



City of Tombstone, Arizona
Financial Statements
Year Ended June 30, 2017

City of Tombstone, Arizona

Financial Statements
Year Ended June 30, 2017

CITY OF TOMBSTONE, ARIZONA

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**CITY OF TOMBSTONE, ARIZONA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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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 the City of Tombstone, Arizona (City), as of and for the year ended June 30, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and net pension liability information, and other postemployment benefit plan 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 May 7, 2018, 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
May 7, 2018

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, 2017**

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, 2017. 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 \$260,854 to \$2.4 million primarily due to reductions in debt obligations and deferred outflows related to pension obligations, and business-type activities increased \$65,423 to \$1.8 million. The governmental and business-type activities net positions represent 57 percent and 43 percent respectively, of the total net position of \$4.2 million.
- General revenues from governmental activities accounted for \$1.7 million in revenue, or 68 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$803,827 or 32 percent of total governmental activities revenues. The City had \$904,387 of program revenues related to business-type activities.
- The City had \$2.2 million in expenses related to governmental activities, an increase of 12 percent from the prior fiscal year. The City had \$841,556 in expenses related to business-type activities, an increase of two percent from the prior fiscal year.
- Among major funds, the General Fund had \$2.0 million in current fiscal year revenues, which primarily consisted of City sales taxes and intergovernmental revenues, and \$2.4 million in expenditures. The General Fund's fund balance decrease from \$2.0 million at the prior fiscal year end to \$1.5 million at the end of the current fiscal year was primarily due to increased capital equipment purchases.
- The Highway User Revenue Fund had \$104,635 in revenues, which consisted of intergovernmental revenues, and \$197,796 in expenditures. The Highway User Revenue Fund's fund balance decrease from a deficit of \$97,009 at the prior fiscal year end to a deficit of \$180,170 at the end of the current fiscal year was primarily due to continued expense levels that outpace the highway user funds received from the state.
- The total Wastewater, Water, and Sanitation Funds net position increased \$65,423. Operating revenues of \$904,387 exceeded operating expenses by \$79,041 at the end of the current fiscal year.

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, 2017**

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, 2017**

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, 2017**

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 \$4.2 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, 2017 and June 30, 2016 (prior year data has not been restated for the effects of Note 13).

	2017 Governmental Activities	2016 Governmental Activities	2017 Business-type Activities	2016 Business-type Activities	2017 Total	2016 Total
Current and other assets	\$ 2,129,820	\$ 2,603,792	\$ 212,270	\$ 160,580	\$ 2,342,090	\$ 2,764,372
Capital assets, net	2,229,299	1,697,436	2,426,345	2,393,865	4,655,644	4,091,301
Total assets	<u>4,359,119</u>	<u>4,301,228</u>	<u>2,638,615</u>	<u>2,554,445</u>	<u>6,997,734</u>	<u>6,855,673</u>
Deferred outflows	241,218	106,066	84,811	50,082	326,029	156,148
Current and other liabilities	144,520	143,009	121,184	104,782	265,704	247,791
Long-term liabilities	1,873,042	2,053,538	775,128	708,010	2,648,170	2,761,548
Total liabilities	<u>2,017,562</u>	<u>2,196,547</u>	<u>896,312</u>	<u>812,792</u>	<u>2,913,874</u>	<u>3,009,339</u>
Deferred inflows	210,903	164,748	42,123	30,787	253,026	195,535
Net position:						
Net investment in capital assets	1,778,169	1,543,729	2,021,657	2,022,605	3,799,826	3,566,334
Restricted	55,953	479,401	463,866	461,443	519,819	940,844
Unrestricted	537,750	22,869	(700,532)	(723,100)	(162,782)	(700,231)
Total net position	<u>\$ 2,371,872</u>	<u>\$ 2,045,999</u>	<u>\$ 1,784,991</u>	<u>\$ 1,760,948</u>	<u>\$ 4,156,863</u>	<u>\$ 3,806,947</u>

The City's financial position is the product of several financial transactions including the net results of activities, the 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 \$615,726 and business type capital asset additions of \$150,894.
- Depreciation expense of \$148,882 related to governmental assets and \$77,034 for business-type assets.
- Governmental activity principal payments of \$100,000 for general obligation bonds.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in net position. The City's total revenues for the current fiscal year were \$3.4 million. The total cost of all programs and services was \$3.1 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016 (prior year data has not been restated for the effects of Note 13).

	2017 Governmental Activities	2016 Governmental Activities	2017 Business-type Activities	2016 Business-type Activities	2017 Total	2016 Total
Revenues:						
Program revenues:						
Charges for services	\$ 194,877	\$ 164,746	\$ 904,387	\$ 938,888	\$ 1,099,264	\$ 1,103,634
Operating grants and contributions	340,859	242,866			340,859	242,866
Capital grants and contributions	268,091	138,290			268,091	138,290
General revenues:						
Property taxes	236,065	238,768			236,065	238,768
City sales taxes	973,908	996,378			973,908	996,378
Franchise taxes	52,332	56,134			52,332	56,134
Unrestricted state revenues	368,249	360,346			368,249	360,346
Investment income	5,098	2,414	2,592	1,536	7,690	3,950
Miscellaneous	50,164	16,435			50,164	16,435
Total revenues	<u>2,489,643</u>	<u>2,216,377</u>	<u>906,979</u>	<u>940,424</u>	<u>3,396,622</u>	<u>3,156,801</u>
Expenses:						
General government	691,715	628,705			691,715	628,705
Public safety	849,522	730,336			849,522	730,336
Highways and streets	189,311	178,653			189,311	178,653
Culture and recreation	288,848	255,805			288,848	255,805
Redevelopment and housing	63,660	54,438			63,660	54,438
Health and welfare	117,916	112,229			117,916	112,229
Interest on long-term debt	27,817	24,371			27,817	24,371
Wastewater			291,217	274,977	291,217	274,977
Water			366,417	363,822	366,417	363,822
Sanitation			183,922	186,483	183,922	186,483
Total expenses	<u>2,228,789</u>	<u>1,984,537</u>	<u>841,556</u>	<u>825,282</u>	<u>3,070,345</u>	<u>2,809,819</u>
Changes in net position	260,854	231,840	65,423	115,142	326,277	346,982
Net position, beginning restated	2,111,018	1,814,159	1,719,568	1,645,806	3,830,586	3,459,965
Net position, ending	<u>\$ 2,371,872</u>	<u>\$ 2,045,999</u>	<u>\$ 1,784,991</u>	<u>\$ 1,760,948</u>	<u>\$ 4,156,863</u>	<u>\$ 3,806,947</u>

- Operating grants and contributions increased \$97,993 primarily due to grant funding for the airport enhancement project plan and additional tourism collections from the Boothill cemetery.
- Capital grants and contributions increased \$129,801 primarily due to fire equipment donations and airport grant funding.
- Public safety expenses increased \$119,186 due primarily to the changes in the pension liability and increases in depreciation expense for new public safety assets.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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.

