



City of Tombstone, Arizona
Financial Statements
Year Ended June 30, 2020

City of Tombstone, Arizona

Financial Statements Year Ended June 30, 2020

CITY OF TOMBSTONE, ARIZONA

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**CITY OF TOMBSTONE, ARIZONA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

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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, 2020, 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, 2020, 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, 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 April 28, 2021, 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 solely 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 effectiveness of the City of Tombstone, Arizona's 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. PC

Heinfeld, Meech & Co., P.C.

Tucson, Arizona

April 28, 2021

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, 2020**

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, 2020. 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 \$177,139 to \$3.9 million and business-type activities increased \$89,801 to \$2.3 million. The governmental and business-type activities net positions represent 62 percent and 38 percent respectively, of the total net position of \$6.1 million.
- General revenues from governmental activities accounted for \$1.8 million in revenue, or 62 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1.1 million or 38 percent of total governmental activities revenues. The City had \$1.1 million of program revenues related to business-type activities.
- The City had \$2.6 million in expenses related to governmental activities, an increase of 17 percent from the prior fiscal year primarily due to the takeover of Boothill Graveyard gift shop and reallocation from other funds of wage and benefit costs. The City had \$963,760 in expenses related to business-type activities, an increase of less than one percent from the prior fiscal year.
- Among major funds, the General Fund had \$2.4 million in current fiscal year revenues, which primarily consisted of City sales taxes and intergovernmental revenues, and \$2.4 million in expenditures.
- The Highway User Revenue Fund had \$311,168 in revenues, which consisted of intergovernmental revenues, and \$139,036 in expenditures. The Highway User Revenue Fund's fund balance increased from a deficit of \$143,869 at the prior fiscal year end to \$54,021 primarily due to ADOT's special funding for road projects under HB 2748.
- The Building Renovation Fund had \$24,568 in expenditures. The Building Renovation Fund's fund balance decreased from a deficit of \$500,462 at the prior fiscal year end to a deficit of \$525,030 primarily due to ongoing expenditures with Old City Hall. As such, the City plans to pursue additional grant funds and transfers from the General Fund to reduce the deficit.
- The total Wastewater, Water, and Sanitation Funds net position increased \$89,801. Operating expenses of \$952,312 exceeded operating revenues by \$17,655 at the end of the current fiscal year.

CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020

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.

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, 2020

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, Highway User Revenue, and Building Renovation Funds, all 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, 2020

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 \$6.1 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, 2020 and June 30, 2019.

	2020 Governmental Activities	2019 Governmental Activities	2020 Business-type Activities	2019 Business-type Activities	2020 Total	2019 Total
Current and other assets	\$ 2,374,177	\$ 2,203,995	\$ (118,616)	\$ 248,061	\$ 2,255,561	\$ 2,452,056
Capital assets, net	2,813,148	2,942,148	3,141,694	2,884,214	5,954,842	5,826,362
Total assets	<u>5,187,325</u>	<u>5,146,143</u>	<u>3,023,078</u>	<u>3,132,275</u>	<u>8,210,403</u>	<u>8,278,418</u>
Deferred outflows	136,554	134,530	34,869	40,675	171,423	175,205
Current and other liabilities	200,806	178,236	127,140	278,662	327,946	456,898
Long-term liabilities	1,223,567	1,358,919	567,518	595,578	1,791,085	1,954,497
Total liabilities	<u>1,424,373</u>	<u>1,537,155</u>	<u>694,658</u>	<u>874,240</u>	<u>2,119,031</u>	<u>2,411,395</u>
Deferred inflows	115,994	137,145	21,935	47,157	137,929	184,302
Net position:						
Net investment in capital assets	2,598,556	2,649,869	2,890,362	2,587,214	5,488,918	5,237,083
Restricted	120,666	29,458	39,710	85,157	160,376	114,615
Unrestricted	1,064,290	927,046	(588,718)	(420,818)	475,572	506,228
Total net position	<u>\$ 3,783,512</u>	<u>\$ 3,606,373</u>	<u>\$ 2,341,354</u>	<u>\$ 2,251,553</u>	<u>\$ 6,124,866</u>	<u>\$ 5,857,926</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 and disposal 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 \$58,243 and business type capital asset additions of \$335,856.
- Depreciation expense of \$187,243 related to governmental assets and \$78,376 for business-type assets.
- Governmental activity principal payments of \$100,000 for general obligation bonds and \$77,687 for capital leases.

CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in net position. The City's total revenues for the current fiscal year were \$3.9 million. The total cost of all programs and services was \$3.6 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2020 and June 30, 2019.

	2020 Governmental Activities	2019 Governmental Activities	2020 Business-type Activities	2019 Business-type Activities	2020 Total	2019 Total
Revenues:						
Program revenues:						
Charges for services	\$ 309,372	\$ 168,702	\$ 934,657	\$ 932,833	\$ 1,244,029	\$ 1,101,535
Operating grants and contributions	724,578	473,519	2,265	21,907	726,843	495,426
Capital grants and contributions	26,721	250,990	113,310	8,000	140,031	258,990
General revenues:						
Property taxes	246,364	247,089			246,364	247,089
City sales taxes	1,003,652	1,123,401			1,003,652	1,123,401
Franchise taxes	52,483	56,543			52,483	56,543
Unrestricted state revenues	398,376	380,176			398,376	380,176
Investment income	9,353	16,800	3,329	8,599	12,682	25,399
Miscellaneous	45,845	54,183			45,845	54,183
Total revenues	<u>2,816,744</u>	<u>2,771,403</u>	<u>1,053,561</u>	<u>971,339</u>	<u>3,870,305</u>	<u>3,742,742</u>
Expenses:						
General government	1,078,039	777,054			1,078,039	777,054
Public safety	978,708	917,801			978,708	917,801
Highways and streets	134,485	124,161			134,485	124,161
Culture and recreation	324,548	340,503			324,548	340,503
Redevelopment and housing	906	5,123			906	5,123
Health and welfare	106,474	70,306			106,474	70,306
Interest on long-term debt	16,445	19,047			16,445	19,047
Wastewater			255,209	247,327	255,209	247,327
Water			524,547	521,448	524,547	521,448
Sanitation			184,004	193,022	184,004	193,022
Total expenses	<u>2,639,605</u>	<u>2,253,995</u>	<u>963,760</u>	<u>961,797</u>	<u>3,603,365</u>	<u>3,215,792</u>
Changes in net position	<u>177,139</u>	<u>517,408</u>	<u>89,801</u>	<u>9,542</u>	<u>266,940</u>	<u>526,950</u>
Net position, beginning	<u>3,606,373</u>	<u>3,088,965</u>	<u>2,251,553</u>	<u>2,242,011</u>	<u>5,857,926</u>	<u>5,330,976</u>
Net position, ending	<u>\$ 3,783,512</u>	<u>\$ 3,606,373</u>	<u>\$ 2,341,354</u>	<u>\$ 2,251,553</u>	<u>\$ 6,124,866</u>	<u>\$ 5,857,926</u>

- Governmental charges for services increased \$140,670 primarily due to a full year of revenues collected related to Boothill Graveyard sales which the City took over in May of 2019.
- Governmental operating grants and contributions increased \$251,059 primarily due to Cares Act funding received as well as increased state shared revenues related to HB 2748 for HURF funding.
- Governmental capital grants and contributions decreased \$224,269 primarily due to decreased reimbursements related to SEAGO and CDBG funding.
- City sales taxes decreased \$119,749 primarily due to decreased tourism related to the COVID-19 pandemic.
- General government expenses increased \$300,985 due primarily to the takeover of the Boothill Graveyard gift shop from the Chamber of Commerce.

CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

- Public safety expenses increased \$60,907 due primarily to increased salaries and benefits related to the fire department as well a new agreement for dispatch services.
- Health and welfare expenses increased \$36,168 due primarily to increased salaries and benefits as well as supplies at the Senior Center.

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.

