highways and streets expenses increased \$23,843 due primarily to increased maintenance for roadway repair.
- Wastewater expenses decreased \$54,239 due primarily to a decrease in maintenance and personnel costs.
- Sanitation expenses increased \$29,550 due primarily to increases in contractual services and reallocation of personnel costs.

**Governmental and Business-type activities.** The following table presents the cost of the City's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	2016		2015	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
<b>Governmental Activities</b>				
General government	\$ 628,705	\$ (449,998)	\$ 579,764	\$ (462,098)
Public safety	730,336	(717,940)	665,359	(584,695)
Highways and streets	178,653	(79,056)	154,810	(58,145)
Culture and recreation	255,805	(40,461)	277,644	(277,644)
Redevelopment and housing	54,438	(14,580)	62,883	(675)
Health and welfare	112,229	(112,229)	101,384	(101,384)
Interest on long-term debt	24,371	(24,371)	33,250	(33,250)
<b>Total</b>	<b>\$ 1,984,537</b>	<b>\$ (1,438,635)</b>	<b>\$ 1,875,094</b>	<b>\$ (1,517,891)</b>
<b>Business-type Activities</b>				
Wastewater	\$ 274,977	\$ (29,479)	\$ 329,216	\$ (84,939)
Water	363,822	187,427	393,806	146,343
Sanitation	186,483	(44,342)	156,933	(16,566)
<b>Total</b>	<b>\$ 825,282</b>	<b>\$ 113,606</b>	<b>\$ 879,955</b>	<b>\$ 44,838</b>

- The cost of all governmental activities this year was \$2.0 million, an increase of \$109,443 from the prior year.
- The cost of all business-type activities this year was \$825,282 a decrease of \$54,673 from the prior year.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

- Federal and state grants and charges for services subsidized certain governmental programs and business-type programs with revenues of \$1.5 million.
- Net cost of governmental activities of \$1.4 million was financed by general revenues of \$1.7 million, which are made up of primarily of City sales taxes, property taxes, and unrestricted state revenues.

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$1.9 million, an increase of \$394,987 primarily due to capital lease proceeds received.

The General Fund is the principal operating fund of the City. The General Fund's fund balance increased \$493,970 primarily due to capital lease proceeds received.

**Proprietary funds.** Net position of the enterprise funds at the end of the year amounted to \$1.8 million, an increase of \$115,142.

**BUDGETARY HIGHLIGHTS**

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. There were no amendments to the City's fiscal year 2015-16 operating and capital budget. The significant variances are summarized as follows:

- The favorable variance of \$126,378 in city sales taxes was a result of conservative budgeting and better than projected performance of new businesses.
- The unfavorable variance of \$15,861 in licenses and permits was a result of a decline in new construction and an over-projection of revenue based on expected new businesses.
- The unfavorable variance of \$58,565 in miscellaneous was a result of over projected income from auctions and memorabilia.
- The favorable variance of \$65,482 in general government was a result of reduced maintenance and personnel costs.



**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of year end, the City had invested \$4.1 million in capital assets (net of depreciation), including buildings, facilities, vehicles, computers, equipment, infrastructure assets, and construction in progress. This amount represents a net increase of \$505,503 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$147,016.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2016 and June 30, 2015.

	2016 Governmental Activities	2015 Governmental Activities	2016 Business-type Activities	2015 Business-type Activities
Capital assets – non-depreciable	\$ 216,041	\$ 14,528	\$ 364,924	\$ 384,249
Capital assets – depreciable, net	1,481,395	1,424,545	2,028,941	1,762,476
<b>Total</b>	<b>\$ 1,697,436</b>	<b>\$ 1,439,073</b>	<b>\$ 2,393,865</b>	<b>\$ 2,146,725</b>

The estimated cost to complete current construction projects is \$750,000.

Additional information on the City's capital assets can be found in Note 6.

**Debt Administration.** At year end, the City had \$1.8 million in long-term debt outstanding, \$220,600 due within one year. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2016 and June 30, 2015.

	As of June 30, 2016	As of June 30, 2015
Revenue bonds payable	\$ 313,000	\$ 337,000
General obligation bonds payable	800,000	900,000
Capital leases	676,656	3,276
<b>Total</b>	<b>\$ 1,789,656</b>	<b>\$ 1,240,276</b>

State statutes limit a municipality's bonded debt capacity to certain percentages of its full cash assessed valuation and by the type of project to be constructed with general obligation (GO) bonds. For projects involving water, wastewater, artificial lighting, parks, open space, recreational facility improvements, streets, public safety, and fire and emergency facilities, the City can issue GO bonds up to 20 percent of its full cash assessed valuation. For any other general-purpose improvements, the City may issue bonds up to six percent of its full cash assessed valuation. The City's debt limits at year end were \$3.1 million in the 20 percent capacity and \$941,476 in the six percent capacity.

Additional information on the City's long-term debt can be found in Notes 7 through 10.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The adopted combined operating and capital expenditure budget for fiscal year 2016-17 totals \$6.1 million, a decrease of \$279,404 or four percent less than fiscal year 2015-16 due primarily to estimated grant opportunities.

***General Fund***

The budget for the General Fund increased from \$1.8 million in fiscal year 2015-16 to \$1.9 million in fiscal year 2016-17, an increase of approximately 5 percent.

***Enterprise Funds***

The City's budget for utility enterprise funds in total increased by \$96,933, an increase of 12 percent over the 2015-16 budgeted amount primarily due to estimated increases in personnel and maintenance costs.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Financial Services Department, City of Tombstone, Arizona, 315 East Fremont Street, Tombstone, Arizona 85638.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 765,945	\$ 117,398	\$ 883,343
Accounts receivable	46,698	103,650	150,348
Property taxes receivable	7,329		7,329
Due from governmental entities	143,148		143,148
Internal balances	598,330	(598,330)	
Prepaid items	8,086	762	8,848
<b>Total current assets</b>	<b>1,569,536</b>	<b>(376,520)</b>	<b>1,193,016</b>
Noncurrent assets:			
Cash and investments - restricted	464,689	537,100	1,001,789
Net pension asset	569,567		569,567
Capital assets, non-depreciable	216,041	364,924	580,965
Capital assets, depreciable (net)	1,481,395	2,028,941	3,510,336
<b>Total noncurrent assets</b>	<b>2,731,692</b>	<b>2,930,965</b>	<b>5,662,657</b>
<b>Total assets</b>	<b>4,301,228</b>	<b>2,554,445</b>	<b>6,855,673</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension plan items	106,066	50,082	156,148
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	111,338	20,192	131,530
Accrued payroll and employee benefits	31,671	8,933	40,604
Compensated absences payable	27,291	7,698	34,989
Customer deposits		75,657	75,657
Capital leases payable	87,387	8,213	95,600
General obligation bonds payable	100,000		100,000
Revenue bonds payable		25,000	25,000
<b>Total current liabilities</b>	<b>357,687</b>	<b>145,693</b>	<b>503,380</b>
Noncurrent liabilities:			
Capital leases payable	531,009	50,047	581,056
General obligation bonds payable	700,000		700,000
Revenue bonds payable		288,000	288,000
Net pension liability	607,851	329,052	936,903
<b>Total noncurrent liabilities</b>	<b>1,838,860</b>	<b>667,099</b>	<b>2,505,959</b>
<b>Total liabilities</b>	<b>2,196,547</b>	<b>812,792</b>	<b>3,009,339</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension plan items	164,748	30,787	195,535
<b><u>NET POSITION</u></b>			
Net investment in capital assets	1,543,729	2,022,605	3,566,334
Restricted for:			
Debt service	14,712		14,712
Capital projects	464,689	421,733	886,422
Other purposes		39,710	39,710
Unrestricted	22,869	(723,100)	(700,231)
<b>Total net position</b>	<b>\$ 2,045,999</b>	<b>\$ 1,760,948</b>	<b>\$ 3,806,947</b>

The notes to the basic financial statements are an integral part of this statement.