	2017		2016	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 691,715	\$ (460,455)	\$ 628,705	\$ (449,998)
Public safety	849,522	(644,731)	730,336	(717,940)
Highways and streets	189,311	(84,676)	178,653	(79,056)
Culture and recreation	288,848	(76,144)	255,805	(40,461)
Redevelopment and housing	63,660	(13,223)	54,438	(14,580)
Health and welfare	117,916	(117,916)	112,229	(112,229)
Interest on long-term debt	27,817	(27,817)	24,371	(24,371)
Total	<u>\$ 2,228,789</u>	<u>\$ (1,424,962)</u>	<u>\$ 1,984,537</u>	<u>\$ (1,438,635)</u>
Business-type Activities				
Wastewater	\$ 291,217	\$ (46,464)	\$ 274,977	\$ (29,479)
Water	366,417	152,988	363,822	187,427
Sanitation	183,922	(43,693)	186,483	(44,342)
Total	<u>\$ 841,556</u>	<u>\$ 62,831</u>	<u>\$ 825,282</u>	<u>\$ 113,606</u>

- The cost of all governmental activities this year was \$2.2 million, an increase of \$244,252 from the prior year.
- The cost of all business-type activities this year was \$841,556 an increase of \$16,274 from the prior year.
- Federal and state grants and charges for services subsidized certain governmental programs and business-type programs with revenues of \$1.7 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.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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 \$1.4 million, a decrease of \$502,213 primarily due to capital purchases.

The General Fund is the principal operating fund of the City. The decrease in fund balance of \$462,040 to \$1.5 million as of fiscal year end was a result of capital purchases. General Fund revenues increased \$161,546 primarily as a result of an increase in state shared revenue and airport grant funding. General Fund expenditures increased \$583,941 primarily as a result of increased capital outlay.

Proprietary funds. Net position of the enterprise funds at the end of the year amounted to \$1.8 million, an increase of \$65,423.

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 2016-17 operating and capital budget. The significant variances are summarized as follows:

- The unfavorable variance of \$37,128 in contributions and donations was a result of proceeds from vehicle auctions were less than projected.
- The favorable variance of \$20,164 in miscellaneous was a result of income from summer programs, retail sales of memorabilia, and insurance claim reimbursements exceeding expectations.
- The unfavorable variance of \$503,309 in capital outlay was a result of the costs related to the purchase of new police and fire equipment, budgeted under the Capital Projects Fund, being transferred to their corresponding departments to reflect the actual fiscal year operational expense total for each department.

New police and fire equipment budgeted under the General Capital Projects Fund was purchased mid fiscal year. At June 30, the actual costs for this equipment was recorded in their corresponding General Fund departments, increasing the operational expenses above the department's fiscal year appropriation and causing the General Fund total expenditures to exceed the approved budget for the fund but not the approved expenditure limit applicable to all funds in total.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of year end, the City had invested \$4.7 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 \$520,704 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$225,916.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2017 and June 30, 2016 (prior year data has not been restated for the effects of Note 13).

	2017 Governmental Activities	2016 Governmental Activities	2017 Business-type Activities	2016 Business-type Activities
Capital assets – non-depreciable	\$ 282,193	\$ 216,041	\$ 422,427	\$ 364,924
Capital assets – depreciable, net	1,947,106	1,481,395	2,003,918	2,028,941
Total	\$ 2,229,299	\$ 1,697,436	\$ 2,426,345	\$ 2,393,865

The estimated cost to complete current construction projects is \$281,000.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration. At year end, the City had \$1.6 million in long-term debt outstanding, \$223,997 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, 2017 and June 30, 2016.

	As of June 30, 2017	As of June 30, 2016
Revenue bonds payable	\$ 288,000	\$ 313,000
General obligation bonds payable	700,000	800,000
Capital leases	581,060	676,656
Total	\$ 1,569,060	\$ 1,789,656

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 \$916,392 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, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The adopted combined operating and capital expenditure budget for fiscal year 2017-18 totals \$5.8 million, a decrease of \$340,387 or six percent less than fiscal year 2016-17 due primarily to changes in the estimated completion costs for the Old City Hall Renovation Project.

General Fund

The budget for the General Fund increased by \$12,694 in fiscal year 2017-18, an increase of approximately one percent.

Enterprise Funds

The City's budget for utility enterprise funds in total increased by \$11,640, a decrease of one percent over the 2016-17 budgeted amount.

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, 2017

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 731,009	\$ 191,393	\$ 922,402
Accounts receivable	25,460	104,186	129,646
Property taxes receivable	6,982		6,982
Due from governmental entities	126,861		126,861
Internal balances	628,691	(628,691)	
Total current assets	<u>1,519,003</u>	<u>(333,112)</u>	<u>1,185,891</u>
Noncurrent assets:			
Cash and investments - restricted	13,242	545,382	558,624
Net pension asset	597,575		597,575
Capital assets, non-depreciable	282,193	422,427	704,620
Capital assets, depreciable (net)	1,947,106	2,003,918	3,951,024
Total noncurrent assets	<u>2,840,116</u>	<u>2,971,727</u>	<u>5,811,843</u>
Total assets	<u>4,359,119</u>	<u>2,638,615</u>	<u>6,997,734</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension plan items	<u>241,218</u>	<u>84,811</u>	<u>326,029</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	112,853	31,508	144,361
Accrued payroll and employee benefits	31,667	8,976	40,643
Compensated absences payable	28,925	8,443	37,368
Customer deposits		81,347	81,347
Capital leases payable	77,952	19,045	96,997
General obligation bonds payable	100,000		100,000
Revenue bonds payable		27,000	27,000
Total current liabilities	<u>351,397</u>	<u>176,319</u>	<u>527,716</u>
Noncurrent liabilities:			
Capital leases payable	386,420	97,643	484,063
General obligation bonds payable	600,000		600,000
Revenue bonds payable		261,000	261,000
Net pension liability	679,745	361,350	1,041,095
Total noncurrent liabilities	<u>1,666,165</u>	<u>719,993</u>	<u>2,386,158</u>
Total liabilities	<u>2,017,562</u>	<u>896,312</u>	<u>2,913,874</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension plan items	<u>210,903</u>	<u>42,123</u>	<u>253,026</u>
<u>NET POSITION</u>			
Net investment in capital assets	1,778,169	2,021,657	3,799,826
Restricted for:			
Debt service	11,535		11,535
Capital projects	20,707	424,156	444,863
Other purposes	23,711	39,710	63,421
Unrestricted	537,750	(700,532)	(162,782)
Total net position	<u>\$ 2,371,872</u>	<u>\$ 1,784,991</u>	<u>\$ 4,156,863</u>

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, 2017**

Functions/Programs	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
Primary Government					
Governmental activities:					
General government	\$ 691,715	\$ 194,877	\$ 36,383	\$	\$ (460,455)
Public safety	849,522		9,618	195,173	(644,731)
Highway and streets	189,311		104,635		(84,676)
Culture and recreation	288,848		139,786	72,918	(76,144)
Redevelopment and housing	63,660		50,437		(13,223)
Health and welfare	117,916				(117,916)
Interest on long term debt	27,817				(27,817)
Total governmental activities	<u>2,228,789</u>	<u>194,877</u>	<u>340,859</u>	<u>268,091</u>	<u>(1,424,962)</u>
Business-type activities:					
Wastewater	291,217	244,753			
Water	366,417	519,405			
Sanitation	183,922	140,229			
Total business-type activities	<u>841,556</u>	<u>904,387</u>			
Total primary government	<u>\$ 3,070,345</u>	<u>\$ 1,099,264</u>	<u>\$ 340,859</u>	<u>\$ 268,091</u>	<u>(1,424,962)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	120,122
Property taxes, levied for debt purposes	115,943
City sales taxes	973,908
Franchise taxes	52,332
Unrestricted state revenues	368,249
Investment income	5,098
Miscellaneous	50,164
Total general revenues	<u>1,685,816</u>