	2020		2019	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 1,078,039	\$ (686,800)	\$ 777,054	\$ (456,891)
Public safety	978,708	(805,092)	917,801	(900,471)
Highways and streets	134,485	176,683	124,161	(10,179)
Culture and recreation	324,548	(168,687)	340,503	101,233
Redevelopment and housing	906	27,881	5,123	(5,123)
Health and welfare	106,474	(106,474)	70,306	(70,306)
Interest on long-term debt	16,445	(16,445)	19,047	(19,047)
Total	<u>2,639,605</u>	<u>(1,578,934)</u>	<u>2,253,995</u>	<u>(1,360,784)</u>
Business-type Activities				
Wastewater	255,209	(3,504)	247,327	4,016
Water	524,547	133,947	521,448	49,985
Sanitation	184,004	(43,971)	193,022	(53,058)
Total	<u>\$ 963,760</u>	<u>\$ 86,472</u>	<u>\$ 961,797</u>	<u>\$ 943</u>

- The cost of all governmental activities this year was \$2.6 million, an increase of \$385,610 from the prior year primarily due to the takeover of the Boothill Graveyard gift shop from the Chamber of Commerce.
- The cost of all business-type activities this year was \$963,760, an increase of \$1,963.
- Federal and state grants and charges for services subsidized certain governmental programs and business-type programs with revenues of \$2.1 million.
- Net cost of governmental activities of \$1.6 million was financed by general revenues of \$1.8 million, which are made up of primarily of City sales taxes, property taxes, and unrestricted state revenues.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

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.

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 \$1.3 million, an increase of \$135,737 primarily due to ADOT's special funding for road projects under HB 2748.

The fund balance decrease of \$76,551 in the General Fund was four percent. General Fund revenues increased \$17,363. General Fund expenditures increased \$123,673 primarily as a result of the reallocation of wage and benefits from other funds and a new agreement for dispatch services.

The Highway User Revenue Fund's fund balance increased \$197,890 due to ADOT's special funding for road projects under HB 2748. Highway User Revenue Fund revenues increased \$197,186. Highway User Revenue Fund expenditures increased \$11,608.

The Building Renovation Fund's fund balance decreased \$24,568 to a deficit of \$525,030 due to finalization of the renovation of Old City Hall. Building Renovation Fund revenues decreased \$196,210 and expenditures decreased \$544,438 due to decreased activity as the City completed the restoration project.

Proprietary funds. Net position of the enterprise funds at the end of the year amounted to \$2.3 million, an increase of \$89,801.

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 2019-20 operating and capital budget. The significant variances are summarized as follows:

- The unfavorable variance of \$198,916 in City sales taxes was a result of decreased tourism related to the COVID-19 pandemic.
- The favorable variance of \$148,828 in intergovernmental was a result of Cares Act funding received.
- The unfavorable variance of \$84,253 in general government expenditures was a primarily a result of increased expenditures related to the use of dispatch services in Cochise County.
- The favorable variance of \$53,211 in public safety was a result of decreased cost of maintenance and repairs.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of year end, the City had invested \$6.0 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 \$128,480 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$265,619.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2020 and June 30, 2019.

	2020 Governmental Activities	2019 Governmental Activities	2020 Business-type Activities	2019 Business-type Activities
Capital assets – non-depreciable	\$ 21,161	\$ 1,095,137	\$ 1,371,001	\$ 1,035,145
Capital assets – depreciable, net	2,791,987	1,847,011	1,770,693	1,849,069
Total	<u>\$ 2,813,148</u>	<u>\$ 2,942,148</u>	<u>\$ 3,141,694</u>	<u>\$ 2,884,214</u>

The estimated cost to complete current construction projects is \$27,000. Additional information on the City's capital assets can be found in Note 7.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration. At year end, the City had \$870,217 in long-term debt outstanding, \$225,981 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, 2020 and June 30, 2019.

	As of June 30, 2020	As of June 30, 2019
Revenue bonds payable	\$ 204,000	\$ 233,000
General obligation bonds payable	400,000	500,000
Capital leases	266,217	360,572
Total	<u>\$ 870,217</u>	<u>\$ 1,093,572</u>

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 \$2.7 million in the 20 percent capacity and \$811,026 in the six percent capacity. Additional information on the City's long-term debt can be found in Notes 8 through 11.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The adopted combined operating and capital expenditure budget for fiscal year 2020-21 totals \$6.4 million, an increase of \$93,653 or one percent greater than fiscal year 2019-20.

General Fund

The budget for the General Fund decreased by \$69,848 in fiscal year 2020-21, a decrease of approximately three percent.

During the last quarter of fiscal year 2019-20, the City along with other cities and towns in Arizona experienced the immediate effects of necessary emergency and proactive measures adopted by The Governor of Arizona and the Mayor and Tombstone to slow down the spread of COVID-19. Local businesses saw a dramatic drop in tourism traffic that continued through the end of quarter four.

Although the full financial impact from COVID-19 is unknown at this time, the Mayor and Council and city staff continue to monitor visitor data, local sales tax, and state shared revenue and will make necessary budgetary adjustments accordingly.

Enterprise Funds

The City's budget for utility enterprise funds increased by \$59,399, an increase of six percent over the 2019-20 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, 2020

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 685,415	\$ 290,185	\$ 975,600
Accounts receivable	18,433	103,105	121,538
Property taxes receivable	8,370		8,370
Due from governmental entities	140,543		140,543
Internal balances	650,157	(650,157)	
Prepaid items	20,703	1,596	22,299
Total current assets	<u>1,523,621</u>	<u>(255,271)</u>	<u>1,268,350</u>
Noncurrent assets:			
Cash and investments - restricted	4,293	136,655	140,948
Net pension asset	846,263		846,263
Capital assets, non-depreciable	21,161	1,371,001	1,392,162
Capital assets, depreciable (net)	2,791,987	1,770,693	4,562,680
Total noncurrent assets	<u>3,663,704</u>	<u>3,278,349</u>	<u>6,942,053</u>
Total assets	<u>5,187,325</u>	<u>3,023,078</u>	<u>8,210,403</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension plan items	<u>136,554</u>	<u>34,869</u>	<u>171,423</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	200,806	30,378	231,184
Compensated absences payable	33,662	8,316	41,978
Customer deposits		96,762	96,762
Capital leases payable	79,026	16,955	95,981
General obligation bonds payable	100,000		100,000
Revenue bonds payable		30,000	30,000
Total current liabilities	<u>413,494</u>	<u>182,411</u>	<u>595,905</u>
Noncurrent liabilities:			
Capital leases payable	139,859	30,377	170,236
General obligation bonds payable	300,000		300,000
Revenue bonds payable		174,000	174,000
Net pension liability	571,020	307,870	878,890
Total noncurrent liabilities	<u>1,010,879</u>	<u>512,247</u>	<u>1,523,126</u>
Total liabilities	<u>1,424,373</u>	<u>694,658</u>	<u>2,119,031</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension plan items	<u>115,994</u>	<u>21,935</u>	<u>137,929</u>
<u>NET POSITION</u>			
Net investment in capital assets	2,598,556	2,890,362	5,488,918
Restricted	120,666	39,710	160,376
Unrestricted	1,064,290	(588,718)	475,572
Total net position	<u>\$ 3,783,512</u>	<u>\$ 2,341,354</u>	<u>\$ 6,124,866</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, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental activities:					
General government	\$ 1,078,039	\$ 309,372	\$ 69,836	\$ 12,031	\$ (686,800)
Public safety	978,708		158,926	14,690	(805,092)
Highway and streets	134,485		311,168		176,683
Culture and recreation	324,548		155,861		(168,687)
Redevelopment and housing	906		28,787		27,881
Health and welfare	106,474				(106,474)
Interest on long term debt	16,445				(16,445)
Total governmental activities	<u>2,639,605</u>	<u>309,372</u>	<u>724,578</u>	<u>26,721</u>	<u>(1,578,934)</u>
Business-type activities:					
Wastewater	255,209	251,705			
Water	524,547	542,919	2,265	113,310	
Sanitation	184,004	140,033			
Total business-type activities	<u>963,760</u>	<u>934,657</u>	<u>2,265</u>	<u>113,310</u>	
Total primary government	<u>\$ 3,603,365</u>	<u>\$ 1,244,029</u>	<u>\$ 726,843</u>	<u>\$ 140,031</u>	<u>(1,578,934)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					127,473
Property taxes, levied for debt purposes					118,891
City sales taxes					1,003,652
Franchise taxes					52,483
Unrestricted state revenues					398,376
Investment income					9,353
Miscellaneous					45,845
Total general revenues					<u>1,756,073</u>
Changes in net position					177,139
Net position, beginning of year					<u>3,606,373</u>
Net position, end of year					<u>\$ 3,783,512</u>