**CITY OF TOMBSTONE, ARIZONA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

<b>Functions/Programs</b>	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Primary Government</b>					
Governmental activities:					
General government	\$ 628,705	\$ 164,746		\$ 13,961	\$ (449,998)
Public safety	730,336		12,396		(717,940)
Highway and streets	178,653		99,597		(79,056)
Culture and recreation	255,805		91,015	124,329	(40,461)
Redevelopment and housing	54,438		39,858		(14,580)
Health and welfare	112,229				(112,229)
Interest on long term debt	24,371				(24,371)
Total governmental activities	<u>1,984,537</u>	<u>164,746</u>	<u>242,866</u>	<u>138,290</u>	<u>(1,438,635)</u>
Business-type activities:					
Wastewater	274,977	245,498			
Water	363,822	551,249			
Sanitation	186,483	142,141			
Total business-type activities	<u>825,282</u>	<u>938,888</u>			
<b>Total primary government</b>	<u>\$ 2,809,819</u>	<u>\$ 1,103,634</u>	<u>\$ 242,866</u>	<u>\$ 138,290</u>	<u>(1,438,635)</u>

**General revenues:**

Taxes:

Property taxes, levied for general purposes	119,233
Property taxes, levied for debt purposes	119,535
City sales taxes	996,378
Franchise taxes	56,134
Unrestricted state revenues	360,346
Investment income	2,414
Miscellaneous	16,435
<b>Total general revenues</b>	<u>1,670,475</u>

**Changes in net position**

231,840

**Net position, beginning of year**

1,814,159

**Net position, end of year**

\$ 2,045,999

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Position

Business-type Activities	Totals
\$	\$
	(449,998)
	(717,940)
	(79,056)
	(40,461)
	(14,580)
	(112,229)
	(24,371)
	(1,438,635)
	(29,479)
	187,427
	(44,342)
	113,606
	113,606
	(29,479)
	119,535
	996,378
	56,134
	360,346
1,536	3,950
	16,435
1,536	1,672,011
115,142	346,982
1,645,806	3,459,965
\$ 1,760,948	\$ 3,806,947

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**FUND FINANCIAL STATEMENTS**

**CITY OF TOMBSTONE, ARIZONA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	General	Highway User Revenue Fund	Non-Major Governmental Funds
<b><u>ASSETS</u></b>			
Cash and investments	\$ 754,873	\$	\$ 11,072
Cash and investments - restricted	464,689		
Accounts receivable	33,396		13,302
Property taxes receivable	3,689		3,640
Due from governmental entities	68,820	8,946	65,382
Due from other funds	194,875		
Advances to other funds	598,330		
Prepaid items	6,345	1,741	
<b>Total assets</b>	<b>\$ 2,125,017</b>	<b>\$ 10,687</b>	<b>\$ 93,396</b>
 <b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 80,445	\$ 3,980	\$ 26,913
Due to other funds		102,904	91,971
Accrued payroll and employee benefits	30,859	812	
<b>Total liabilities</b>	<b>111,304</b>	<b>107,696</b>	<b>118,884</b>
Deferred inflows of resources:			
Unavailable revenues - intergovernmental	13,961		
Fund balances (deficits):			
Nonspendable	604,675	1,741	
Restricted	464,689		14,712
Unassigned	930,388	(98,750)	(40,200)
<b>Total fund balances</b>	<b>1,999,752</b>	<b>(97,009)</b>	<b>(25,488)</b>
 <b>Total liabilities, deferred inflows of resources and fund balances</b>	 <b>\$ 2,125,017</b>	 <b>\$ 10,687</b>	 <b>\$ 93,396</b>

The notes to the basic financial statements are an integral part of this statement.

Total  
Governmental  
Funds

\$ 765,945  
464,689  
46,698  
7,329  
143,148  
194,875  
598,330  
8,086  
\$ 2,229,100

\$ 111,338  
194,875  
31,671  
337,884

13,961

606,416  
479,401  
791,438  
1,877,255

\$ 2,229,100

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**CITY OF TOMBSTONE, ARIZONA**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**Total governmental fund balances** **\$ 1,877,255**

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

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

Governmental capital assets	\$ 6,556,673	
Less accumulated depreciation	<u>(4,859,237)</u>	1,697,436

Some intergovernmental receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds. 13,961

Net pension assets and deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Net pension asset	569,567	
Deferred outflows of resources related to pensions	106,066	
Deferred inflows of resources related to pensions	<u>(164,748)</u>	510,885

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

Compensated absences payable	(27,291)	
Obligations under capital leases	(618,396)	
Net pension liability	(607,851)	
Bonds payable	<u>(800,000)</u>	<u>(2,053,538)</u>

**Net position of governmental activities** **\$ 2,045,999**

**The notes to the basic financial statements are an integral part of this statement.**



**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	General	Highway User Revenue Fund	Non-Major Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 119,233	\$	\$ 119,535
City sales taxes	996,378		
Franchise taxes	56,134		
Licenses and permits	45,889		
Intergovernmental	360,346	99,597	147,782
Charges for services	89,594		
Fines and forfeits	29,263		
Investment income	2,405		9
Contributions and donations	103,411		16,405
Miscellaneous	16,435		
<b>Total revenues</b>	1,819,088	99,597	283,731
<b>Expenditures:</b>			
Current -			
General government	580,038		
Public safety	812,478		
Highway and streets		167,565	
Culture and recreation	229,306		
Redevelopment and housing			54,346
Health and welfare	112,229		
Capital outlay	67,986	149,901	124,329
Debt service -			
Principal retirement	16,912	7,676	100,000
Interest and fiscal charges	2,112	749	21,510
<b>Total expenditures</b>	1,821,061	325,891	300,185
<b>Excess (deficiency) of revenues over expenditures</b>	(1,973)	(226,294)	(16,454)
<b>Other financing sources (uses):</b>			
Capital lease agreement	501,943	137,765	
Transfer in		6,000	
Transfer out	(6,000)		
<b>Total other financing sources (uses):</b>	495,943	143,765	
<b>Changes in fund balances</b>	493,970	(82,529)	(16,454)
<b>Fund balances (deficits), beginning of year</b>	1,505,782	(14,480)	(9,034)
<b>Fund balances (deficits), end of year</b>	\$ 1,999,752	\$ (97,009)	\$ (25,488)

The notes to the basic financial statements are an integral part of this statement.

Total  
Governmental  
Funds

---

\$ 238,768  
996,378  
56,134  
45,889  
607,725  
89,594  
29,263  
2,414  
119,816  
16,435  

---

2,202,416

580,038  
812,478  
167,565  
229,306  
54,346  
112,229  
342,216

124,588  
24,371  

---

2,447,137

---

(244,721)

639,708  
6,000  

---

(6,000)  

---

639,708

---

394,987

1,482,268

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\$ 1,877,255  

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**CITY OF TOMBSTONE, ARIZONA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

**Changes in fund balances - total governmental funds** **\$ 394,987**

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

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 339,278	
Less current year depreciation	<u>(80,915)</u>	258,363

Issuance of obligations under capital leases provides current financial resources to governmental funds, but the issuance increases long term liabilities in the Statement of Net Position. (639,708)

Some intergovernmental revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 13,961

Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Capital lease principal retirement	24,588	
Bond principal retirement	<u>100,000</u>	124,588

Governmental funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension asset/liability, adjusted for deferred pension items, is reported as pension income/expense in the Statement of Activities.