Changes in net position

260,854

Net position, beginning of year, as restated

2,111,018

Net position, end of year

\$ 2,371,872

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
\$	\$
	(460,455)
	(644,731)
	(84,676)
	(76,144)
	(13,223)
	(117,916)
	(27,817)
	(1,424,962)
(46,464)	(46,464)
152,988	152,988
(43,693)	(43,693)
62,831	62,831
62,831	(1,362,131)
	120,122
	115,943
	973,908
	52,332
	368,249
2,592	7,690
	50,164
2,592	1,688,408
65,423	326,277
1,719,568	3,830,586
\$ 1,784,991	\$ 4,156,863

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FUND FINANCIAL STATEMENTS

CITY OF TOMBSTONE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Highway User Revenue Fund	Non-Major Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 680,606	\$	\$ 50,403
Cash and investments - restricted	13,242		
Accounts receivable	25,460		
Property taxes receivable	3,584		3,398
Due from governmental entities	91,588	9,759	25,514
Due from other funds	223,805		
Advances to other funds	628,691		
Total assets	\$ 1,666,976	\$ 9,759	\$ 79,315
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 98,345	\$ 3,418	\$ 11,090
Due to other funds		185,763	38,042
Accrued payroll and employee benefits	30,919	748	
Total liabilities	129,264	189,929	49,132
Deferred inflows of resources:			
Unavailable revenues - intergovernmental			12,683
Fund balances (deficits):			
Nonspendable	628,691		
Restricted	13,242		42,711
Unassigned	895,779	(180,170)	(25,211)
Total fund balances	1,537,712	(180,170)	17,500
 Total liabilities, deferred inflows of resources and fund balances	 \$ 1,666,976	 \$ 9,759	 \$ 79,315

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

Total
Governmental
Funds

\$ 731,009
13,242
25,460
6,982
126,861
223,805
628,691

\$ 1,756,050

\$ 112,853
223,805

31,667

368,325

12,683

628,691
55,953

690,398

1,375,042

\$ 1,756,050

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CITY OF TOMBSTONE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total governmental fund balances **\$ 1,375,042**

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	\$ 6,979,876	
Less accumulated depreciation	<u>(4,750,577)</u>	2,229,299

Some intergovernmental receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds. 12,683

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	597,575	
Deferred outflows of resources related to pensions	241,218	
Deferred inflows of resources related to pensions	<u>(210,903)</u>	627,890

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

Compensated absences payable	(28,925)	
Obligations under capital leases	(464,372)	
Net pension liability	(679,745)	
Bonds payable	<u>(700,000)</u>	<u>(1,873,042)</u>

Net position of governmental activities **\$ 2,371,872**

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, 2017

	General	Highway User Revenue Fund	Non-Major Governmental Funds
Revenues:			
Property taxes	\$ 120,122	\$	\$ 115,943
City sales taxes	973,908		
Franchise taxes	52,332		
Licenses and permits	60,480		
Intergovernmental	431,675	104,635	51,675
Charges for services	102,163		
Fines and forfeits	32,234		
Investment income	5,098		
Contributions and donations	152,458		238,034
Miscellaneous	50,164		
Total revenues	1,980,634	104,635	405,652
Expenditures:			
Current -			
General government	641,874		
Public safety	800,791		
Highway and streets		165,843	
Culture and recreation	260,681		
Redevelopment and housing			63,120
Health and welfare	117,916		
Capital outlay	519,309	11,057	208,096
Debt service -			
Principal retirement	57,864	18,766	100,000
Interest and fiscal charges	6,567	2,130	19,120
Total expenditures	2,405,002	197,796	390,336
Excess (deficiency) of revenues over expenditures	(424,368)	(93,161)	15,316
Other financing sources (uses):			
Transfer in		10,000	27,672
Transfer out	(37,672)		
Total other financing sources (uses)	(37,672)	10,000	27,672
Changes in fund balances	(462,040)	(83,161)	42,988
Fund balances (deficits), beginning of year	1,999,752	(97,009)	(25,488)
Fund balances (deficits), end of year	\$ 1,537,712	\$ (180,170)	\$ 17,500

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

Total
Governmental
Funds

\$ 236,065
973,908
52,332
60,480
587,985
102,163
32,234
5,098
390,492
50,164

2,490,921

641,874
800,791
165,843
260,681
63,120
117,916
738,462

176,630
27,817

2,993,134

(502,213)

37,672

(37,672)

(502,213)

1,877,255

\$ 1,375,042

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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, 2017

Changes in fund balances - total governmental funds **\$ (502,213)**

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	\$ 615,726	
Less current year depreciation	<u>(148,882)</u>	466,844

Some intergovernmental revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (1,278)

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	154,024	
Bond principal retirement	<u>100,000</u>	254,024

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 liability, adjusted for deferred pension items, is reported as pension expense in the Statement of Activities.

Current year pension contributions	56,150	
Pension income/expense	<u>(11,039)</u>	45,111

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. (1,634)

Changes in net position in governmental activities **\$ 260,854**

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, 2017

	Enterprise Funds		
	Wastewater	Water	Sanitation
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$	\$ 191,393	\$
Accounts receivable	24,498	65,903	13,785
Total current assets	<u>24,498</u>	<u>257,296</u>	<u>13,785</u>
Noncurrent assets:			
Cash and investments - restricted		545,382	
Capital assets, non-depreciable		422,427	
Capital assets, depreciable (net)	1,005,827	998,091	
Total noncurrent assets	<u>1,005,827</u>	<u>1,965,900</u>	
Total assets	<u>1,030,325</u>	<u>2,223,196</u>	<u>13,785</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension plan items	<u>33,410</u>	<u>48,831</u>	<u>2,570</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	4,980	13,828	12,700
Accrued payroll and employee benefits	3,706	4,989	281
Compensated absences payable	3,247	4,828	368
Customer deposits		81,347	
Capital leases payable	4,177	14,868	
Revenue bonds payable		27,000	
Total current liabilities	<u>16,110</u>	<u>146,860</u>	<u>13,349</u>
Noncurrent liabilities:			
Advances from other funds	312,181		316,510
Capital leases payable	21,862	75,781	
Revenue bonds payable		261,000	
Net pension liability	179,396	162,695	19,259
Total noncurrent liabilities	<u>513,439</u>	<u>499,476</u>	<u>335,769</u>
Total liabilities	<u>529,549</u>	<u>646,336</u>	<u>349,118</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension plan items	<u>16,594</u>	<u>24,253</u>	<u>1,276</u>
<u>NET POSITION</u>			
Net investment in capital assets	979,788	1,041,869	
Restricted for:			
Capital projects		424,156	
Other purposes		39,710	
Unrestricted	(462,196)	95,703	(334,039)
Total net position	<u>\$ 517,592</u>	<u>\$ 1,601,438</u>	<u>\$ (334,039)</u>