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
\$	\$
	(686,800)
	(805,092)
	176,683
	(168,687)
	27,881
	(106,474)
	(16,445)
	<u>(1,578,934)</u>
	(3,504)
	133,947
	<u>(43,971)</u>
	86,472
	<u>86,472</u>
	<u>(1,492,462)</u>
	127,473
	118,891
	1,003,652
	52,483
	398,376
3,329	12,682
	<u>45,845</u>
<u>3,329</u>	<u>1,759,402</u>
89,801	266,940
<u>2,251,553</u>	<u>5,857,926</u>
<u>\$ 2,341,354</u>	<u>\$ 6,124,866</u>

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FUND FINANCIAL STATEMENTS

CITY OF TOMBSTONE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Building Renovation</u>
<u>ASSETS</u>			
Cash and investments	\$ 569,885	\$ 62,643	\$
Cash and investments - restricted	4,293		
Accounts receivable	18,433		
Property taxes receivable	4,313		
Due from governmental entities	121,032	8,724	
Due from other funds	525,030		
Advances to other funds	650,157		
Prepaid items	18,924	1,779	
Total assets	<u><u>\$ 1,912,067</u></u>	<u><u>\$ 73,146</u></u>	<u><u>\$</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 178,081	\$ 19,125	\$
Due to other funds			525,030
Total liabilities	<u>178,081</u>	<u>19,125</u>	<u>525,030</u>
Fund balances (deficits):			
Nonspendable	669,081	1,779	
Restricted	4,293	52,242	
Unassigned	1,060,612		(525,030)
Total fund balances	<u>1,733,986</u>	<u>54,021</u>	<u>(525,030)</u>
Total liabilities and fund balances	<u><u>\$ 1,912,067</u></u>	<u><u>\$ 73,146</u></u>	<u><u>\$</u></u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 52,887	\$ 685,415
	4,293
	18,433
4,057	8,370
10,787	140,543
	525,030
	650,157
	20,703
<u>\$ 67,731</u>	<u>\$ 2,052,944</u>

\$ 3,600	\$ 200,806
	525,030
<u>3,600</u>	<u>725,836</u>

	670,860
64,131	120,666
	535,582
<u>64,131</u>	<u>1,327,108</u>
<u>\$ 67,731</u>	<u>\$ 2,052,944</u>

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CITY OF TOMBSTONE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total governmental fund balances	\$	1,327,108
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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	\$ 7,902,985	
Less accumulated depreciation	<u>(5,089,837)</u>	2,813,148

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

Deferred outflows of resources related to pensions	136,554	
Deferred inflows of resources related to pensions	<u>(115,994)</u>	20,560

The net pension assets are not current financial resources and, therefore, are not reported in the funds.	846,263
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences payable	(33,662)	
Obligations under capital leases	(218,885)	
Net pension liability	(571,020)	
Bonds payable	<u>(400,000)</u>	<u>(1,223,567)</u>

Net position of governmental activities	\$	<u>3,783,512</u>
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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, 2020

	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Building Renovation</u>
Revenues:			
Property taxes	\$ 127,473	\$	\$
City sales taxes	1,003,652		
Franchise taxes	52,483		
Licenses and permits	64,549		
Intergovernmental	569,333	311,168	
Charges for services	212,039		
Fines and forfeits	29,128		
Investment income	9,353		
Contributions and donations	240,387		
Miscellaneous	45,845		
Total revenues	<u>2,354,242</u>	<u>311,168</u>	<u></u>
Expenditures:			
Current -			
General government	1,022,567		
Public safety	873,387		
Highway and streets		113,988	
Culture and recreation	297,511		
Redevelopment and housing			
Health and welfare	106,771		
Capital outlay	45,665	2,000	24,568
Debt service -			
Principal retirement	55,899	21,788	
Interest and fiscal charges	3,235	1,260	
Total expenditures	<u>2,405,035</u>	<u>139,036</u>	<u>24,568</u>
Excess (deficiency) of revenues over expenditures	<u>(50,793)</u>	<u>172,132</u>	<u>(24,568)</u>
Other financing sources (uses):			
Transfer in		25,758	
Transfer out	(25,758)		
Total other financing sources (uses)	<u>(25,758)</u>	<u>25,758</u>	<u></u>
Changes in fund balances	<u>(76,551)</u>	<u>197,890</u>	<u>(24,568)</u>
Fund balances (deficits), beginning of year	1,810,537	(143,869)	(500,462)
Fund balances (deficits), end of year	<u>\$ 1,733,986</u>	<u>\$ 54,021</u>	<u>\$ (525,030)</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 118,891	\$ 246,364
	1,003,652
	52,483
	64,549
28,787	909,288
3,656	215,695
	29,128
	9,353
	240,387
	45,845
<u>151,334</u>	<u>2,816,744</u>
23	1,022,590
	873,387
	113,988
	297,511
395	395
	106,771
	72,233
100,000	177,687
11,950	16,445
<u>112,368</u>	<u>2,681,007</u>
<u>38,966</u>	<u>135,737</u>
	25,758
	<u>(25,758)</u>
<u>38,966</u>	<u>135,737</u>
25,165	1,191,371
<u>\$ 64,131</u>	<u>\$ 1,327,108</u>

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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, 2020

Changes in fund balances - total governmental funds **\$ 135,737**

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	\$ 58,243	
Less current year depreciation	<u>(187,243)</u>	(129,000)

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	77,687	
Bond principal retirement	<u>100,000</u>	177,687

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	87,596	
Pension income/expense	<u>(90,120)</u>	(2,524)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	<u>(4,761)</u>	<u>(4,761)</u>
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Changes in net position in governmental activities **\$ 177,139**

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, 2020

	Enterprise Funds		
	Wastewater	Water	Sanitation
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$	\$ 290,185	\$
Accounts receivable	23,822	65,942	13,341
Prepaid items		1,596	
Total current assets	<u>23,822</u>	<u>357,723</u>	<u>13,341</u>
Noncurrent assets:			
Cash and investments - restricted		136,655	
Capital assets, non-depreciable		1,371,001	
Capital assets, depreciable (net)	897,633	873,060	
Total noncurrent assets	<u>897,633</u>	<u>2,380,716</u>	
Total assets	<u>921,455</u>	<u>2,738,439</u>	<u>13,341</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension plan items	<u>7,413</u>	<u>26,995</u>	<u>461</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	5,523	11,092	13,763
Compensated absences payable	1,758	6,455	103
Customer deposits		96,762	
Capital leases payable		16,955	
Revenue bonds payable		30,000	
Total current liabilities	<u>7,281</u>	<u>161,264</u>	<u>13,866</u>
Noncurrent liabilities:			
Advances from other funds	211,938		438,219
Capital leases payable		30,377	
Revenue bonds payable		174,000	
Net pension liability	159,719	130,394	17,757
Total noncurrent liabilities	<u>371,657</u>	<u>334,771</u>	<u>455,976</u>
Total liabilities	<u>378,938</u>	<u>496,035</u>	<u>469,842</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension plan items	<u>4,663</u>	<u>16,982</u>	<u>290</u>
<u>NET POSITION</u>			
Net investment in capital assets	897,633	1,992,729	
Restricted		39,710	
Unrestricted	(352,366)	219,978	(456,330)
Total net position	<u>\$ 545,267</u>	<u>\$ 2,252,417</u>	<u>\$ (456,330)</u>