Current year pension contributions	56,900	
Pension income/(expense)	<u>29,700</u>	86,600

Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (6,951)

**Changes in net position in governmental activities** **\$ 231,840**

**The notes to the basic financial statements are an integral part of this statement.**

**CITY OF TOMBSTONE, ARIZONA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016**

	Enterprise Funds		
	Wastewater	Water	Sanitation
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$	\$ 117,398	\$
Accounts receivable	25,816	63,101	14,733
Prepaid items		762	
Total current assets	<u>25,816</u>	<u>181,261</u>	<u>14,733</u>
Noncurrent assets:			
Cash and investments - restricted		537,100	
Capital assets, non-depreciable		364,924	
Capital assets, depreciable (net)	1,036,895	992,046	
Total noncurrent assets	<u>1,036,895</u>	<u>1,894,070</u>	
<b>Total assets</b>	<u>1,062,711</u>	<u>2,075,331</u>	<u>14,733</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>18,950</u>	<u>28,425</u>	<u>2,707</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	6,095	10,235	3,862
Accrued payroll and employee benefits	3,248	5,279	406
Compensated absences payable	2,799	4,549	350
Customer deposits		75,657	
Capital leases payable		8,213	
Revenue bonds payable		25,000	
Total current liabilities	<u>12,142</u>	<u>128,933</u>	<u>4,618</u>
Noncurrent liabilities:			
Advances from other funds	315,564		282,766
Capital leases payable		50,047	
Revenue bonds payable		288,000	
Net pension liability	166,373	143,941	18,738
Total noncurrent liabilities	<u>481,937</u>	<u>481,988</u>	<u>301,504</u>
<b>Total liabilities</b>	<u>494,079</u>	<u>610,921</u>	<u>306,122</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>11,649</u>	<u>17,474</u>	<u>1,664</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	1,036,895	985,710	
Restricted for:			
Capital projects		421,733	
Other purposes		39,710	
Unrestricted	(460,962)	28,208	(290,346)
<b>Total net position</b>	<u>\$ 575,933</u>	<u>\$ 1,475,361</u>	<u>\$ (290,346)</u>

The notes to the basic financial statements are an integral part of this statement.

Enterprise Funds

Totals

\$ 117,398  
103,650  
762  
221,810

537,100  
364,924  
2,028,941  
2,930,965  
3,152,775

50,082

20,192  
8,933  
7,698  
75,657  
8,213  
25,000  
145,693

598,330  
50,047  
288,000  
329,052  
1,265,429  
1,411,122

30,787

2,022,605

421,733  
39,710  
(723,100)  
\$ 1,760,948

**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Enterprise Funds		
	Wastewater	Water	Sanitation
<b>Operating revenues:</b>			
Charges for services	\$ 245,498	\$ 551,249	\$ 142,141
<b>Total operating revenues</b>	<u>245,498</u>	<u>551,249</u>	<u>142,141</u>
<b>Operating expenses:</b>			
Administration	118,074	202,940	18,473
Cost of sales and services	119,822	116,442	168,010
Depreciation	37,081	29,020	
<b>Total operating expenses</b>	<u>274,977</u>	<u>348,402</u>	<u>186,483</u>
<b>Operating income (loss)</b>	<u>(29,479)</u>	<u>202,847</u>	<u>(44,342)</u>
<b>Nonoperating revenues (expenses):</b>			
Investment income		1,536	
Interest expense		(15,420)	
<b>Total nonoperating revenues (expenses)</b>		<u>(13,884)</u>	
<b>Changes in net position</b>	<u>(29,479)</u>	<u>188,963</u>	<u>(44,342)</u>
<b>Total net position, beginning of year</b>	605,412	1,286,398	(246,004)
<b>Total net position, end of year</b>	<u>\$ 575,933</u>	<u>\$ 1,475,361</u>	<u>\$ (290,346)</u>

The notes to the basic financial statements are an integral part of this statement.

Enterprise Funds

Totals  
\$ 938,888  
938,888

339,487  
404,274  
66,101  
809,862  
129,026

1,536  
(15,420)  
(13,884)

115,142

1,645,806  
\$ 1,760,948



**CITY OF TOMBSTONE, ARIZONA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Enterprise Funds			
	Wastewater	Water	Sanitation	Totals
<b><u>Increase (Decrease) in Cash and Cash Equivalents</u></b>				
Cash flows from operating activities:				
Cash received from customers	\$ 241,768	\$ 567,495	\$ 141,383	\$ 950,646
Cash payments to suppliers for goods and services	(116,029)	(302,295)	(164,148)	(582,472)
Cash payments to employees for services	(100,112)	(233,094)	(17,994)	(351,200)
<b>Net cash provided by (used for) operating activities</b>	<u>25,627</u>	<u>32,106</u>	<u>(40,759)</u>	<u>16,974</u>
Cash flows from noncapital and related financing activities:				
Interfund advances	(25,627)		40,759	15,132
<b>Net cash provided by (used for) noncapital financing activities</b>	<u>(25,627)</u>		<u>40,759</u>	<u>15,132</u>
Cash flows from capital and related financing activities:				
Proceeds from capital lease		60,292		60,292
Principal paid on long-term debt		(26,032)		(26,032)
Interest paid on long-term debt		(15,420)		(15,420)
Acquisition of capital assets		(313,241)		(313,241)
<b>Net cash provided by (used for) capital and related financing activities</b>		<u>(294,401)</u>		<u>(294,401)</u>
Cash flows from investing activities:				
Investment income		1,536		1,536
<b>Net cash provided by investing activities</b>		<u>1,536</u>		<u>1,536</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(260,759)</u>		<u>(260,759)</u>
<b>Cash and cash equivalents, beginning of year</b>		<u>915,257</u>		<u>915,257</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$</u>	<u>\$ 654,498</u>	<u>\$</u>	<u>\$ 654,498</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u></b>				
<b>Operating income (loss)</b>	\$ (29,479)	\$ 202,847	\$ (44,342)	\$ 129,026
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	37,081	29,020		66,101
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	(3,730)	16,213	(758)	11,725
Increase in prepaid items		(762)		(762)
Increase (decrease) in accounts payable	3,793	(185,853)	3,862	(178,198)
Increase in accrued payroll and employee benefits	735	3,293	305	4,333
Increase in compensated absences payable	406	2,487	260	3,153
Increase in deposits held for others		795		795
Increase (decrease) in pension items	16,821	(35,934)	(86)	(19,199)
<b>Total adjustments</b>	<u>55,106</u>	<u>(170,741)</u>	<u>3,583</u>	<u>(112,052)</u>
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 25,627</u>	<u>\$ 32,106</u>	<u>\$ (40,759)</u>	<u>\$ 16,974</u>

The notes to the basic financial statements are an integral part of this statement.

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**CITY OF TOMBSTONE, ARIZONA  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016**

	<u>Pension Trust</u>
<b><u>ASSETS</u></b>	
Cash and investments	<u>\$ 86,970</u>
<b>Total assets</b>	<u>86,970</u>
<b><u>NET POSITION</u></b>	
Held in trust	<u>\$ 86,970</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF TOMBSTONE, ARIZONA  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2016**

	Pension Trust
<b>Additions:</b>	
Contributions	\$ 7,643
<b>Total additions</b>	7,643
<b>Deductions:</b>	
Distributions	13,676
<b>Total deductions</b>	13,676
<b>Changes in net position</b>	(6,033)
<b>Net position, beginning of year</b>	93,003
<b>Net position, end of year</b>	\$ 86,970

The notes to the basic financial statements are an integral part of this statement.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

During the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements and establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also enhances accountability and transparency through revised note disclosures

The more significant of the City's accounting policies are described below.

**A. Reporting Entity**

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

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the City for financial statement presentation purposes, and the City is not included in any other governmental reporting entity. Consequently, the City's financial statements include the funds of those organizational entities for which its elected governing body is financially accountable.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the City. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, unrestricted state revenues, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide Financial Statements** – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Unearned revenue arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as unavailable revenues on the governmental fund financial statements.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The City reports the following major governmental funds.

General Fund – This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

Highway User Revenue Fund (HURF) – This fund accounts for state shared highway use tax revenues for street improvements, maintenance, and capital additions.

The City reports the following major proprietary funds.

Wastewater Fund – This fund accounts for the operations, maintenance and construction of the City's wastewater system and facilities.

Water Fund – This fund accounts for the operations, maintenance and construction of the City's water system and facilities.

Sanitation Fund – This fund accounts for the operations of the City's solid waste collections and disposals.

Additionally, the City reports the following fund types:

Fiduciary Fund – The Fiduciary Fund is a Pension Trust which accounts for resources held by the City on behalf of others and includes the Volunteer Firefighter's Relief and Pension Trust Fund. The Volunteer Firefighter's Relief and Pension Trust Fund accounts for the contributions to and earnings of the volunteer firefighter's pension trust.