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

Enterprise Funds

Totals

\$ 191,393
104,186
295,579

545,382
422,427
2,003,918
2,971,727
3,267,306

84,811

31,508
8,976
8,443
81,347
19,045
27,000
176,319

628,691
97,643
261,000
361,350
1,348,684
1,525,003

42,123

2,021,657

424,156
39,710
(700,532)
\$ 1,784,991

CITY OF TOMBSTONE, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Funds		
	Wastewater	Water	Sanitation
Operating revenues:			
Charges for services	\$ 244,753	\$ 519,405	\$ 140,229
Total operating revenues	<u>244,753</u>	<u>519,405</u>	<u>140,229</u>
Operating expenses:			
Administration	118,341	179,672	13,220
Cost of sales and services	136,980	129,397	170,702
Depreciation	35,430	41,604	
Total operating expenses	<u>290,751</u>	<u>350,673</u>	<u>183,922</u>
Operating income (loss)	<u>(45,998)</u>	<u>168,732</u>	<u>(43,693)</u>
Nonoperating revenues (expenses):			
Investment income		2,592	
Interest expense	(466)	(15,744)	
Total nonoperating revenues (expenses)	<u>(466)</u>	<u>(13,152)</u>	
Changes in net position	<u>(46,464)</u>	<u>155,580</u>	<u>(43,693)</u>
Total net position, beginning of year, as restated	564,056	1,445,858	(290,346)
Total net position, end of year	<u>\$ 517,592</u>	<u>\$ 1,601,438</u>	<u>\$ (334,039)</u>

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

Enterprise Funds

Totals
\$ 904,387
904,387

311,233
437,079
77,034
825,346
79,041

2,592
(16,210)
(13,618)
65,423

1,719,568
\$ 1,784,991

**CITY OF TOMBSTONE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Enterprise Funds			
	Wastewater	Water	Sanitation	Totals
<u>Increase (Decrease) in Cash and Cash Equivalents</u>				
Cash flows from operating activities:				
Cash received from customers	\$ 246,071	\$ 523,055	\$ 141,177	\$ 910,303
Cash payments to suppliers for goods and services	(138,095)	(130,493)	(157,175)	(425,763)
Cash payments to employees for services	(113,927)	(174,556)	(13,057)	(301,540)
Net cash provided by (used for) operating activities	<u>(5,951)</u>	<u>218,006</u>	<u>(29,055)</u>	<u>183,000</u>
Cash flows from noncapital and related financing activities:				
Interfund advances	(3,383)		29,055	25,672
Net cash provided by (used for) noncapital financing activities	<u>(3,383)</u>		<u>29,055</u>	<u>25,672</u>
Cash flows from capital and related financing activities:				
Proceeds from capital lease	30,145	47,005		77,150
Principal paid on long-term debt	(4,106)	(39,619)		(43,725)
Interest paid on long-term debt	(466)	(15,744)		(16,210)
Acquisition of capital assets	(16,239)	(134,652)		(150,891)
Net cash provided by (used for) capital and related financing activities	<u>9,334</u>	<u>(143,010)</u>		<u>(133,676)</u>
Cash flows from investing activities:				
Investment income		2,592		2,592
Net cash provided by investing activities		<u>2,592</u>		<u>2,592</u>
Net increase/(decrease) in cash and cash equivalents		<u>77,588</u>		<u>77,588</u>
Cash and cash equivalents, beginning of year		<u>654,498</u>		<u>654,498</u>
Cash and cash equivalents, end of year	<u>\$</u>	<u>\$ 732,086</u>	<u>\$</u>	<u>\$ 732,086</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating income (loss)	\$ (45,998)	\$ 168,732	\$ (43,693)	\$ 79,041
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	35,430	41,604		77,034
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	1,318	(2,802)	948	(536)
Decrease in prepaid items		762		762
Increase (decrease) in accounts payable	(1,115)	(1,096)	13,527	11,316
Increase (decrease) in accrued payroll and employee benefits	458	(290)	(125)	43
Increase in compensated absences payable	448	279	18	745
Increase in deposits held for others		5,690		5,690
Increase (decrease) in pension items	3,508	5,127	270	8,905
Total adjustments	<u>40,047</u>	<u>49,274</u>	<u>14,638</u>	<u>103,959</u>
Net cash provided by (used for) operating activities	<u>\$ (5,951)</u>	<u>\$ 218,006</u>	<u>\$ (29,055)</u>	<u>\$ 183,000</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, 2017**

	<u>Pension Trust</u>
<u>ASSETS</u>	
Cash and investments	\$ 88,820
Total assets	<u>88,820</u>
<u>NET POSITION</u>	
Held in trust	<u>\$ 88,820</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, 2017**

	Pension Trust
Additions:	
Contributions	\$ 7,472
Total additions	7,472
 Deductions:	
Distributions	5,622
Total deductions	5,622
 Changes in net position	 1,850
 Net position, beginning of year	 86,970
 Net position, end of year	 \$ 88,820

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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, 2017

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, 2017

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, 2017

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. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Finance Director submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. State law requires that, prior to April 1, the Economic Estimates Commission provide the City with a final expenditure limit for the coming fiscal year. However, the City currently follows a voter-approved alternative expenditure limitation that was adopted on November 6, 2012.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by funds for other funds. The City Council will be presented for approval budget transfers and all amendments to the adopted budget.
6. The City has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Capital Projects, Debt Service, and Enterprise funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

D. Budgets and Budgetary Accounting

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

E. 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.

F. 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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. 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.

H. 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.

I. 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.

J. 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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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

K. 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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. 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.

M. 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.

N. 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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. 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.

P. 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.

Q. 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, 2017

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.

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Non-Major Governmental Funds</u>
Fund Balances:			
Nonspendable:			
Advances to other funds	\$ 628,691	\$	\$
Restricted:			
Capital projects	13,242		7,465
Debt service			11,535
Other purposes			23,711
Unassigned	<u>895,779</u>	<u>(180,170)</u>	<u>(25,211)</u>
Total fund balances	<u>\$ 1,537,712</u>	<u>\$ (180,170)</u>	<u>\$ 17,500</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 Governmental Fund:	
Highway User Revenue	\$ 180,170
Major Enterprise Fund:	
Sanitation	334,039
Non-Major Governmental Funds:	
Community Development Block Grant	25,211

The City plans to address the Sanitation Fund deficit through renegotiation of provider agreements and through a proposed rate adjustment and rate study that will be finalized and presented during the fiscal year 2019 budget process that will include a 5 year rate structure. 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 \$523,247 and the bank balance was \$581,635. At year end, \$318,393 of the City’s deposits were covered by collateral held by the pledging financial institution’s trust department or agent 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 as an investment company 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, 2017

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.

At year end, the City’s investments consisted of the following.

	Maturities	Fair Value
State Treasurer’s investment pool 5	37 days	\$ 1,046,599
Total		\$ 1,046,599

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.