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

Enterprise Funds

Totals

\$	290,185
	103,105
	<u>1,596</u>
	<u>394,886</u>

	136,655
	1,371,001
	<u>1,770,693</u>
	<u>3,278,349</u>
	<u>3,673,235</u>

34,869

	30,378
	8,316
	96,762
	16,955
	<u>30,000</u>
	<u>182,411</u>

	650,157
	30,377
	174,000
	<u>307,870</u>
	<u>1,162,404</u>
	<u>1,344,815</u>

21,935

	2,890,362
	39,710
	<u>(588,718)</u>

\$	<u>2,341,354</u>
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CITY OF TOMBSTONE, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Funds		
	Wastewater	Water	Sanitation
Operating revenues:			
Charges for services	\$ 251,705	\$ 542,919	\$ 140,033
Total operating revenues	<u>251,705</u>	<u>542,919</u>	<u>140,033</u>
Operating expenses:			
Administration	69,088	257,326	8,384
Cost of sales and services	150,076	213,442	175,620
Depreciation	36,045	42,331	
Total operating expenses	<u>255,209</u>	<u>513,099</u>	<u>184,004</u>
Operating income (loss)	<u>(3,504)</u>	<u>29,820</u>	<u>(43,971)</u>
Nonoperating revenues (expenses):			
Intergovernmental		2,265	
Investment income		3,329	
Interest expense		(11,448)	
Total nonoperating revenues (expenses)		<u>(5,854)</u>	
Income (loss) before capital contributions	<u>(3,504)</u>	<u>23,966</u>	<u>(43,971)</u>
Capital contributions		<u>113,310</u>	
Changes in net position	<u>(3,504)</u>	<u>137,276</u>	<u>(43,971)</u>
Total net position, beginning of year	548,771	2,115,141	(412,359)
Total net position, end of year	<u>\$ 545,267</u>	<u>\$ 2,252,417</u>	<u>\$ (456,330)</u>

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

Enterprise Funds

<u>Totals</u>	
\$	934,657
	<u>934,657</u>

334,798
539,138
78,376
<u>952,312</u>
<u>(17,655)</u>

2,265
3,329
<u>(11,448)</u>
<u>(5,854)</u>

<u>(23,509)</u>

<u>113,310</u>

<u>89,801</u>

2,251,553

<u>\$</u>	<u>2,341,354</u>
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CITY OF TOMBSTONE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Funds			
	Wastewater	Water	Sanitation	Totals
<u>Increase (Decrease) in Cash and Cash Equivalents</u>				
Cash flows from operating activities:				
Cash received from customers	\$ 252,527	\$ 544,123	\$ 141,056	\$ 937,706
Cash payments to suppliers for goods and services	(154,475)	(356,067)	(176,924)	(687,466)
Cash payments to employees for services	(71,471)	(265,708)	(8,515)	(345,694)
Net cash provided by (used for) operating activities	<u>26,581</u>	<u>(77,652)</u>	<u>(44,383)</u>	<u>(95,454)</u>
Cash flows from noncapital and related financing activities:				
Intergovernmental		2,265		2,265
Interfund advances	(26,581)		44,383	17,802
Net cash provided by (used for) noncapital financing activities	<u>(26,581)</u>	<u>2,265</u>	<u>44,383</u>	<u>20,067</u>
Cash flows from capital and related financing activities:				
Principal paid on long-term debt		(45,668)		(45,668)
Interest paid on long-term debt		(11,448)		(11,448)
Acquisition of capital assets		(335,856)		(335,856)
Capital grants		113,310		113,310
Net cash provided by (used for) capital and related financing activities		<u>(279,662)</u>		<u>(279,662)</u>
Cash flows from investing activities:				
Investment income		3,329		3,329
Net cash provided by investing activities		<u>3,329</u>		<u>3,329</u>
Net increase/(decrease) in cash and cash equivalents		<u>(351,720)</u>		<u>(351,720)</u>
Cash and cash equivalents, beginning of year		<u>778,560</u>		<u>778,560</u>
Cash and cash equivalents, end of year	<u>\$</u>	<u>\$ 426,840</u>	<u>\$</u>	<u>\$ 426,840</u>
<u>Reconciliation of Operating Income (Loss) to</u>				
<u>Net Cash Provided by (Used for) Operating Activities</u>				
Operating income (loss)	\$ (3,504)	\$ 29,820	\$ (43,971)	\$ (17,655)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	36,045	42,331		78,376
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	822	(3,846)	1,023	(2,001)
Decrease (increase) in prepaid items		(1,596)		(1,596)
Increase (decrease) in accounts payable	(4,399)	(141,029)	(1,304)	(146,732)
Increase (decrease) in accrued payroll and employee benefits	(2,041)	(7,699)	(100)	(9,840)
Increase (decrease) in compensated absences payable	4	831	(8)	827
Increase (decrease) in deposits held for others		5,050		5,050
Increase (decrease) in pension/OPEB items	(346)	(1,514)	(23)	(1,883)
Total adjustments	<u>30,085</u>	<u>(107,472)</u>	<u>(412)</u>	<u>(77,799)</u>
Net cash provided by (used for) operating activities	<u>\$ 26,581</u>	<u>\$ (77,652)</u>	<u>\$ (44,383)</u>	<u>\$ (95,454)</u>

CITY OF TOMBSTONE, ARIZONA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020

	<u>Pension Trust</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 88,437</u>
Total assets	<u>88,437</u>
 <u>NET POSITION</u>	
Held in trust	<u>\$ 88,437</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, 2020

	<u>Pension Trust</u>
Additions:	
Contributions	<u>\$ 4,306</u>
Total additions	<u>4,306</u>
Deductions:	
Distributions	<u>7,260</u>
Total deductions	<u>7,260</u>
Changes in net position	<u>(2,954)</u>
Net position, beginning of year	91,391
Net position, end of year	<u><u>\$ 88,437</u></u>

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020

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, 2020

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.

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.

Building Renovation Fund – This fund accounts for a combination of grant revenues, public donations and transfers from cash reserves to fund the renovation of a historical building.

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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Funds financial statements are reported using the economic resources measurement focus and accrual basis of accounting.

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 8, 2016.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.
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.

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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Investment Income

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

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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2020

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 assets and liabilities, related deferred outflows of resources and deferred inflows of resources, and pension 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.

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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 – FUND BALANCE CLASSIFICATIONS

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

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

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

	General Fund	Highway User Revenue Fund	Building Renovation Fund	Non-Major Governmental Funds
Fund Balances:				
Nonspendable:				
Advances to other funds	\$ 650,157	\$	\$	\$
Prepaid items	18,924	1,779		
Restricted:				
Capital projects	4,293			
Debt service				27,661
Grants				29,850
Highways and Streets		52,242		
Other purposes				6,620
Unassigned	1,060,612		(525,030)	
Total fund balances	<u>\$ 1,733,986</u>	<u>\$ 54,021</u>	<u>\$ (525,030)</u>	<u>\$ 64,131</u>

NOTE 3 – RESTRICTED NET POSITION

The table below provides detail of the major components of the City's restricted net position at year end.

	Governmental Activities	Enterprise Activities
Restricted Net Position:		
Capital projects	\$ 4,293	\$
Debt service	27,661	39,710
Grants	29,850	
Highways and streets	52,242	
Other purposes	6,620	
Total	<u>\$ 120,666</u>	<u>\$ 39,710</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Individual Deficit Fund Balance – At year end, the Building Renovation Fund, a major governmental fund, and the Sanitation Fund, a major enterprise fund, reported deficits of \$525,030 and \$456,330 in fund balance, respectively.