The Proprietary and Fiduciary Fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers. Operating expenses for these funds include administration, cost of sales and services, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Cash and Investments**

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash in bank and investments held by State Treasurer.

A.R.S. authorize the City to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the City's investments.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

Certain resources set aside for specific purposes are classified as cash and investments – restricted on the balance sheet and statements of net position. The resources are restricted (1) for capital projects outlined in the debt agreements, (2) as required by debt covenants, and (3) for customer deposits.

**E. Investment Income**

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



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**F. Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All trade and property tax receivables, are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

**G. Property Tax Calendar**

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The county levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide, and the governmental and proprietary fund financial statements. Prepaid items are recorded as expenses when consumed in the government-wide and proprietary fund financial statements and as expenditures when purchased in the governmental fund financial statements.

**I. Capital Assets**

Capital assets, which include land, buildings; improvements other than buildings; machinery, equipment, and vehicles; construction in progress; and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements and proprietary fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure assets include only those assets acquired or constructed since July 1, 2003. GASB reporting standards do not require the City to report infrastructure assets prior to that date. The City has elected to not report such assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Certain capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 – 40
Building improvements	20 – 40
Machinery, equipment, and vehicles	8 – 10
Infrastructure	25
Utility plants (included in infrastructure)	10 – 50

**J. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**K. Compensated Absences**

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

**L. Pensions**

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension income/expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**M. Long-term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**N. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

**O. Net Position Flow Assumption**

In the government-wide and proprietary fund financial statements the City applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

**P. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

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

***Nonspendable.*** The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact.

***Restricted.*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

*Committed.* The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The City does not have a formal policy or procedures for the utilization of committed fund balance, accordingly, no committed fund balance amounts are reported.

*Assigned.* Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a management official delegated that authority by a formal City Council action. The City does not have a formal policy or procedures for the utilization of assigned fund balance, accordingly, no assigned fund balance amounts are reported.

*Unassigned.* Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The table below provides detail of the major components of the City’s fund balance classifications at year end.

	General Fund	Highway User Revenue Fund	Non-Major Governmental Funds
Fund Balances:			
Nonspendable:			
Advances to other funds	\$ 598,330	\$	\$
Prepaid items	6,345	1,741	
Restricted:			
Capital projects	464,689		
Debt service			14,712
Unassigned	930,388	(98,750)	(40,200)
Total fund balances	<u>\$ 1,999,752</u>	<u>\$ (97,009)</u>	<u>\$ (25,488)</u>

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Individual Deficit Fund Balances/Net Position** – At year end, the following individual major and non-major governmental funds reported deficits in fund balances or net position.

	Deficit
Major Fund Governmental Fund:	
Highway User Revenue	\$ 97,009
Major Enterprise Fund:	
Sanitation	290,346
Non-Major Governmental Funds:	
Community Development Block Grant	40,200

The City plans to address the Sanitation Fund deficit through renegotiation of provider agreements and through a proposed rate adjustment at the end of fiscal year 2017. Deficit balances for the Highway User Revenue Fund and non-major governmental funds are expected to be eliminated through activity in the next fiscal year.

**Excess Expenditures Over Budget** – At year end, the City had expenditures in funds that exceeded the budgets, however, this does not constitute a violation of any legal provisions.

**NOTE 4 – CASH AND INVESTMENTS**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of bank failure the City’s deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the City’s deposits was \$467,478 and the bank balance was \$505,183. At year end, \$255,183 of the City’s deposits were covered by collateral held by the pledging financial institution but not in the City’s name.

*Fair Value Measurements.* The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 – CASH AND INVESTMENTS**

The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At year end, the City’s investments consisted of the following.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Category</u>
JP Morgan Money Market Funds	Less than one year	\$ 464,689	Level 2
State Treasurer’s investment pool 5	22 days	1,039,935	Not Applicable
Total		<u>\$ 1,504,624</u>	

*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.* The City has no investment policy that would further limit its investment choices. As of year end, the City’s investment in the State Treasurer’s investment pool 5 was rated AAAf/S1+ by Standard and Poor’s.

*Custodial Credit Risk – Investments.* The City’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, the City’s portion is not identified with specific investments and is not subject to custodial credit risk.

**NOTE 5 – RECEIVABLES**

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of due from governmental entities. Due from governmental entities, net of allowance for uncollectibles, as of year end for the City’s individual major funds and non-major governmental funds in the aggregate were as follows.

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Non-Major Governmental Funds</u>
Due from other governmental entities:			
Due from federal government	\$	\$	\$ 26,913
Due from state government	68,820	8,946	38,469
Net due from governmental entities	<u>\$ 68,820</u>	<u>\$ 8,946</u>	<u>\$ 65,382</u>

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 – CAPITAL ASSETS**

A summary of capital asset activity for the current fiscal year follows.

<b>Governmental Activities</b>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,949	\$	\$	\$ 4,949
Construction in progress	9,579	201,513		211,092
Total capital assets, not being depreciated	<u>14,528</u>	<u>201,513</u>		<u>216,041</u>
Capital assets, being depreciated:				
Buildings and improvements	2,695,839			2,695,839
Infrastructure	2,058,748			2,058,748
Machinery, equipment, and vehicles	1,448,280	137,765		1,586,045
Total capital assets being depreciated	<u>6,202,867</u>	<u>137,765</u>		<u>6,340,632</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,381,503)	(66,771)		(1,448,274)
Infrastructure	(1,986,169)	(5,185)		(1,991,354)
Machinery, equipment, and vehicles	(1,410,650)	(8,959)		(1,419,609)
Total accumulated depreciation	<u>(4,778,322)</u>	<u>(80,915)</u>		<u>(4,859,237)</u>
Total capital assets, being depreciated, net	<u>1,424,545</u>	<u>56,850</u>		<u>1,481,395</u>
Governmental activities capital assets, net	<u>\$ 1,439,073</u>	<u>\$ 258,363</u>	<u>\$</u>	<u>\$ 1,697,436</u>
<b>Business-Type Activities</b>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 384,249	\$ 252,949	\$ 272,274	\$ 364,924
Total capital assets, not being depreciated	<u>384,249</u>	<u>252,949</u>	<u>272,274</u>	<u>364,924</u>
Capital assets, being depreciated:				
Buildings and improvements	185,650			185,650
Infrastructure	4,302,843	272,274		4,575,117
Machinery, equipment, and vehicles	178,037	60,292		238,329
Total capital assets being depreciated	<u>4,666,530</u>	<u>332,566</u>		<u>4,999,096</u>
Less accumulated depreciation for:				
Buildings and improvements	(91,409)	(4,556)		(95,965)
Infrastructure	(2,682,103)	(54,187)		(2,736,290)
Machinery, equipment, and vehicles	(130,542)	(7,358)		(137,900)
Total accumulated depreciation	<u>(2,904,054)</u>	<u>(66,101)</u>		<u>(2,970,155)</u>
Total capital assets, being depreciated, net	<u>1,762,476</u>	<u>266,465</u>		<u>2,028,941</u>
Business-type activities capital assets, net	<u>\$ 2,146,725</u>	<u>\$ 519,414</u>	<u>\$ 272,274</u>	<u>\$ 2,393,865</u>



**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 – CAPITAL ASSETS**

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
General government	\$ 33,216
Public safety	12,300
Highways and streets	10,629
Culture and recreation	24,770
Total depreciation expense – governmental activities	<u>80,915</u>
Business-type activities:	
Wastewater	\$ 37,081
Water	29,020
Total depreciation expense – business-type activities	<u>\$ 66,101</u>

**Construction Commitments** – At year end, the City had contractual commitments related to a new marshal’s facility, water infrastructure projects, the old city hall rehabilitation, and a public works building improvement project. At year end the City had spent \$576,016 on the projects and had estimated remaining contractual commitments of \$750,000. These projects are primarily funded with bond proceeds.