	General Fund	Highway User Revenue Fund	Non-Major Governmental Funds
Due from other governmental entities:			
Due from federal government	\$	\$	\$ 25,514
Due from state government	91,588	9,759	
Net due from governmental entities	\$ 91,588	\$ 9,759	\$ 25,514

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS

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

Governmental Activities	Beginning Balance (as restated)	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,949	\$	\$	\$ 4,949
Construction in progress	211,092	80,295	14,143	277,244
Total capital assets, not being depreciated	<u>216,041</u>	<u>80,295</u>	<u>14,143</u>	<u>282,193</u>
Capital assets, being depreciated:				
Buildings and improvements	2,695,839	14,143		2,709,982
Infrastructure	2,058,748			2,058,748
Machinery, equipment, and vehicles	1,537,937	535,431	144,415	1,928,953
Total capital assets being depreciated	<u>6,292,524</u>	<u>549,574</u>	<u>144,415</u>	<u>6,697,683</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,448,274)	(66,748)		(1,515,022)
Infrastructure	(1,991,354)	(5,184)		(1,996,538)
Machinery, equipment, and vehicles	(1,306,482)	(76,950)	(144,415)	(1,239,017)
Total accumulated depreciation	<u>(4,746,110)</u>	<u>(148,882)</u>	<u>(144,415)</u>	<u>(4,750,577)</u>
Total capital assets, being depreciated, net	<u>1,546,414</u>	<u>400,692</u>		<u>1,947,106</u>
Governmental activities capital assets, net	<u>\$ 1,762,455</u>	<u>\$ 480,987</u>	<u>\$ 14,143</u>	<u>\$ 2,229,299</u>
Business-Type Activities	Beginning Balance (as restated)	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 364,924	\$ 57,503	\$	\$ 422,427
Total capital assets, not being depreciated	<u>364,924</u>	<u>57,503</u>		<u>422,427</u>
Capital assets, being depreciated:				
Buildings and improvements	185,650			185,650
Infrastructure	4,575,117	30,906		4,606,023
Machinery, equipment, and vehicles	185,936	62,485	30,000	218,421
Total capital assets being depreciated	<u>4,946,703</u>	<u>93,391</u>	<u>30,000</u>	<u>5,010,094</u>
Less accumulated depreciation for:				
Buildings and improvements	(95,965)	(25,530)		(121,495)
Infrastructure	(2,736,275)	(40,202)		(2,776,477)
Machinery, equipment, and vehicles	(126,902)	(11,302)	(30,000)	(108,204)
Total accumulated depreciation	<u>(2,959,142)</u>	<u>(77,034)</u>	<u>(30,000)</u>	<u>(3,006,176)</u>
Total capital assets, being depreciated, net	<u>1,987,561</u>	<u>16,357</u>		<u>2,003,918</u>
Business-type activities capital assets, net	<u>\$ 2,352,485</u>	<u>\$ 73,860</u>	<u>\$</u>	<u>\$ 2,426,345</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
General government	\$ 41,818
Public safety	62,064
Highways and streets	20,230
Culture and recreation	24,770
Total depreciation expense – governmental activities	<u>\$ 148,882</u>
Business-type activities:	
Wastewater	\$ 35,430
Water	41,604
Total depreciation expense – business-type activities	<u>\$ 77,034</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 cemetery pavilion project. At year end the City had spent \$719,671 on the projects and had estimated remaining contractual commitments of \$281,000. 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.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2017	Due Within One Year
Governmental activities:					
GO Bonds Series Project of 2013, Series 2014	\$ 1,000,000	2.39%	7/1/18-24	\$ 700,000	\$ 100,000
Total				<u>\$ 700,000</u>	<u>\$ 100,000</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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>
2018	\$ 100,000	\$ 16,730
2019	100,000	14,340
2020	100,000	11,950
2021	100,000	9,560
2022	100,000	7,170
2023-24	<u>200,000</u>	<u>7,170</u>
Total	<u>\$ 700,000</u>	<u>\$ 66,920</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, 2017</u>	<u>Due Within One Year</u>
Business-type activities:					
Water Revenue Bonds, Project of 1994	\$ 586,500	4.5%	7/1/18-26	\$ 288,000	\$ 27,000
Total				<u>\$ 288,000</u>	<u>\$ 27,000</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>
2018	\$ 27,000	\$ 12,960
2019	28,000	11,745
2020	29,000	10,485
2021	30,000	9,180
2022	32,000	7,830
2023-26	<u>142,000</u>	<u>16,335</u>
Total	<u>\$ 288,000</u>	<u>\$ 68,535</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$356,535. The current total customer gross revenues were \$519,405 and the total principal and interest paid on the bonds was \$39,085, or eight 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, Wastewater 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. During the fiscal year the City transferred a portion of the governmental activities lease liability of \$77,150 to the Wastewater and Water Funds to properly account for the assets purchased from lease proceeds and recorded in the Enterprise Funds.

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

	Governmental Activities	Wastewater Fund	Water Fund
Asset			
Machinery, equipment, and vehicles	\$ 594,669	\$ 30,146	\$ 77,150
Less: Accumulated depreciation	(63,650)	(4,396)	(3,907)
Total	\$ 531,019	\$ 25,750	\$ 73,243

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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	Wastewater Fund	Water Fund
2018	\$ 85,328	\$ 4,573	\$ 16,275
2019	85,328	4,573	16,275
2020	85,328	4,573	16,275
2021	85,328	4,573	16,275
2022	85,328	4,573	16,275
2023	<u>61,400</u>	<u>4,442</u>	<u>13,787</u>
Total minimum lease payments	488,040	27,307	95,162
Less: amount representing interest	<u>23,668</u>	<u>1,268</u>	<u>4,513</u>
Present value of minimum lease payments	<u>\$ 464,372</u>	<u>\$ 26,039</u>	<u>\$ 90,649</u>
Due within one year	<u>\$ 77,952</u>	<u>\$ 4,177</u>	<u>\$ 14,868</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
Governmental activities:					
General obligation bonds	\$ 800,000	\$	\$ 100,000	\$ 700,000	\$ 100,000
Net pension liability	607,851	71,894		679,745	
Compensated absences payable	27,291	33,550	31,916	28,925	28,925
Capital leases payable	<u>618,396</u>		<u>154,024</u>	<u>464,372</u>	<u>77,952</u>
Governmental activity long-term liabilities	<u>\$ 2,053,538</u>	<u>\$ 105,444</u>	<u>\$ 285,940</u>	<u>\$ 1,873,042</u>	<u>\$ 206,877</u>
Business-type activities:					
Revenue bonds	\$ 313,000	\$	\$ 25,000	\$ 288,000	\$ 27,000
Net pension liability	329,052	32,298		361,350	
Compensated absences payable	7,698	11,515	10,770	8,443	8,443
Capital leases payable	<u>58,260</u>	<u>77,150</u>	<u>18,722</u>	<u>116,688</u>	<u>19,045</u>
Business-type activities long-term liabilities	<u>\$ 708,010</u>	<u>\$ 120,963</u>	<u>\$ 54,492</u>	<u>\$ 774,481</u>	<u>\$ 54,488</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, a non-major governmental fund, had negative cash balances of \$185,763 and \$38,042, 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>	<u>Total Advances to Other Funds</u>
General Fund	\$ 312,181	\$ 316,510	\$ 628,691

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 \$37,672 from the General Fund to the Highway User Fund and Community Development Grant Fund were used to move cash balances for closing out of funds and for sidewalk improvements along the commercial district.