The City plans to address the Sanitation Fund deficit through renegotiation of provider agreements and through a proposed rate adjustment and rate study that was finalized during fiscal year 2019 and will be presented during the fiscal year 2021 budget process that will include a 5 year rate structure. The deficit balance for the Building Renovation Fund is 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 5 – 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 \$477,671 and the bank balance was \$718,075. At year end, \$463,782 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, 2020

NOTE 5 – 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.

	<u>Maturities</u>	<u>Fair Value</u>
State Treasurer's investment pool 5	47 days	\$ 727,314

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 AAf/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 6 – RECEIVABLES

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

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Non-Major Governmental Funds</u>
Due from other governmental entities:			
Due from federal government	\$ 2,417	\$	\$ 10,787
Due from state government	118,615	8,724	
Net due from governmental entities	<u>\$ 121,032</u>	<u>\$ 8,724</u>	<u>\$ 10,787</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 – CAPITAL ASSETS

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

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,949	\$	\$	\$ 4,949
Construction in progress	1,090,188	43,553	1,117,529	16,212
Total capital assets, not being depreciated	1,095,137	43,553	1,117,529	21,161
Capital assets, being depreciated:				
Buildings and improvements	2,723,372	1,117,529		3,840,901
Infrastructure	2,058,748			2,058,748
Machinery, equipment, and vehicles	2,147,025	14,690	179,540	1,982,175
Total capital assets being depreciated	6,929,145	1,132,219	179,540	7,881,824
Less accumulated depreciation for:				
Buildings and improvements	(1,650,070)	(66,026)		(1,716,096)
Infrastructure	(2,006,906)	(5,184)		(2,012,090)
Machinery, equipment, and vehicles	(1,425,158)	(116,033)	(179,540)	(1,361,651)
Total accumulated depreciation	(5,082,134)	(187,243)	(179,540)	(5,089,837)
Total capital assets, being depreciated, net	1,847,011	944,976		2,791,987
Governmental activities capital assets, net	<u>\$ 2,942,148</u>	<u>\$ 988,529</u>	<u>\$ 1,117,529</u>	<u>\$ 2,813,148</u>
Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 8,000	\$	\$	\$ 8,000
Construction in progress	1,027,145	335,856		1,363,001
Total capital assets, not being depreciated	1,035,145	335,856		1,371,001
Capital assets, being depreciated:				
Buildings and improvements	185,650			185,650
Infrastructure	4,606,022			4,606,022
Machinery, equipment, and vehicles	218,421			218,421
Total capital assets being depreciated	5,010,093			5,010,093
Less accumulated depreciation for:				
Buildings and improvements	(90,171)	(23,486)		(113,657)
Infrastructure	(2,936,477)	(40,097)		(2,976,574)
Machinery, equipment, and vehicles	(134,376)	(14,793)		(149,169)
Total accumulated depreciation	(3,161,024)	(78,376)		(3,239,400)
Total capital assets, being depreciated, net	1,849,069	(78,376)		1,770,693
Business-type activities capital assets, net	<u>\$ 2,884,214</u>	<u>\$ 257,480</u>	<u>\$</u>	<u>\$ 3,141,694</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 – CAPITAL ASSETS

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
General government	\$ 50,368
Public safety	91,875
Highways and streets	20,230
Culture and recreation	24,770
Total depreciation expense – governmental activities	<u>\$ 187,243</u>
Business-type activities:	
Wastewater	\$ 36,045
Water	42,331
Total depreciation expense – business-type activities	<u>\$ 78,376</u>

Construction Commitments – At year end, the City had contractual commitments related to a City Hall expansion and a water blending project. At year end, the City had spent \$1.4 million on the projects and had estimated remaining contractual commitments of \$27,000. These projects are primarily funded with bond and grant proceeds.

NOTE 8 – GENERAL OBLIGATION BONDS PAYABLE

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

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2020</u>	<u>Due Within One Year</u>
Governmental activities:					
Private placement general obligation bonds:					
GO Bonds Series Project of 2013, Series 2014	\$ 1,000,000	2.39%	7/1/21-24	<u>\$ 400,000</u>	<u>\$ 100,000</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 – GENERAL OBLIGATION BONDS PAYABLE

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

		Private Placement General Obligation Bonds	
Year ending June 30:		Principal	Interest
	2021	\$ 100,000	\$ 9,560
	2022	100,000	7,170
	2023	100,000	4,780
	2024	100,000	2,390
Total		<u>\$ 400,000</u>	<u>\$ 23,900</u>

NOTE 9 – 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.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2020	Due Within One Year
Business-type activities:					
Private placement revenue bonds:					
Water Revenue Bonds,					
Project of 1994	\$ 586,500	4.5%	7/1/21-26	\$ 204,000	\$ 30,000

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

		Business-type Activities	
Year ending June 30:		Principal	Interest
	2021	\$ 30,000	\$ 9,180
	2022	32,000	7,830
	2023	33,000	6,390
	2024	35,000	4,905
	2025	36,000	3,330
	2026	38,000	1,710
Total		<u>\$ 204,000</u>	<u>\$ 33,345</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 – 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 \$237,345. The current total customer gross revenues were \$542,919 and the total principal and interest paid on the bonds was \$39,485, or seven percent of gross revenues.

NOTE 10 – OBLIGATIONS UNDER CAPITAL LEASES

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

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

	<u>Governmental Activities</u>	<u>Water Fund</u>
Asset		
Machinery, equipment, and vehicles	\$ 556,489	\$ 107,296
Less: Accumulated depreciation	<u>(253,548)</u>	<u>(37,190)</u>
Total	<u><u>\$ 302,941</u></u>	<u><u>\$ 70,106</u></u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 – OBLIGATIONS UNDER CAPITAL LEASES

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

Year Ending June 30:	Governmental Activities	Water Fund
2021	\$ 82,181	\$ 17,632
2022	82,181	17,632
2023	59,908	13,224
Total minimum lease payments	224,270	48,488
Less: amount representing interest	5,385	1,156
Present value of minimum lease payments	<u>\$ 218,885</u>	<u>\$ 47,332</u>
Due within one year	<u>\$ 79,026</u>	<u>\$ 16,955</u>

NOTE 11 – 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:					
Private placement general obligation bonds	\$ 500,000	\$	\$ 100,000	\$ 400,000	\$ 100,000
Net pension liability	531,378	39,642		571,020	
Compensated absences payable	28,901	38,637	33,876	33,662	33,662
Capital leases payable	296,572		77,687	218,885	79,026
Governmental activity long-term liabilities	<u>\$ 1,356,851</u>	<u>\$ 78,279</u>	<u>\$ 211,563</u>	<u>\$ 1,223,567</u>	<u>\$ 212,688</u>
Business-type activities:					
Private placement revenue bonds	\$ 233,000	\$	\$ 29,000	\$ 204,000	\$ 30,000
Net pension liability	290,070	17,800		307,870	
Compensated absences payable	7,489	9,195	8,368	8,316	8,316
Capital leases payable	64,000		16,668	47,332	16,955
Business-type activities long-term liabilities	<u>\$ 594,559</u>	<u>\$ 26,995</u>	<u>\$ 54,036</u>	<u>\$ 567,518</u>	<u>\$ 55,271</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 12 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows.

Due to/from other funds – At year end, the Building Renovation Fund, a major governmental fund, had a negative cash balance of \$525,030. 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	\$ 211,938	\$ 438,219	\$ 650,157

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 \$25,758 from the General Fund to the Highway User Revenue Fund were used to move cash balances to augment state shared revenue to enhance the street and sidewalk repair and maintenance program.

NOTE 13 – 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, 2020

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.

NOTE 15 – PENSIONS

The City contributes to the plans described below, both of which are component units of the State of Arizona. The City also contributes to the Arizona State Retirement System and the Public Safety Personnel Retirement System for other postemployment benefits; however, the plans are not described below because of their relative insignificance to the financial statements.

Aggregate Amounts. At June 30, 2020, the City reported the following aggregate amounts related to pensions for all plans to which it contributes.