**NOTE 7 – GENERAL OBLIGATION BONDS PAYABLE**

General obligation bonds were issued and authorized by the governing body to provide funds to acquire and construct certain improvements to the water system of the City and to pay the costs incurred in connection with the issuance of the bonds. The bonds are noncallable with interest payable semiannually. Property taxes from the Debt Service Fund are used to pay bonded debt.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2016</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
GO Bonds Series Project of 2013, Series 2014	\$ 1,000,000	2.39%	7/1/17-24	\$ 800,000	\$ 100,000
Total				<u>\$ 800,000</u>	<u>\$ 100,000</u>

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 – GENERAL OBLIGATION BONDS PAYABLE**

Annual debt service requirements to maturity on general obligation bonds at year end are summarized as follows.

Year ending June 30:	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 100,000	\$ 19,120
2018	100,000	16,730
2019	100,000	14,340
2020	100,000	11,950
2021	100,000	9,560
2022-24	<u>300,000</u>	<u>14,340</u>
Total	<u>\$ 800,000</u>	<u>\$ 86,040</u>

**NOTE 8 – REVENUE BONDS PAYABLE**

Revenue bonds were issued and authorized by the governing body to provide funds to acquire and construct certain improvements to the water and wastewater system of the City and to pay the costs incurred in connection with the issuance of the bonds. Revenue bonds outstanding as reported in business-type activities at year end were as follows.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2016</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Water Revenue Bonds, Project of 1994	\$ 586,500	4.5%	7/1/17-26	\$ 313,000	\$ 25,000
Total				<u>\$ 313,000</u>	<u>\$ 25,000</u>

Annual debt service requirements to maturity on revenue bonds at year end are summarized as follows.

Year ending June 30:	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 25,000	\$ 14,085
2018	27,000	12,960
2019	28,000	11,745
2020	29,000	10,485
2021	30,000	9,180
2022-26	<u>174,000</u>	<u>24,165</u>
Total	<u>\$ 313,000</u>	<u>\$ 82,620</u>

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – REVENUE BONDS PAYABLE**

**Pledged revenues - business-type activities.** The City has pledged future water customer revenues, net of specified operating expenses, to repay a \$586,500 loan of utility revenue bonds issued in fiscal year 1998. Proceeds from the bonds provided financing for improvements to local water infrastructure. The bonds are payable from water customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds are estimated to require less than 20 percent of gross revenues. The total principal and interest remaining to be paid on the bonds is \$395,620. The current total customer gross revenues were \$551,249 and the total principal and interest paid on the bonds was \$39,166, or seven percent of gross revenues.

**NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES**

The City has acquired vehicles and equipment under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Revenues from the General Fund, Highway User Revenue Fund, and the Water Fund are used to pay the capital lease obligations. Amortization of assets recorded under capital leases is included with depreciation expense.

The assets acquired through capital leases that meet the City’s capitalization threshold are as follows.

	Governmental Activities	Water Fund
Asset		
Machinery, equipment, and vehicles	\$ 143,120	\$ 60,292
Less: Accumulated depreciation	(7,719)	(1,256)
Total	\$ 135,401	\$ 59,036

**CITY OF TOMBSTONE, ARIZONA**  
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**NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES**

The future minimum lease obligations and the net present value of these minimum lease payments at year end were as follows:

Year Ending June 30:	Governmental Activities	Water Fund
2017	\$ 97,272	\$ 9,145
2018	97,030	9,145
2019	97,030	9,145
2020	97,030	9,145
2021	97,030	9,145
2022-23	169,805	16,004
Total minimum lease payments	<u>655,197</u>	<u>61,729</u>
Less: amount representing interest	<u>36,801</u>	<u>3,469</u>
Present value of minimum lease payments	<u>\$ 618,396</u>	<u>\$ 58,260</u>
Due within one year	<u>\$ 87,387</u>	<u>\$ 8,213</u>

**NOTE 10 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the current fiscal year was as follows.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 900,000	\$	\$ 100,000	\$ 800,000	\$ 100,000
Net pension liability	523,633	84,218		607,851	
Compensated absences payable	20,340	26,392	19,441	27,291	27,291
Capital leases payable	<u>3,276</u>	<u>639,708</u>	<u>24,588</u>	<u>618,396</u>	<u>87,387</u>
Governmental activities long-term liabilities	<u>\$ 1,447,249</u>	<u>\$ 750,318</u>	<u>\$ 144,029</u>	<u>\$ 2,053,538</u>	<u>\$ 214,678</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ 337,000	\$	\$ 24,000	\$ 313,000	\$ 25,000
Net pension liability	307,533	21,519		329,052	
Compensated absences payable	4,545	18,623	15,470	7,698	7,698
Capital leases payable	<u></u>	<u>60,292</u>	<u>2,032</u>	<u>58,260</u>	<u>8,213</u>
Business-type activities long-term liabilities	<u>\$ 649,078</u>	<u>\$ 100,434</u>	<u>\$ 41,502</u>	<u>\$ 708,010</u>	<u>\$ 40,911</u>

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

At year end, interfund balances were as follows.

**Due to/from other funds** – At year end, the Highway User Revenue Fund, a major governmental fund, and the Community Development Block Grant Fund and Building Renovation Fund, both non-major governmental funds, had negative cash balances of \$102,904, \$65,113 and \$26,858, respectively. Negative cash on deposit was reduced by interfund borrowing with the General Fund. All interfund balances are expected to be paid within one year.

**Advances to/from other funds:**

	<u>Wastewater</u>	<u>Sanitation</u>	Total Advances to <u>Other Funds</u>
General Fund	<u>\$ 315,564</u>	<u>\$ 282,766</u>	<u>\$ 598,330</u>

The City’s enterprise funds have maintained a long-term borrowing arrangement with the General Fund for several years due to insufficient funding in the current and previous years. The City is seeking remedies to repay these interfund advances in future years.

**Interfund transfers** –Transfers of \$6,000 from the General Fund to the Highway User Revenue Fund were used to move cash balances for sidewalk repairs.

**NOTE 12 – CONTINGENT LIABILITIES**

**Compliance** – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**Lawsuits** – The City is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable, however, City management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 13 – 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's property/liability insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is \$2.0 million per occurrence on a claims made basis. Excess coverage is for an additional \$3.0 million per occurrence on a follow form, claims made basis. The aggregate limit is also \$3.0 million. The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The City is insured by Arizona Municipal Workers Compensation Pool for potential worker related accidents.

The City carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The City contributes to the pension plans described below. The plans are component units of the State of Arizona.

The City reported \$29,700 of net pension income in the governmental funds related to all pension plans to which it contributes.

**A. Arizona State Retirement System**

**Plan Description.** City employees not covered by the other pension plans described after this section participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at [www.azasrs.gov](http://www.azasrs.gov).

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Benefits Provided.** The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* Any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* Any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a members' death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

**Contributions.** In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the members' annual covered payroll. The City's contributions to the pension plan for the year ended June 30, 2016 were \$64,400.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The City’s contributions for the current and two preceding years for the Arizona State Retirement System OPEB, all of which were equal to the required contributions, were as follows:

		Health Benefit Supplement Fund		Long-Term Disability Fund
Year ending June 30:				
	2016	\$ 2,968	\$	712
	2015	2,841		578
	2014	5,037		2,015

**Pension Liability.** At June 30, 2016, the City reported a liability of \$936,903 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the City’s proportion was 0.006 percent, which was an increase of 0.0004 from its proportion measured as of June 30, 2014.

**Pension Expense and Deferred Outflows/Inflows of Resources.** For the year ended June 30, 2016, the City recognized pension expense for ASRS of \$68,985 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,566	\$ 49,095
Net difference between projected and actual earnings on pension plan investments		30,026
Changes in proportion and differences between contributions and proportionate share of contributions	45,392	4,087
Contributions subsequent to the measurement date	64,400	
Total	\$ 135,358	\$ 83,208



**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The deferred outflows of resources related to ASRS pensions resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30:		
	2017	\$ (2,394)
	2018	(13,960)
	2019	(17,570)
	2020	21,674

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

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Projected salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2014, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class of ASRS are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.93
Total	<u>100%</u>	

**Discount Rate.** The discount rate used to measure the ASRS total pension liability was 8.0 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.** The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City’s proportionate share of the net pension liability	\$1,227,663	\$936,903	\$737,637

**Pension Plan Fiduciary Net Position.** Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at [www.azasrs.gov](http://www.azasrs.gov).