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
JUNE 30, 2017

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The July 1, 2016, government-wide net position for governmental and business-type activities and the net positions of the Wastewater and Water Funds do not agree to the prior year financial statements due to corrections of errors related to capital assets.

	Governmental Activities	Business- Type Activities	Enterprise Funds	
			Wastewater Fund	Water Fund
Net position, June 30, 2016, as previously reported	\$ 2,045,999	\$ 1,760,948	\$ 575,933	\$ 1,475,361
Capital asset errors	<u>65,019</u>	<u>(41,380)</u>	<u>(11,877)</u>	<u>(29,503)</u>
Net position, July 1, 2016, as restated	<u>\$ 2,111,018</u>	<u>\$ 1,719,568</u>	<u>\$ 564,056</u>	<u>\$ 1,445,858</u>

NOTE 14 – 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.

**CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 15 – 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 \$11,059 of net pension expense 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.

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	

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT 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 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 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, 2017 were \$63,858.

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:				
2017	\$	3,317	\$	829
2016		2,968		712
2015		2,841		578

Pension Liability. At June 30, 2017, the City reported a liability of \$1.0 million for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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, 2016, the City’s proportion was 0.006 percent, which was an increase of 0.0004 from its proportion measured as of June 30, 2015.

Pension Expense and Deferred Outflows/Inflows of Resources. The City has deferred outflows and inflows of resources related to the net pension liability of retirement benefits. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. For the year ended June 30, 2017, the City recognized pension expense for ASRS of \$90,841 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,327	\$ 71,620
Changes of assumptions or other inputs		55,082
Net difference between projected and actual earnings on pension plan investments	112,820	
Changes in proportion and differences between contributions and proportionate share of contributions	73,999	943
Contributions subsequent to the measurement date	<u>63,858</u>	
Total	<u>\$ 257,004</u>	<u>\$ 127,645</u>

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, 2018. 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:	
2018	\$ (6,916)
2019	(9,663)
2020	50,445
2021	31,634

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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

The actuarial assumptions used in the June 30, 2015 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, 2013, 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 8.75 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%	6.73%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.84
Total	<u>100%</u>	

**CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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 8.75 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.

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	\$1,327,475	\$1,041,095	\$811,481

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.

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 nine-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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – 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% to 100% 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, 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
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Employees Covered by Benefit Terms. At June 30, 2017, 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	4
Active members	6
Total	10

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, 2017, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<u>PSPRS – Police</u>
Active members – pension	11.65%
City:	
Pension	5.00
Health insurance	0.00

In addition, the City was required by statute to contribute at the actuarially determined rate of 8.00 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – 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	\$ 13,365
Health insurance premium benefit:	
Annual OPEB cost	-0-
Contributions made	-0-

Pension Asset. At June 30, 2017, the City reported a \$597,575 net pension asset for police. The net pension asset was measured as of June 30, 2016, 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, 2016, reflects changes of benefit terms and actuarial assumptions.

- 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.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent.

The net pension assets/liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City’s net pension assets/liabilities as a result of these changes is not known.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
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, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50 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 arithmetic 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>	

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Discount Rates. The discount rate of 7.50 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.

Changes in the Agent Plans Net Pension Asset

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
PSPRS – Police			
Balances at June 30, 2016	\$ 274,452	\$ 844,019	\$ (569,567)
Changes for the year:			
Service cost	37,106		37,106
Interest on the total pension liability	23,001		23,001
Changes of benefit terms	4,697		4,697
Differences between expected and actual experience in the measurement of the pension liability	(101,482)		(101,482)
Changes of assumptions or other inputs	2,913		2,913
Contributions – employer		16,328	(16,328)
Contributions – employee		26,346	(26,346)
Net investment income		4,722	(4,722)
Administrative expense		(1,079)	1,079
Other changes		(52,074)	52,074
Net changes	(33,765)	(5,757)	(28,008)
Balances at June 30, 2017	\$ 240,687	\$ 838,262	\$ (597,575)

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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:

	1%	Current Discount Rate	1%
PSPRS – Police:	<u>Decrease</u>	<u>Rate</u>	<u>Increase</u>
Rate	6.50%	7.50%	8.50%
Net pension asset	\$ 585,639	\$ 597,575	\$ 606,602

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.

Pension Income. For the year ended June 30, 2017, the City recognized \$49,824 as pension income.

Pension Deferred Outflows/Inflows of Resources. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS – Police	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$ 125,381
Changes of assumptions or other inputs	2,721	
Net difference between projected and actual earnings on pension plan investments	52,939	
Contributions subsequent to the measurement date	13,365	
Total	<u>\$ 69,025</u>	<u>\$ 125,381</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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, 2018. 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:		
	2018	\$ (69,167)
	2019	(31,058)
	2020	18,278
	2021	12,226

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
PSPRS – Police:			
June 30, 2017	\$ - 0 -	100%	\$ - 0 -
June 30, 2016	- 0 -	100%	- 0 -
June 30, 2015	2,372	100%	- 0 -

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – 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 2017 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 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
JUNE 30, 2017**

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2017, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	19 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	7.40%
Projected salary increases includes inflation at	3.50%-7.50% 3.50%

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, 2017.

	PSPRS – Police
Actuarial value of assets	\$ 60,695
Actuarial accrued liability	4,136
Unfunded actuarial accrued liability (funding excess)	(56,559)
Funded ratio	1467.48%
Annual covered payroll	267,724
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	0.00%

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – 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, 2017, was \$43,697. Contributions made for the year ended June 30, 2017, were \$4,346, which consisted of \$2,173 from employees and \$2,173 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, 2017