	Governmental Activities	Business-type Activities	Total
Net pension assets	\$ 846,263	\$	\$ 846,263
Net pension liability	571,020	307,870	878,890
Deferred outflows of resources	136,554	34,869	171,423
Deferred inflows of resources	115,994	21,935	137,929
Pension expense	90,120	22,134	112,254

The City reported \$87,596 of pension contributions as expenditures in the governmental funds related to all plans to which it contributes.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

A. Arizona State Retirement System

Plan Description. City employees 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	30 years, age 55
	10 years, age 62	25 years, age 60
	5 years, age 50*	10 years, age 62
	Any years, age 65	5 years, age 50*
		Any years, age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's 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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

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 12.11 percent (11.94 percent for retirement and 0.17 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 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members' annual covered payroll. The City's contributions to the pension plan for the year ended June 30, 2020 were \$79,753.

Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. The City was required by statute to contribute at the actuarially determined rate of 10.41 percent (10.29 for retirement, 0.05 percent for health insurance premium benefit, and 0.07 percent for long-term disability). ACR contributions are included in employer contributions presented above.

The City's pension contributions are paid by the same funds as the employee's salary, with the largest component coming from the General Fund.

Pension Liability. The net pension liability was measured as of June 30, 2019. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The City's proportion of the net liability was based on the City's actual contributions to the applicable plan relative to the total of all participating employers' contributions to the plan for the year ended June 30, 2019.

At June 30, 2020, the City reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2019, the City's percentage proportion for the plan and the related change from its proportion measured as of June 30, 2018 was:

Net Liability	District % Proportion	Increase (Decrease)
\$ 878,890	0.006	0.000

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

Pension Expense and Deferred Outflows/Inflows of Resources. The City has deferred outflows and inflows of resources related to the net pension liability. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. The City's pension expense for the year ended June 30, 2020 was \$73,099.

The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,877	\$ 165
Changes of assumptions or other inputs	3,715	34,999
Net difference between projected and actual earnings on pension investments		19,754
Changes in proportion and differences between contributions and proportionate share of contributions	14,511	16,703
Contributions subsequent to the measurement date	79,753	
Total	<u>\$ 113,856</u>	<u>\$ 71,621</u>

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:		
2021	\$	(22,475)
2022		(16,540)
2023		(3,794)
2024		5,291

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

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

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Inflation	2.3%
Projected salary increases	2.7-7.2%
Permanent base increases	Included
Mortality rates	2017 SRA Scale U-MP

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. 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, 2017, actuarial valuation.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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, excluding any expected inflation.

On June 29, 2018, the ASRS Board approved updated strategic asset allocation targets, to be effective July 2018. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50%	6.09%
Credit	20	5.36
Interest rate sensitive bonds	10	1.62
Real estate	20	5.85
Total	100%	

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

Discount Rate. The discount rate used to measure the total pension liability was 7.5 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 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 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 7.5 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	Current Discount Rate	1% Increase
Rate	6.5%	7.5%	8.5%
Net liability	\$ 1,250,864	\$ 878,890	\$ 568,016

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) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans, and agent and cost-sharing 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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and employees who became PSPRS members on or after July 1, 2017, participate in either agent plans or cost-sharing plans (PSPRS Tier 3 Risk Pool). 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.

Benefits Provided. The PSPRS provides retirement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows.

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
Years of service and age required to receive benefit	20 years of service, at any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive 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%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit:		
Retired members	80% to 100% 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 inflation. 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, 2020

NOTE 15 – PENSIONS

Employees Covered by Benefit Terms. At June 30, 2020, the following employees were covered by the agent plan's benefit terms:

	PSPRS - Police
Inactive, non-retired members	3
Active members	3
Total	<u>6</u>

Contributions. 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, 2020, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS - Police
Active members – pension	7.65% to 11.65%
City	
Pension	11.76%
Health insurance	0.00%

The contributions to the pension plans for the year ended were:

	PSPRS - Police
Pension	\$ 32,268

The City's pension contributions are paid by the same funds as the employee's salary, with the largest component coming from the General Fund.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

Pension Assets/Liability. At June 30, 2020, the City reported \$846,263 in net pension assets. The net pension assets were measured as of June 30, 2019. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

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

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.5%
Price inflation	2.5%
Cost-of-living adjustment	1.75%
Mortality rates	PubS-2010 tables

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.3 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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short-term investments	2%	0.25%
Risk parity	4	4.01
Fixed income	5	3.00
Real assets	9	6.75
GTS	12	4.01
Private credit	16	5.36
Real estate	10	4.50
Private equity	12	8.40
Non-U.S. equity	14	5.00
U.S. equity	16	4.75
Total	<u>100%</u>	

Discount Rate. At June 30, 2019, the discount rate used to measure the total pension liability was 7.3 percent, a decrease of 0.1 from the discount rate used as of June 30, 2018.

The projection of cash flows used to determine the discount rate assumed that pension 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 rate and the member rate. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

Changes in Net (Assets)/Liability

	Increase (Decrease)		
	Total	Plan	Net
	(Assets)	Fiduciary	(Assets)
	Liability	Net Position	Liability
PSPRS - Police			
Balances at June 30, 2019	\$ 300,381	\$ 1,074,048	\$ (773,667)
Changes for the year:			
Service cost	36,716		36,716
Interest on the total liability	24,945		24,945
Differences between expected and actual experience in the measurement of the liability	(48,885)		(48,885)
Changes of assumptions or other inputs	4,215		4,215
Contributions – employer		16,713	(16,713)
Contributions – employee		17,567	(17,567)
Net investment income		57,301	(57,301)
Administrative expense		(1,974)	1,974
Other changes	20		20
Net changes	17,011	89,607	(72,596)
Balances at June 30, 2020	<u>\$ 317,392</u>	<u>\$ 1,163,655</u>	<u>\$ (846,263)</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

Sensitivity of the Net Pension (Assets) Liability to Changes in the Discount Rate. The following presents the City's net pension (assets) liability calculated using the discount rate noted above, as well as what the City's net pension (assets) 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS - Police:			
Rate	6.30%	7.30%	8.30%
Net pension (assets) liability	\$ (807,204)	\$ (846,263)	\$ (875,416)

Plan Fiduciary Net Position. Detailed information about the plans' fiduciary net position is available in the separately issued PSPRS financial report. The report is available on the PSPRS website at www.psprs.com.

Expense. For the year ended June 30, 2020, the City recognized \$(17,989) in pension expense.

Deferred Outflows/Inflows of Resources. At June 30, 2020, the City 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>
PSPRS - Police:		
Differences between expected and actual experience	\$ 2,893	\$ 65,200
Changes of assumptions or other inputs	3,515	1,108
Net difference between projected and actual earnings on plan investments	18,891	
Contributions subsequent to the measurement date	32,268	
Total	<u>\$ 57,567</u>	<u>\$ 66,308</u>

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – PENSIONS

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	PSPRS - Police
2021	\$ (1,528)
2022	(13,756)
2023	(6,533)
2024	(7,443)
2025	(11,749)

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, 2020, was \$43,064. Contributions made for the year ended June 30, 2020, were \$4,306, which consisted of \$2,153 from employees and \$2,153 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, 2020