**B. Public Safety Personnel Retirement System**

**Plan Descriptions.** City public safety employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan. A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Benefits Provided.** The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement and disability benefits are calculated on the basis of age, average monthly compensation, and service credit as follows. See the publicly available PSPRS financial report for additional benefits information.

	Retirement Initial Membership Date:	
	Before January 1, 2012	On or After January 1, 2012
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Normal retirement	50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Survivor benefit:		
Retired members	80% of retired member's pension benefit	
Active members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015 the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Employees Covered by Benefit Terms.** At June 30, 2016, the following employees were covered by the agent pension plan’s benefit terms:

	<u>PSPRS – Police</u>
Retirees and beneficiaries	0
Inactive, non-retired members	7
Active members	2
Total	9

**Contributions and Annual OPEB Cost.** State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<u>PSPRS – Police</u>
Active members – pension	11.65%
City:	
Pension	7.22
Health insurance	0.00

In addition, the City was required by statute to contribute at the actuarially determined rate of 28.62 percent for the PSPRS of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to the PSPRS.

**CITY OF TOMBSTONE, ARIZONA**  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

For the agent plans, the contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended were:

	PSPRS – Police
Pension:	
Contributions made	\$ 16,328
Health insurance premium benefit:	
Annual OPEB cost	-0-
Contributions made	-0-

**Pension Asset.** At June 30, 2016, the City reported a \$569,567 net pension asset for police. The net pension asset was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2015, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of two percent. The change in the City’s net pension asset/liability as a result of the statutory adjustments is not known.

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.0 - 8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table, adjusted by 105% for both males and females

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short-term investments	2%	0.75%
Absolute return	5	4.11
Risk parity	4	5.13
Fixed income	7	2.92
Real assets	8	4.77
GTAA	10	4.38
Private equity	11	9.50
Real estate	10	4.48
Credit opportunities	13	7.08
Non-U.S. equity	14	8.25
U.S. equity	16	6.23
Total	<u>100%</u>	

**Pension Discount Rates.** The discount rate of 7.85 percent was used to measure the total pension liability.

The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the PSPRS pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Changes in the Agent Plans Net Pension Asset**

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
<b>PSPRS – Police</b>			
Balances at June 30, 2015	\$ 312,874	\$ 792,214	\$ (479,340)
Changes for the year:			
Service cost	19,439		19,439
Interest on the total pension liability	25,324		25,324
Differences between expected and actual experience in the measurement of the pension liability	(83,185)		(83,185)
Contributions – employer		10,686	(10,686)
Contributions – employee		13,419	(13,419)
Net investment income		29,457	(29,457)
Administrative expense		(1,095)	1,095
Other changes		(662)	662
Net changes	(38,422)	51,805	(90,227)
Balances at June 30, 2016	\$ 274,452	\$ 844,019	\$ (569,567)

**Sensitivity of the Net Pension Asset to Changes in the Discount Rate.** The following presents the City’s net pension asset calculated using the discount rates noted above, as well as what the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Current Discount Rate		
	1% Decrease	7.85% Rate	1% Increase
<b>PSPRS – Police:</b>			
Rate	6.85%	7.85%	8.85%
Net pension asset	\$566,509	\$569,567	\$571,954

**Pension Plan Fiduciary Net Position.** Detailed information about the pension plan’s fiduciary net position is available in the separately issued PSPRS financial report. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

**Pension Income.** For the year ended June 30, 2016, the City recognized \$85,157 as pension income.



**CITY OF TOMBSTONE, ARIZONA**  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Pension Deferred Outflows/Inflows of Resources.** At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>PSPRS – Police</b>		
Differences between expected and actual experience	\$	\$ 112,327
Changes of assumptions or other inputs	1,760	
Net difference between projected and actual earnings on pension plan investments	2,702	
Contributions subsequent to the measurement date	16,328	
Total	\$ 20,790	\$ 112,327

The amounts reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as an addition/reduction of the net pension asset/liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension income/expense as follows:

Year Ending June 30:		
2017	\$	(55,181)
2018		(48,757)
2019		(10,648)
2020		6,721

**Agent Plan OPEB Trend Information.** The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
<b>PSPRS – Police:</b>			
June 30, 2016	\$ - 0 -	100%	\$ - 0 -
June 30, 2015	2,372	100%	- 0 -
June 30, 2014	2,337	100%	- 0 -

**CITY OF TOMBSTONE, ARIZONA  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

Projections of benefits are based on (1) the plan as understood by the City and plan's members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plan's members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4%-8% 4%

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2016, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases includes inflation at	4%-8% 4%

**Agent Plan OPEB Funded Status.** The following table presents the funded status of the health insurance premium benefit plan as of the most recent valuation date, June 30, 2016.

	PSPRS – Police
Actuarial value of assets	\$ 56,875
Actuarial accrued liability	1,057
Unfunded actuarial accrued liability (funding excess)	(55,818)
Funded ratio	5380.79%
Annual covered payroll	225,156
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	0%

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**C. Volunteer Firefighters' Relief and Pension**

**Defined Contribution Plan.** The Volunteer Firefighters' Relief and Pension Fund (VFRPF) is a defined contribution plan to provide pensions to volunteer firefighters only. State statute requires that both the employee and the City make contributions equal to five percent of the employees' compensation. Some monies are also received from the state. After a volunteer firefighter has 25 years of service, he or she is entitled to a monthly pension, the amount of which is determined by the board of trustees of the VFRPF, not to exceed \$400. Voluntary and involuntary separation from employment entitles the employee (or beneficiary) to all previous deductions from his or her salary plus interest at a rate determined by the Board of Trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service. The payroll for employees covered by VFRPF for the year ended June 30, 2016, was \$39,332. Contributions made for the year ended June 30, 2016, were \$3,932, which consisted of \$1,966 from employees and \$1,966 from the City.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL**  
**YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Non-GAAP Actual	
<b>Revenues:</b>			
Property taxes	\$ 123,137	\$ 119,233	\$ (3,904)
City sales taxes	870,000	996,378	126,378
Franchise taxes	54,600	56,134	1,534
Licenses and permits	61,750	45,889	(15,861)
Intergovernmental	381,716	360,346	(21,370)
Charges for services	85,850	89,594	3,744
Fines and forfeits	21,800	29,263	7,463
Investment income	5,550	2,405	(3,145)
Contributions and donations	20,000	22,084	2,084
Miscellaneous	75,000	16,435	(58,565)
<b>Total revenues</b>	<u>1,699,403</u>	<u>1,737,761</u>	<u>38,358</u>
<b>Expenditures:</b>			
Current -			
General government	645,520	580,038	65,482
Public safety	833,601	812,478	21,123
Culture and recreation	185,651	169,341	16,310
Health and welfare	124,631	112,229	12,402
Capital outlay	25,000	30,732	(5,732)
Debt service -			
Principal retirement		16,912	(16,912)
Interest and fiscal charges		2,112	(2,112)
<b>Total expenditures</b>	<u>1,814,403</u>	<u>1,723,842</u>	<u>90,561</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(115,000)</u>	<u>13,919</u>	<u>128,919</u>
<b>Other financing sources (uses):</b>			
Transfer in	115,000	1,656	(113,344)
<b>Total other financing sources (uses):</b>	<u>115,000</u>	<u>1,656</u>	<u>(113,344)</u>
<b>Changes in fund balances</b>		<u>15,575</u>	<u>15,575</u>
<b>Fund balances, beginning of year</b>		1,406,457	1,406,457
<b>Fund balances, end of year</b>	<u>\$</u>	<u>\$ 1,422,032</u>	<u>\$ 1,422,032</u>