	Budgeted Amounts	Non-GAAP	Variance with Final Budget
	Original & Final	Actual	Positive (Negative)
Revenues:			
Property taxes	\$ 123,581	\$ 120,122	\$ (3,459)
City sales taxes	966,917	973,908	6,991
Franchise taxes	58,600	52,332	(6,268)
Licenses and permits	59,600	60,480	880
Intergovernmental	393,725	431,675	37,950
Charges for services	52,700	60,340	7,640
Fines and forfeits	24,000	32,234	8,234
Investment income	2,000	5,098	3,098
Contributions and donations	49,500	12,372	(37,128)
Miscellaneous	30,000	50,164	20,164
Total revenues	<u>1,760,623</u>	<u>1,798,725</u>	<u>38,102</u>
Expenditures:			
Current -			
General government	594,721	641,874	(47,153)
Public safety	874,629	800,791	73,838
Culture and recreation	186,277	166,242	20,035
Health and welfare	127,846	117,916	9,930
Capital outlay	16,000	519,309	(503,309)
Debt service -			
Principal retirement	58,900	57,864	1,036
Interest and fiscal charges	7,250	6,567	683
Total expenditures	<u>1,865,623</u>	<u>2,310,563</u>	<u>(444,940)</u>
Excess (deficiency) of revenues over expenditures	<u>(105,000)</u>	<u>(511,838)</u>	<u>(406,838)</u>
Other financing sources (uses):			
Transfer in	105,000	20,000	(85,000)
Transfer out		(27,672)	(27,672)
Total other financing sources (uses)	<u>105,000</u>	<u>(7,672)</u>	<u>(112,672)</u>
Changes in fund balances	<u></u>	<u>(519,510)</u>	<u>(519,510)</u>
Fund balances, beginning of year	<u></u>	1,856,257	1,856,257
Fund balances, end of year	<u>\$</u>	<u>\$ 1,336,747</u>	<u>\$ 1,336,747</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, 2017**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 100,954	\$ 104,635	\$ 3,681
Total revenues	<u>100,954</u>	<u>104,635</u>	<u>3,681</u>
Expenditures:			
Current -			
Highway and streets	124,790	165,843	(41,053)
Capital outlay	5,000	11,057	(6,057)
Debt service -			
Principal retirement	19,200	18,766	434
Interest and fiscal charges	2,500	2,130	370
Total expenditures	<u>151,490</u>	<u>197,796</u>	<u>(46,306)</u>
Excess (deficiency) of revenues over expenditures	<u>(50,536)</u>	<u>(93,161)</u>	<u>(42,625)</u>
Other financing sources (uses):			
Transfer in	50,536	10,000	(40,536)
Total other financing sources (uses)	<u>50,536</u>	<u>10,000</u>	<u>(40,536)</u>
Changes in fund balances		<u>(83,161)</u>	<u>(83,161)</u>
Fund balances (deficits), beginning of year		(97,009)	(97,009)
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ (180,170)</u>	<u>\$ (180,170)</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 THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
City's proportion of the net pension liability (asset)	0.006%	0.006%	0.006%
City's proportionate share of the net pension liability (asset)	\$ 1,041,095	\$ 936,903	\$ 831,166
City's covered payroll	\$ 593,548	\$ 563,214	\$ 754,551
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	175.40%	166.35%	110.15%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	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 THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Total pension liability			
Service cost	\$ 37,106	\$ 19,439	\$ 30,962
Interest	23,001	25,324	31,998
Changes of benefit terms	4,697		(367)
Differences between expected and actual experience	(101,482)	(83,185)	(114,176)
Changes of assumptions	2,913		3,736
Benefit payments, including refunds of employee contributions			(62,834)
Net change in total pension liability	<u>(33,765)</u>	<u>(38,422)</u>	<u>(110,681)</u>
Total pension liability—beginning	<u>274,452</u>	<u>312,874</u>	<u>423,555</u>
Total pension liability—ending	<u>\$ 240,687</u>	<u>\$ 274,452</u>	<u>\$ 312,874</u>
Plan fiduciary net position			
Contributions—employer	\$ 16,328	\$ 10,686	\$ 13,826
Contributions—employee	26,346	13,419	15,048
Net investment income	4,722	29,457	98,582
Benefit payments, including refunds of employee contributions			(62,834)
Administrative expense	(1,079)	(1,095)	(794)
Other	(52,074)	(662)	
Net change in plan fiduciary net position	<u>(5,757)</u>	<u>51,805</u>	<u>63,828</u>
Plan fiduciary net position—beginning	<u>844,019</u>	<u>792,214</u>	<u>728,386</u>
Plan fiduciary net position—ending	<u>\$ 838,262</u>	<u>\$ 844,019</u>	<u>\$ 792,214</u>
Net pension liability—ending	<u>\$ (597,575)</u>	<u>\$ (569,567)</u>	<u>\$ (479,340)</u>
Plan fiduciary net position as a percentage of the total pension liability	348.28%	307.53%	253.21%
Covered payroll	\$ 226,150	\$ 121,307	\$ 209,144
Net pension liability as a percentage of covered payroll	-264.24%	-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 THREE FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Arizona State Retirement System:			
Actuarially determined contribution	\$ 63,858	\$ 64,400	\$ 61,344
Contributions in relation to the actuarially determined contribution	<u>63,858</u>	<u>64,400</u>	<u>61,344</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 592,365	\$ 593,548	\$ 563,214
Contributions as a percentage of covered payroll	10.78%	10.85%	10.89%
PSPRS - Police:			
Actuarially determined contribution	\$ 13,365	\$ 16,328	\$ 10,675
Contributions in relation to the actuarially determined contribution	<u>13,365</u>	<u>16,328</u>	<u>10,675</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 267,300	\$ 226,150	\$ 121,307
Contributions as a percentage of covered payroll	5.00%	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**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAAL as a percentage of Covered Payroll
PSPRS - Police:						
2017	\$ 60,695	\$ 4,136	\$ (56,559)	1,467.48 %	\$ 267,724	0.00 %
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

See accompanying notes to this schedule.

CITY OF TOMBSTONE, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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 certain activities reported in the General Fund that are budgeted as Special Revenue funds.

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

	Total Expenditures	Fund Balances End of Year
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 2,405,002	\$ 1,537,712
Activity budgeted as special revenue funds	(94,439)	(200,965)
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	\$ 2,310,563	\$ 1,336,747

NOTE 2 – PENSION PLAN SCHEDULES

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.

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2015, 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, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The actuarial assumptions used in the June 30, 2016, 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, 2016, 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%.

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, 2017

	Fire Truck Fund		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Charges for services	30,000	41,823	11,823
Contributions and donations		300	300
Total revenues	<u>30,000</u>	<u>42,123</u>	<u>12,123</u>
Expenditures:			
Current -			
General government	5,000		5,000
Culture and recreation			
Redevelopment and housing			
Capital outlay	25,000		25,000
Total expenditures	<u>30,000</u>		<u>30,000</u>
Excess (deficiency) of revenues over expenditures		<u>42,123</u>	<u>42,123</u>
Other financing sources (uses):			
Transfer in			
Transfer out			
Total other financing sources (uses)			
Changes in fund balances		<u>42,123</u>	<u>42,123</u>
Fund balances (deficits), beginning of year		30,464	30,464
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ 72,587</u>	<u>\$ 72,587</u>

Court Improvements Fund			Community Development Block Grant		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 5,000	\$	\$ (5,000)	\$ 250,000	\$ 50,437	\$ (199,563)
<u>5,000</u>	<u></u>	<u>(5,000)</u>	<u>250,000</u>	<u>50,437</u>	<u>(199,563)</u>
5,000		5,000	250,000	63,120	186,880
<u>5,000</u>	<u></u>	<u>5,000</u>	<u>250,000</u>	<u>63,120</u>	<u>186,880</u>
				(12,683)	(12,683)
				27,672	27,672
				<u>27,672</u>	<u>27,672</u>
				14,989	14,989
				(40,200)	(40,200)
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>(25,211)</u>	<u>\$ (25,211)</u>