	Budgeted Amounts <u>Original & Final</u>	Non-GAAP Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property taxes	\$ 124,595	\$ 127,473	\$ 2,878
City sales taxes	1,202,568	1,003,652	(198,916)
Franchise taxes	55,000	52,483	(2,517)
Licenses and permits	56,250	64,549	8,299
Intergovernmental	420,505	569,333	148,828
Charges for services	45,670	17,455	(28,215)
Fines and forfeits	36,100	29,128	(6,972)
Investment income	1,600	9,353	7,753
Contributions and donations	51,000	84,526	33,526
Miscellaneous	22,500	45,845	23,345
Total revenues	<u>2,015,788</u>	<u>2,003,797</u>	<u>(11,991)</u>
Expenditures:			
Current -			
General government	736,871	821,124	(84,253)
Public safety	926,598	873,387	53,211
Culture and recreation	221,949	184,581	37,368
Health and welfare	112,620	106,771	5,849
Capital outlay	23,500	45,665	(22,165)
Debt service -			
Principal retirement	62,200	55,899	6,301
Interest and fiscal charges	7,550	3,235	4,315
Total expenditures	<u>2,091,288</u>	<u>2,090,662</u>	<u>626</u>
Excess (deficiency) of revenues over expenditures	<u>(75,500)</u>	<u>(86,865)</u>	<u>(11,365)</u>
Other financing sources (uses):			
Transfer in	75,500	17,171	(58,329)
Total other financing sources (uses)	<u>75,500</u>	<u>17,171</u>	<u>(58,329)</u>
Changes in fund balances	<u></u>	<u>(69,694)</u>	<u>(69,694)</u>
Fund balances, beginning of year		1,564,439	1,564,439
Fund balances, end of year	<u>\$</u>	<u>\$ 1,494,745</u>	<u>\$ 1,494,745</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, 2020

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 110,194	\$ 311,168	\$ 200,974
Total revenues	<u>110,194</u>	<u>311,168</u>	<u>200,974</u>
Expenditures:			
Current -			
Highway and streets	134,194	113,988	20,206
Capital outlay	15,000	2,000	13,000
Debt service -			
Principal retirement	18,800	21,788	(2,988)
Interest and fiscal charges	2,200	1,260	940
Total expenditures	<u>170,194</u>	<u>139,036</u>	<u>31,158</u>
Excess (deficiency) of revenues over expenditures	<u>(60,000)</u>	<u>172,132</u>	<u>232,132</u>
Other financing sources (uses):			
Transfer in	60,000	25,758	(34,242)
Total other financing sources (uses)	<u>60,000</u>	<u>25,758</u>	<u>(34,242)</u>
Changes in fund balances		<u>197,890</u>	<u>197,890</u>
Fund balances (deficits), beginning of year		(143,869)	(143,869)
Fund balances, end of year	<u>\$</u>	<u>\$ 54,021</u>	<u>\$ 54,021</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 SIX FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
City's proportion of the net pension (assets) liability	0.01%	0.01%	0.01%	0.01%	0.01%
City's proportionate share of the net pension (assets) liability	\$ 878,890	\$ 821,448	\$ 958,048	\$ 1,041,095	\$ 936,903
City's covered payroll	\$ 637,021	\$ 585,642	\$ 592,375	\$ 593,548	\$ 563,214
City's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	137.97%	140.26%	161.73%	175.40%	166.35%
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%	68.35%

2015

Measurement date	June 30, 2014
City's proportion of the net pension (assets) liability	0.01%
City's proportionate share of the net pension (assets) liability	\$ 831,166
City's covered payroll	\$ 754,551
City's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	110.15%
Plan fiduciary net position as a percentage of the total pension liability	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.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Total pension liability				
Service cost	\$ 36,716	\$ 28,068	\$ 49,315	\$ 37,106
Interest	24,945	22,479	19,211	23,001
Changes of benefit terms			1,075	4,697
Differences between expected and actual experience	(48,885)	(34,538)	5,194	(101,482)
Changes of assumptions or other inputs	4,235		(1,990)	2,913
Benefit payments, including refunds of employee contributions		(10,725)	(18,395)	
Net change in total pension liability	17,011	5,284	54,410	(33,765)
Total pension liability—beginning	300,381	295,097	240,687	274,452
Total pension liability—ending	<u>\$ 317,392</u>	<u>\$ 300,381</u>	<u>\$ 295,097</u>	<u>\$ 240,687</u>
Plan fiduciary net position				
Contributions—employer	\$ 16,713	\$ 20,454	\$ 13,386	\$ 16,328
Contributions—employee	17,567	25,571	31,190	26,346
Net investment income	57,301	69,116	100,201	4,722
Benefit payments, including refunds of employee contributions		(10,725)	(18,395)	
Administrative expense	(1,974)	(1,752)	(1,287)	(1,079)
Other		13	8,014	(52,074)
Net change in plan fiduciary net position	89,607	102,677	133,109	(5,757)
Plan fiduciary net position—beginning	1,074,048	971,371	838,262	844,019
Plan fiduciary net position—ending	<u>\$ 1,163,655</u>	<u>\$ 1,074,048</u>	<u>\$ 971,371</u>	<u>\$ 838,262</u>
Net pension (assets) liability—ending	<u>\$ (846,263)</u>	<u>\$ (773,667)</u>	<u>\$ (676,274)</u>	<u>\$ (597,575)</u>
Plan fiduciary net position as a percentage of the total pension liability	366.63%	357.56%	329.17%	348.28%
Covered payroll	\$ 258,600	\$ 226,194	\$ 267,300	\$ 226,150
Net pension (assets) liability as a percentage of covered payroll	(327.25)%	(342.04)%	(253.00)%	(264.24)%

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.

<u>2016</u>	<u>2015</u>
June 30, 2015	June 30, 2014
\$ 19,439	\$ 30,962
25,324	31,998
	(367)
(83,185)	(114,176)
	3,736
	(62,834)
(38,422)	(110,681)
312,874	423,555
<u>\$ 274,452</u>	<u>\$ 312,874</u>
\$ 10,686	\$ 13,826
13,419	15,048
29,457	98,582
	(62,834)
(1,095)	(794)
(662)	
51,805	63,828
792,214	728,386
<u>\$ 844,019</u>	<u>\$ 792,214</u>
<u>\$ (569,567)</u>	<u>\$ (479,340)</u>
307.53%	253.21%
\$ 121,307	\$ 209,144
(469.53)%	(229.19)%

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Arizona State Retirement System:				
Actuarially determined contribution	\$ 79,753	\$ 71,219	\$ 63,835	\$ 63,858
Contributions in relation to the actuarially determined contribution	<u>79,753</u>	<u>71,219</u>	<u>63,835</u>	<u>63,858</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 696,533	\$ 637,021	\$ 585,642	\$ 592,375
Contributions as a percentage of covered payroll	11.45%	11.18%	10.90%	10.78%
Public Safety Personnel Retirement System - Police:				
Actuarially determined contribution	\$ 32,268	\$ 28,808	\$ 21,036	\$ 13,365
Contributions in relation to the actuarially determined contribution	<u>32,268</u>	<u>28,808</u>	<u>21,036</u>	<u>13,365</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 274,388	\$ 258,600	\$ 226,194	\$ 267,300
Contributions as a percentage of covered payroll	11.76%	11.14%	9.30%	5.00%

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.

<u>2016</u>	<u>2015</u>
\$ 64,400	\$ 61,344
<u>64,400</u>	<u>61,344</u>
<u>\$</u>	<u>\$</u>
\$ 593,548	\$ 563,214
10.85%	10.89%
\$ 16,328	\$ 10,675
<u>16,328</u>	<u>10,675</u>
<u>\$</u>	<u>\$</u>
\$ 226,150	\$ 121,307
7.22%	8.80%

CITY OF TOMBSTONE, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020

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:

	<u>Total Expenditures</u>	<u>Fund Balances End of Year</u>
Statement of Revenues, Expenditures and Changes in		
Fund Balances – Governmental Funds	\$ 2,405,035	\$ 1,733,986
Activity budgeted as special revenue funds	<u>(314,373)</u>	<u>(239,241)</u>
Schedule of Revenues, Expenditures and Changes in		
Fund Balances – Budget and Actual	<u>\$ 2,090,662</u>	<u>\$ 1,494,745</u>

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, 2018, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. 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, 2017, actuarial valuation.

The actuarial assumptions used in the June 30, 2019 valuation for PSPRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The PSPRS Board adopted the experience study recommended changes which were applied to the June 30, 2017 actuarial valuation. The total liabilities as of June 30, 2019 reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases.

CITY OF TOMBSTONE, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020

NOTE 2 – PENSION PLAN SCHEDULES

PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date.