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
HIGHWAY USER REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Non-GAAP Actual	
<b>Revenues:</b>			
Intergovernmental	\$ 96,657	\$ 99,597	\$ 2,940
<b>Total revenues</b>	<u>96,657</u>	<u>99,597</u>	<u>2,940</u>
<b>Expenditures:</b>			
Current -			
Highway and streets	99,257	167,565	(68,308)
Capital outlay	105,000	12,136	92,864
Debt service -			
Principal retirement	1,950	7,676	(5,726)
Interest and fiscal charges	450	749	(299)
<b>Total expenditures</b>	<u>206,657</u>	<u>188,126</u>	<u>18,531</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(110,000)</u>	<u>(88,529)</u>	<u>21,471</u>
<b>Other financing sources (uses):</b>			
Transfer in	110,000	6,000	(104,000)
<b>Total other financing sources (uses):</b>	<u>110,000</u>	<u>6,000</u>	<u>(104,000)</u>
<b>Changes in fund balances</b>		<u>(82,529)</u>	<u>(82,529)</u>
<b>Fund balances (deficits), beginning of year</b>		(14,480)	(14,480)
<b>Fund balances (deficits), end of year</b>	<u>\$</u>	<u>\$ (97,009)</u>	<u>\$ (97,009)</u>

See accompanying notes to this schedule.



**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**ARIZONA STATE RETIREMENT SYSTEM**  
**LAST TWO FISCAL YEARS**

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.006%	0.006%
City's proportionate share of the net pension liability (asset)	\$ 936,903	\$ 831,166
City's covered payroll	\$ 563,214	\$ 754,551
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	166.35%	110.15%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

**See accompanying notes to this schedule.**

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - POLICE**  
**LAST TWO FISCAL YEARS**

	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>		
Service cost	\$ 19,439	\$ 30,962
Interest	25,324	31,998
Changes of benefit terms		(367)
Differences between expected and actual experience	(83,185)	(114,176)
Changes of assumptions		3,736
Benefit payments, including refunds of employee contributions		(62,834)
<b>Net change in total pension liability</b>	<u>(38,422)</u>	<u>(110,681)</u>
<b>Total pension liability—beginning</b>	<u>312,874</u>	<u>423,555</u>
<b>Total pension liability—ending</b>	<u><u>\$ 274,452</u></u>	<u><u>\$ 312,874</u></u>
 <b>Plan fiduciary net position</b>		
Contributions—employer	\$ 10,686	\$ 13,826
Contributions—employee	13,419	15,048
Net investment income	29,457	98,582
Benefit payments, including refunds of employee contributions		(62,834)
Administrative expense	(1,095)	(794)
Other	(662)	
<b>Net change in plan fiduciary net position</b>	<u>51,805</u>	<u>63,828</u>
<b>Plan fiduciary net position—beginning</b>	<u>792,214</u>	<u>728,386</u>
<b>Plan fiduciary net position—ending</b>	<u><u>\$ 844,019</u></u>	<u><u>\$ 792,214</u></u>
 <b>Net pension liability (asset)—ending</b>	<u><u>\$ (569,567)</u></u>	<u><u>\$ (479,340)</u></u>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	307.53%	253.21%
 <b>Covered payroll</b>	\$ 121,307	\$ 209,144
 <b>Net pension liability as a percentage of covered payroll</b>	-469.53%	-229.19%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF CONTRIBUTIONS  
ALL PENSION PLANS  
LAST TWO FISCAL YEARS**

	<u>2016</u>	<u>2015</u>
<b>Arizona State Retirement System:</b>		
Actuarially determined contribution	\$ 64,400	\$ 61,344
Contributions in relation to the actuarially determined contribution	<u>64,400</u>	<u>61,344</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 593,548	\$ 563,214
Contributions as a percentage of covered payroll	10.85%	10.89%
 <b>PSPRS - Police:</b>		
Actuarially determined contribution	\$ 16,328	\$ 10,675
Contributions in relation to the actuarially determined contribution	<u>16,328</u>	<u>10,675</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 226,150	\$ 121,307
Contributions as a percentage of covered payroll	7.22%	8.80%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

**See accompanying notes to this schedule.**

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FUNDING PROGRESS  
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
OTHER POSTEMPLOYMENT BENEFITS  
LAST THREE ACTUARIAL VALUATIONS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAAL as a percentage of Covered Payroll</b>
<b>PSPRS - Police:</b>						
2016	\$ 56,875	\$ 1,057	\$ (55,818)	5,380.79 %	\$ 225,156	0.00 %
2015	53,316	307	(53,009)	17,366.78	82,704	0.00
2014	49,379	10,769	(38,610)	458.53	112,507	0.00

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

The City budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America, except for the following items.

- Certain activities reported in the General Fund are budgeted as Special Revenue funds.
- Present value of net minimum capital lease payments is not budgeted at the inception of the agreement.

The following schedule reconciles expenditures and fund balances at the end of year:

<u>General Fund</u>	<u>Total Expenditures</u>	<u>Fund Balances End of Year</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 1,821,061	\$ 1,999,752
Activity budgeted as special revenue funds	(59,965)	(113,031)
Current-year capital lease agreement	<u>(37,254)</u>	<u>(464,689)</u>
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	<u>\$ 1,723,842</u>	<u>\$ 1,422,032</u>

<u>Highway User Revenue Fund</u>	<u>Total Expenditures</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 325,891
Current-year capital lease agreement	<u>(137,765)</u>
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	<u>\$ 188,126</u>

**NOTE 2 – PENSION PLAN SCHEDULES**

**Change in Accounting Principle.** For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

**Actuarial Assumptions for Valuations Performed.** The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

**NOTE 2 – PENSION PLAN SCHEDULES**

**Factors that Affect Trends.** The actuarial assumptions used in the June 30, 2014, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2014, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The actuarial assumptions used in the June 30, 2015, valuation for PSPRS were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011. The total pension liability used to calculate the net pension liability for PSPRS was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2015, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption from 4.5% to 4.0%.

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## **SUPPLEMENTARY INFORMATION**



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**GOVERNMENTAL FUNDS**

**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	Community Development Block Grant		
	Budget	Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$ 250,000	\$ 39,858	\$ (210,142)
Contributions and donations			
<b>Total revenues</b>	250,000	39,858	(210,142)
<b>Expenditures:</b>			
Current -			
General government			
Culture and recreation			
Redevelopment and housing	250,000	54,346	195,654
Capital outlay			
<b>Total expenditures</b>	250,000	54,346	195,654
<b>Excess (deficiency) of revenues over expenditures</b>		(14,488)	(14,488)
<b>Other financing sources (uses):</b>			
Transfer out			
<b>Total other financing sources (uses):</b>			
<b>Changes in fund balances</b>		(14,488)	(14,488)
<b>Fund balances (deficits), beginning of year</b>		(25,712)	(25,712)
<b>Fund balances (deficits), end of year</b>	\$	\$ (40,200)	\$ (40,200)

Senior Center Rehabilitation Project			Grant Opportunity Fund		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 750,000	\$	\$ (750,000)
			750,000		(750,000)
			750,000		750,000
			750,000		750,000
	(1,656)	(1,656)			
	(1,656)	(1,656)			
	(1,656)	(1,656)			
	1,656	1,656			
\$	\$	\$	\$	\$	\$

(Continued)

**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	Building Renovation		Variance - Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Intergovernmental	\$ 600,000	\$ 107,924	\$ (492,076)
Contributions and donations		16,405	16,405
<b>Total revenues</b>	600,000	124,329	(475,671)
<b>Expenditures:</b>			
Current -			
General government			
Culture and recreation			
Redevelopment and housing			
Capital outlay	600,000	124,329	475,671
<b>Total expenditures</b>	600,000	124,329	475,671
<b>Excess (deficiency) of revenues over expenditures</b>			
<b>Other financing sources (uses):</b>			
Transfer out			
<b>Total other financing sources (uses):</b>			
<b>Changes in fund balances</b>			
<b>Fund balances (deficits), beginning of year</b>			
<b>Fund balances (deficits), end of year</b>	\$	\$	\$