(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, 2017

	AOT Grant		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Intergovernmental	\$ 140,000	\$	\$ (140,000)
Charges for services			
Contributions and donations		195,173	195,173
Total revenues	<u>140,000</u>	<u>195,173</u>	<u>55,173</u>
Expenditures:			
Current -			
General government			
Culture and recreation			
Redevelopment and housing			
Capital outlay	140,000	195,173	(55,173)
Total expenditures	<u>140,000</u>	<u>195,173</u>	<u>(55,173)</u>
Excess (deficiency) of revenues over expenditures			
Other financing sources (uses):			
Transfer in			
Transfer out			
Total other financing sources (uses)			
Changes in fund balances			
Fund balances (deficits), beginning of year			
Fund balances (deficits), end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>

Grant Opportunity Fund			Boothill Sales		
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$ 1,000,000	\$	\$ (1,000,000)	\$	\$	\$
	23,711	23,711			
<u>1,000,000</u>	<u>23,711</u>	<u>(976,289)</u>			
1,000,000		1,000,000			
<u>1,000,000</u>		<u>1,000,000</u>			
	23,711	23,711			
	23,711	23,711			
				(97,073)	(97,073)
<u>\$</u>	<u>\$ 23,711</u>	<u>\$ 23,711</u>	<u>\$</u>	<u>\$ (97,073)</u>	<u>\$ (97,073)</u>

(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, 2017

	Boothill Donations		Variance - Positive (Negative)
	Budget	Non-GAAP Actual	
Revenues:			
Intergovernmental	\$	\$	\$
Charges for services			
Contributions and donations	80,000	139,786	59,786
Total revenues	<u>80,000</u>	<u>139,786</u>	<u>59,786</u>
Expenditures:			
Current -			
General government			
Culture and recreation	50,000	94,439	(44,439)
Redevelopment and housing			
Capital outlay			
Total expenditures	<u>50,000</u>	<u>94,439</u>	<u>(44,439)</u>
Excess (deficiency) of revenues over expenditures	<u>30,000</u>	<u>45,347</u>	<u>15,347</u>
Other financing sources (uses):			
Transfer in			
Transfer out	(30,000)	(30,000)	
Total other financing sources (uses)	<u>(30,000)</u>	<u>(30,000)</u>	
Changes in fund balances		<u>15,347</u>	<u>15,347</u>
Fund balances (deficits), beginning of year		305,433	305,433
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ 320,780</u>	<u>\$ 320,780</u>

Archives			Totals		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 1,390,000	\$ 50,437	\$ (1,339,563)
			35,000	41,823	6,823
			80,000	358,970	278,970
			1,505,000	451,230	(1,053,770)
			1,005,000		1,005,000
			50,000	94,439	(44,439)
			250,000	63,120	186,880
			170,000	195,173	(25,173)
			1,475,000	352,732	1,122,268
			30,000	98,498	68,498
				27,672	27,672
			(30,000)	(30,000)	
			(30,000)	(2,328)	27,672
				96,170	96,170
	(95,329)	(95,329)		103,295	103,295
\$	\$ (95,329)	\$ (95,329)	\$	\$ 199,465	\$ 199,465

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**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Property taxes	\$ 119,120	\$ 115,943	\$ (3,177)
Total revenues	<u>119,120</u>	<u>115,943</u>	<u>(3,177)</u>
Expenditures:			
Debt service -			
Principal retirement	100,000	100,000	
Interest and fiscal charges	19,120	19,120	
Total expenditures	<u>119,120</u>	<u>119,120</u>	
Changes in fund balances		<u>(3,177)</u>	<u>(3,177)</u>
Fund balances, beginning of year		14,712	14,712
Fund balances, end of year	<u>\$</u>	<u>\$ 11,535</u>	<u>\$ 11,535</u>

CITY OF TOMBSTONE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2017

	Building Renovation		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Intergovernmental	\$ 600,000	\$ 1,238	\$ (598,762)
Contributions and donations	100,000	19,150	(80,850)
Total revenues	700,000	20,388	(679,612)
Expenditures:			
Capital outlay	700,000	12,923	687,077
Total expenditures	700,000	12,923	687,077
Changes in fund balances		7,465	7,465
Fund balances, beginning of year			
Fund balances (deficits), end of year	\$	\$ 7,465	\$ 7,465

Capital Projects			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 600,000	\$ 1,238	\$ (598,762)
			100,000	19,150	(80,850)
			700,000	20,388	(679,612)
850,000		850,000	1,550,000	12,923	1,537,077
850,000		850,000	1,550,000	12,923	1,537,077
(850,000)		850,000	(850,000)	7,465	857,465
\$ (850,000)	\$	\$ 850,000	\$ (850,000)	\$ 7,465	\$ 857,465

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**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 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, 2017, 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 May 7, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item FS-2017-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS-2017-002 and FS-2017-003, 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
May 7, 2018

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

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

Finding Number: FS-2017-001

Repeat Finding: Yes, FS-2016-001

Type of Finding: Material Weakness

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, including the omission of capital equipment items valued at approximately \$101,000.

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.

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.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

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

Finding Number: FS-2017-001

RECOMMENDATION

- 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

Management responded to the prior year finding by outsourcing physical inventory services in fiscal year 2017, but required additional staff and resources not fully available. Staff will continue to implement changes in procedures and assignments to resolve this finding.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

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

Finding Number: FS-2017-002
Repeat Finding: Yes, FS-2016-002
Type of Finding: Significant Deficiency
Description: Internal Controls Over Purchasing

CRITERIA

The City is responsible for developing 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 nine of 40 disbursements reviewed, no purchase order was prepared.
- For one of 40 disbursements reviewed, the purchase order lacked evidence of authorization.
- For two of 40 disbursements reviewed, the purchase order was prepared after receipt of goods or services.
- For 12 of 40 disbursements reviewed, the expenditure exceeded the authorized amount on the purchase order.
- For 24 of 40 disbursements reviewed, unable to agree description and quantity on receiving report to an approved purchase order.
- For one of 40 disbursements reviewed, an invoice was not provided to support the purchase.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

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

Finding Number: FS-2017-002

CONTEXT

- For one 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.
- 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.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS

Management will propose procedural changes for Council approval along with mandatory training for all responsible personnel.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

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

Finding Number: FS-2017-003

Repeat Finding: No

Type of Finding: Significant Deficiency

Description: Internal Control Over Payroll

CRITERIA

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

CONDITION

The City did not have adequate internal controls in place to prevent or detect inaccurate payments to employees.

CAUSE

Limited staff size and resources.

EFFECT

The City's internal controls over the payroll processes may not prevent or detect inaccurate or improper payments to employees.

CONTEXT

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

- For three of 25 employees reviewed, the employee's pay could not be recalculated due to differences in overtime between authorized employee timesheets and the payroll system.
- For two of 25 employees reviewed, the employee's pay could not be recalculated due to differences in the employee's authorized rate of pay and the rate of pay in the payroll system.
- For two of 25 employees reviewed, the employee's pay could not be recalculated due to differences in sick time between authorized employee timesheets and the payroll system.
- For three of 25 employees reviewed, the employee's personnel action request authorizing the employee's rate of pay was not signed by the employee.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

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

Finding Number: FS-2017-003

RECOMMENDATION

The City should strengthen internal controls and procedures over the payroll process by clearly defining responsibilities and review procedures, and by formally documenting and retaining evidence of authorized pay rates.

VIEWS OF RESPONSIBLE OFFICIALS

Management will assign additional staff from each department for the review process.