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

CITY OF TOMBSTONE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2020

	Fire Truck Fund		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Charges for services		911	911
Contributions and donations			
Total revenues		<u>911</u>	<u>911</u>
Expenditures:			
Current -			
General government			
Culture and recreation			
Redevelopment and housing			
Capital outlay			
Total expenditures			
Excess (deficiency) of revenues over expenditures		<u>911</u>	<u>911</u>
Other financing sources (uses):			
Transfer out			
Total other financing sources (uses)			
Changes in fund balances		<u>911</u>	<u>911</u>
Fund balances (deficits), beginning of year		85,542	85,542
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ 86,453</u>	<u>\$ 86,453</u>

Court Improvements Fund		
Budget	Actual	Variance - Positive (Negative)
\$ 5,000	\$ 3,656	\$ (1,344)
<u>5,000</u>	<u>3,656</u>	<u>(1,344)</u>
5,000	23	4,977
<u>5,000</u>	<u>23</u>	<u>4,977</u>
	<u>3,633</u>	<u>3,633</u>
	<u>3,633</u>	<u>3,633</u>
	2,987	2,987
<u>\$</u>	<u>\$ 6,620</u>	<u>\$ 6,620</u>

Community Development Block Grant		
Budget	Actual	Variance - Positive (Negative)
\$ 250,000	\$ 28,787	\$ (221,213)
<u>250,000</u>	<u>28,787</u>	<u>(221,213)</u>
250,000	395	249,605
<u>250,000</u>	<u>395</u>	<u>249,605</u>
	<u>28,392</u>	<u>28,392</u>
	<u>28,392</u>	<u>28,392</u>
	395	395
<u>\$</u>	<u>\$ 28,787</u>	<u>\$ 28,787</u>

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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, 2020

	Grant Opportunity Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 1,000,000	\$	\$ (1,000,000)
Charges for services			
Contributions and donations			
Total revenues	<u>1,000,000</u>	<u></u>	<u>(1,000,000)</u>
Expenditures:			
Current -			
General government			
Culture and recreation			
Redevelopment and housing			
Capital outlay	1,000,000		1,000,000
Total expenditures	<u>1,000,000</u>	<u></u>	<u>1,000,000</u>
Excess (deficiency) of revenues over expenditures	<u></u>	<u></u>	<u></u>
Other financing sources (uses):			
Transfer out			
Total other financing sources (uses)	<u></u>	<u></u>	<u></u>
Changes in fund balances	<u></u>	<u></u>	<u></u>
Fund balances (deficits), beginning of year		1,063	1,063
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ 1,063</u>	<u>\$ 1,063</u>

Boothill Sales			Boothill Donations		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
	193,673	193,673			
	193,673	193,673	265,000	155,861	(109,139)
			265,000	155,861	(109,139)
	201,443	(201,443)			
			165,000	112,930	52,070
	201,443	(201,443)	165,000	112,930	52,070
	(7,770)	(7,770)	100,000	42,931	(57,069)
			(100,000)	(42,929)	57,071
			(100,000)	(42,929)	57,071
	(7,770)	(7,770)		2	2
	(66,267)	(66,267)		322,152	322,152
\$	\$ (74,037)	\$ (74,037)	\$	\$ 322,154	\$ 322,154

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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, 2020

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

Totals		
Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$ 1,250,000	\$ 28,787	\$ (1,221,213)
5,000	198,240	193,240
265,000	155,861	(109,139)
<u>1,520,000</u>	<u>382,888</u>	<u>(1,137,112)</u>
5,000	201,466	(196,466)
165,000	112,930	52,070
250,000	395	249,605
1,000,000		1,000,000
<u>1,420,000</u>	<u>314,791</u>	<u>1,105,209</u>
<u>100,000</u>	<u>68,097</u>	<u>(31,903)</u>
(100,000)	(42,929)	57,071
<u>(100,000)</u>	<u>(42,929)</u>	<u>57,071</u>
	25,168	25,168
	250,543	250,543
<u>\$</u>	<u>\$ 275,711</u>	<u>\$ 275,711</u>

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CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2020

	Debt Service		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Property taxes	\$ 114,340	\$ 118,891	\$ 4,551
Total revenues	<u>114,340</u>	<u>118,891</u>	<u>4,551</u>
Expenditures:			
Debt service -			
Principal retirement	100,000	100,000	
Interest and fiscal charges	14,340	11,950	2,390
Total expenditures	<u>114,340</u>	<u>111,950</u>	<u>2,390</u>
Changes in fund balances		6,941	6,941
Fund balances, beginning of year		20,720	20,720
Fund balances, end of year	<u>\$</u>	<u>\$ 27,661</u>	<u>\$ 27,661</u>

CITY OF TOMBSTONE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2020

	Building Renovation		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 150,000	\$	\$ (150,000)
Total revenues	<u>150,000</u>		<u>(150,000)</u>
Expenditures:			
Capital outlay		24,568	(24,568)
Total expenditures		<u>24,568</u>	<u>(24,568)</u>
Changes in fund balances	<u>150,000</u>	<u>(24,568)</u>	<u>(174,568)</u>
Fund balances (deficits), beginning of year		(500,462)	(500,462)
Fund balances (deficits), end of year	<u>\$ 150,000</u>	<u>\$ (525,030)</u>	<u>\$ (675,030)</u>

Capital Projects			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 850,000	\$	\$ (850,000)	\$ 1,000,000	\$	\$ (1,000,000)
850,000		(850,000)	1,000,000		(1,000,000)
850,000		850,000	850,000	24,568	825,432
850,000		850,000	850,000	24,568	825,432
			150,000	(24,568)	(174,568)
				(500,462)	(500,462)
\$	\$	\$	\$ 150,000	\$ (525,030)	\$ (675,030)

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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the 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, 2020, 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 April 28, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Tombstone, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Tombstone, Arizona's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items FS-2020-001 and FS-2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tombstone, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
April 28, 2021

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

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

Finding Number: FS-2020-001

Repeat Finding: Yes, FS-2019-001

Type of Finding: Significant Deficiency

Description: Internal Controls Over Capital Assets

CRITERIA

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

CONDITION

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

CAUSE

Limited staff size and resources; as well as the lack of an established procedure for identifying projects that are substantially complete at fiscal year end (in accordance with generally accepted accounting principles).

EFFECT

The City's internal controls over capital assets were not adequate to ensure a misstatement in capital assets would be prevented and/or detected. Additionally, auditors noted the initial capital asset schedules required management corrections to reclassify projects that were substantially complete and in-use at fiscal year end ("New Marshal Facility" and "Old City Hall Project").

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.
- Procedures for the identification/communication of assets donated to the City, or purchased with direct-to-vendor payments, to ensure the asset schedules are complete.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

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

Finding Number: FS-2020-001

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

The City has contracted with *Records Consultants, Inc.* to assist the biannual physical inventory and the creation formal policies and procedures.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

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

Finding Number: FS-2020-002

Repeat Finding: Yes, FS-2019-002

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 sufficiently developed, 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 two of 50 disbursements reviewed, the account codes assigned to the purchase were incorrect.
- For three of 50 disbursements reviewed, determined the purchase order was prepared and approved after purchase and receipt of goods or services as the purchase order was dated after the invoice.
- For 26 of 50 disbursements reviewed, the purchase order was missing either the requisitioner and/or department head signatures.
- The City does not consistently adhere to its procurement policy which requires quotes at specified spending levels. Auditors noted two purchases that exceeded \$3,000 where quotes were not obtained/retained.
- The City does not periodically request/retain conflict of interest forms from all employees and Council members to identify potential conflicts with vendors used by the City. Auditors noted three purchases made with an employee-owned business where no conflict of interest form was on file.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

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

Finding Number: FS-2020-002

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. The City should also require all employees and Council members to prepare conflict of interest forms on a periodic basis (i.e. annually).

VIEWS OF RESPONSIBLE OFFICIALS

City staff implemented changes mid-fiscal year and continue to make modifications to procedures to present to the City Council for formal adaption during fiscal year 2021.