Boothill Sales			Boothill Donations		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
			135,000	81,327	(53,673)
			135,000	81,327	(53,673)
			105,000	59,965	45,035
			105,000	59,965	45,035
			30,000	21,362	(8,638)
			(30,000)	(6,000)	24,000
			(30,000)	(6,000)	24,000
				15,362	15,362
	(97,073)	(97,073)		290,071	290,071
\$	\$ (97,073)	\$ (97,073)	\$	\$ 305,433	\$ 305,433

(Continued)

**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	Archives		Variance - Positive (Negative)
	Budget	Non-GAAP Actual	
<b>Revenues:</b>			
Intergovernmental	\$	\$	\$
Contributions and donations			
<b>Total revenues</b>			
<b>Expenditures:</b>			
Current -			
General government			
Culture and recreation			
Redevelopment and housing			
Capital outlay			
<b>Total expenditures</b>			
<b>Excess (deficiency) of revenues over expenditures</b>			
<b>Other financing sources (uses):</b>			
Transfer out			
<b>Total other financing sources (uses):</b>			
<b>Changes in fund balances</b>			
<b>Fund balances (deficits), beginning of year</b>		(95,329)	(95,329)
<b>Fund balances (deficits), end of year</b>	\$	\$ (95,329)	\$ (95,329)

Totals		
Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$ 1,600,000	\$ 147,782	\$ (1,452,218)
135,000	97,732	(37,268)
<u>1,735,000</u>	<u>245,514</u>	<u>(1,489,486)</u>
750,000		750,000
105,000	59,965	45,035
250,000	54,346	195,654
600,000	124,329	475,671
<u>1,705,000</u>	<u>238,640</u>	<u>1,466,360</u>
<u>30,000</u>	<u>6,874</u>	<u>(23,126)</u>
<u>(30,000)</u>	<u>(7,656)</u>	<u>22,344</u>
<u>(30,000)</u>	<u>(7,656)</u>	<u>22,344</u>
	<u>(782)</u>	<u>(782)</u>
	73,613	73,613
<u>\$</u>	<u>\$ 72,831</u>	<u>\$ 72,831</u>



**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
DEBT SERVICE  
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
	Original & Final		
<b>Revenues:</b>			
Property taxes	\$ 132,995	\$ 119,535	\$ (13,460)
Investment income		9	9
<b>Total revenues</b>	<u>132,995</u>	<u>119,544</u>	<u>(13,451)</u>
<b>Expenditures:</b>			
Debt service -			
Principal retirement	100,000	100,000	
Interest and fiscal charges	32,995	21,510	11,485
<b>Total expenditures</b>	<u>132,995</u>	<u>121,510</u>	<u>11,485</u>
<b>Changes in fund balances</b>		<u>(1,966)</u>	<u>(1,966)</u>
<b>Fund balances, beginning of year</b>		16,678	16,678
<b>Fund balances, end of year</b>	<u>\$</u>	<u>\$ 14,712</u>	<u>\$ 14,712</u>

**REPORT ON INTERNAL CONTROL  
AND ON COMPLIANCE**

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**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***

Independent Auditor's Report

Honorable Mayor and Members of the City Council  
City of Tombstone, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Tombstone, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Tombstone, Arizona's basic financial statements, and have issued our report thereon dated March 29, 2017. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 72.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items FS-2016-001 and FS-2016-002 that we consider to be significant deficiencies.

### Compliance and Other Matters

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

### City of Tombstone, Arizona's Response to Findings

City of Tombstone, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Tombstone, Arizona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### Purpose of this Report

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

*Heinfeld, Meech & Co., P.C.*

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
March 29, 2017

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2016-001

**Repeat Finding:** Yes, FS-2015-001

**Type of Finding:** Significant Deficiency

**Description:** Internal Controls over Capital Assets

**CRITERIA**

The City is responsible for establishing and maintaining internal controls over capital assets and the related financial reporting of capital asset balances and activities. These internal controls should include presenting complete and accurate capital asset schedules and the formal adoption of a comprehensive capital asset policy and desk procedures to help minimize errors in asset tracking and financial reporting.

**CONDITION**

The City's current internal control structure over capital assets lacks certain key components that would provide better assurance of the accuracy and completeness of the City's asset schedules.

**CAUSE**

Limited staff size and resources.

**EFFECT**

The City's internal controls over capital assets were not adequate to ensure that a misstatement in capital assets would be prevented and/or detected. Additionally, auditors noted several errors in the initial capital asset schedules that required management corrections. Other errors in the capital asset schedules may exist as the City has not conducted a physical inventory in several years.

**CONTEXT**

The City has drafted an informal policy for tracking capital assets but it has not been adopted by the City Council. Additionally, the current policy lacks key components that are essential to minimize, and help detect and correct any potential errors in the capital asset schedules.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2016-001

**RECOMMENDATION**

The City should adopt and enforce a formal capital asset policy that addresses the components typically found in such policies. The policy should include, but not be limited to, the following components:

- The creation of an asset listing by category that specifies the required asset details that must be entered into the asset tracking system.
- The periodic maintenance of the asset schedules through timely updates for additions, deletions, impairments, and transfers.
- The use of asset tags and affixing such tags to the assets when they are purchased and received at the City.
- The performance of periodic physical inventories and updating the capital asset schedules timely based upon the results of those inventories.
- The development of a detailed useful life policy by asset type that reflects the City's typical experience with its various assets. This policy would help ensure consistent depreciation expense from period to period for common assets.
- The performance of periodic expenditure analyses of repair and maintenance expenditure account codes to identify potential coding or capital asset errors.
- The performance of periodic capital purchase reconciliations that compare general ledger expenditures to capital asset additions to identify potential coding or capital asset errors.

**VIEWS OF RESPONSIBLE OFFICIALS**

The City will be contracting RCI Technologies to perform a physical inventory and to assist in the development of a formal capital asset policy.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2016-002

**Repeat Finding:** Yes, FS-2015-002

**Type of Finding:** Significant Deficiency

**Description:** Internal Controls Over Purchasing

CRITERIA

The City is responsible for developing and enforcing an effective system of internal controls and procedures over the purchasing process.

CONDITION

The City's internal controls and procedures over purchasing are not consistently followed and/or enforced.

CAUSE

Limited staff size and decentralization of the purchasing function likely contribute to the items noted.

EFFECT

The City's internal controls over the purchasing process may not prevent or detect unauthorized or incorrect vendor payments, and could also result in budget violations. Additionally, the City may not be obtaining the most competitive vendor prices possible when the procurement policy is not followed.

CONTEXT

We noted the following during our review of the City's purchasing internal controls and procedures.

- For 12 of 40 disbursements reviewed, the purchase orders were incomplete as they did not include an authorized dollar amount and/or quantity.
- For two of 40 disbursements reviewed, the purchase order lacked evidence of authorization.
- For five of 40 disbursements reviewed, the purchase order was prepared after receipt of goods or services.
- For four of 40 disbursements reviewed, the expenditure exceeded the authorized amount on the purchase order.
- For two of 40 disbursements reviewed, no purchase order was prepared.
- For two of five credit card transactions reviewed, the employee making the purchase was not clearly identified by evidence of a control log or on an attached receipt/statement.



**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2016-002

CONTEXT

- For four of five credit card disbursements reviewed that required purchase orders, the purchase order did not include an authorized dollar amount.
- The City does not consistently adhere to its procurement policy which requires quotes and formal bids at specified spending levels.
- The City does not have proper internal controls in place within the accounts payable system to help prevent duplicate payment of invoices.

RECOMMENDATION

The City should develop and enforce more comprehensive internal controls and procedures to ensure purchases are properly pre-approved, performed in accordance with the authorized purchase documents, and to help prevent duplicate payments of invoices. Additionally, the City should ensure its procurement policy is enforced for all applicable purchases.

VIEWS OF RESPONSIBLE OFFICIALS

City administration is in the process of creating an accounting manual and is re-examining all processes and will develop and implement new policies and procedures as needed.