



**City of Tombstone, Arizona**  
**Financial Statements**  
Year Ended June 30, 2021

City of Tombstone, Arizona

Financial Statements  
Year Ended June 30, 2021

# CITY OF TOMBSTONE, ARIZONA

<b><u>CONTENTS</u></b>	<b><u>Page</u></b>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (Required Supplementary Information)	7
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	21
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet – Governmental Funds	26
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	29
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	33
Statement of Net Position – Proprietary Funds	34
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	36
Statement of Cash Flows – Proprietary Funds	38
Statement of Net Position – Fiduciary Funds	39
Statement of Changes in Net Position – Fiduciary Funds	40
Notes to Financial Statements	41
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	72
Community Development Block Grant Fund	73

# CITY OF TOMBSTONE, ARIZONA

<b><u>CONTENTS</u></b>	<b><u>Page</u></b>
Pension Schedules	74
Notes to Required Supplementary Information	80
<b>SUPPLEMENTARY INFORMATION</b>	
Governmental Funds:	
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-Major Special Revenue Funds	86
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service Fund	93
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – All Capital Projects Funds	94
<b>REPORT ON INTERNAL CONTROL AND ON COMPLIANCE</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	99
Schedule of Findings and Responses	101

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**CITY OF TOMBSTONE, ARIZONA  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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## Independent Auditor's Report

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

### **Report on Audit of Financial Statements**

#### ***Opinions***

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tombstone, Arizona, as of June 30, 2021, 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.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of City of Tombstone, Arizona, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***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 is the responsibility of management and, 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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. Such 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. Such 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 Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2022, 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  
March 28, 2022

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**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, 2021**

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, 2021. 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 \$722,014 to \$4.5 million and business-type activities increased \$443,972 to \$2.8 million. The governmental and business-type activities net positions represent 62 percent and 38 percent respectively, of the total net position of \$7.3 million.
- General revenues from governmental activities accounted for \$2.1 million in revenue, or 57 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1.6 million or 43 percent of total governmental activities revenues. The City had \$976,448 of program revenues related to business-type activities.
- The City had \$2.5 million in expenses related to governmental activities, a decrease of four percent from the prior fiscal year. The City had \$985,789 in expenses related to business-type activities, an increase of two percent from the prior fiscal year.
- Among major funds, the General Fund had \$3.0 million in current fiscal year revenues, which primarily consisted of City sales taxes, contributions and intergovernmental revenues, and \$2.3 million in expenditures.
- The Community Development Block Grant Fund had \$453,176 in revenues, which consisted of intergovernmental revenues.
- The total Wastewater, Water, and Sanitation Funds net position increased \$443,972 due to a transfer of monies received from the Community Development Block Grant Fund to fund a water line project. Operating revenues of \$976,448 exceeded operating expenses by \$516 at the end of the current fiscal year.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021**

## **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021**

**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 decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and Community Development Block Grant Funds, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining 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, 2021**

**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 \$7.3 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, 2021 and June 30, 2020.

	2021 Governmental Activities	2020 Governmental Activities	2021 Business-type Activities	2020 Business-type Activities	2021 Total	2020 Total
Current and other assets	\$ 3,120,371	\$ 2,374,177	\$ (86,363)	\$ (118,616)	\$ 3,034,008	\$ 2,255,561
Capital assets, net	2,674,053	2,813,148	3,567,444	3,141,694	6,241,497	5,954,842
<b>Total assets</b>	<u>5,794,424</u>	<u>5,187,325</u>	<u>3,481,081</u>	<u>3,023,078</u>	<u>9,275,505</u>	<u>8,210,403</u>
Deferred outflows	262,807	136,554	80,605	34,869	343,412	171,423
Current and other liabilities	231,583	200,806	173,248	127,140	404,831	327,946
Long-term liabilities	1,214,555	1,223,567	603,112	567,518	1,817,667	1,791,085
<b>Total liabilities</b>	<u>1,446,138</u>	<u>1,424,373</u>	<u>776,360</u>	<u>694,658</u>	<u>2,222,498</u>	<u>2,119,031</u>
Deferred inflows	105,567	115,994		21,935	105,567	137,929
Net position:						
Net investment in capital assets	2,534,195	2,598,556	3,363,068	2,890,362	5,897,263	5,488,918
Restricted	78,445	120,666	39,710	39,710	118,155	160,376
Unrestricted	1,892,886	1,064,290	(617,452)	(588,718)	1,275,434	475,572
<b>Total net position</b>	<u>\$ 4,505,526</u>	<u>\$ 3,783,512</u>	<u>\$ 2,785,326</u>	<u>\$ 2,341,354</u>	<u>7,290,852</u>	<u>\$ 6,124,866</u>

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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 \$79,385 and business type capital asset additions of \$513,171.
- Depreciation expense of \$218,480 related to governmental assets and \$87,421 for business-type assets.
- The increase of \$170,289 in governmental pension liabilities and increase of \$80,510 in business type pension liabilities.
- Governmental activity principal payments of \$100,000 for general obligation bonds and \$79,027 for capital leases.

**Changes in net position.** The City's total revenues for the current fiscal year were \$4.7 million. The total cost of all programs and services was \$3.5 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2021 and June 30, 2020.

	2021 Governmental Activities	2020 Governmental Activities	2021 Business-type Activities	2020 Business-type Activities	2021 Total	2020 Total
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 450,409	\$ 309,372	\$ 976,448	\$ 934,657	\$ 1,426,857	\$ 1,244,029
Operating grants and contributions	612,240	724,578		2,265	612,240	726,843
Capital grants and contributions	526,013	26,721		113,310	526,013	140,031
General revenues:						
Property taxes	237,297	246,364			237,297	246,364
City sales taxes	1,360,642	1,003,652			1,360,642	1,003,652
Franchise taxes	56,612	52,483			56,612	52,483
Unrestricted state revenues	451,210	398,376			451,210	398,376
Investment income	2,104	9,353	82	3,329	2,186	12,682
Miscellaneous	18,336	45,845	55		18,391	45,845
<b>Total revenues</b>	<u>3,714,863</u>	<u>2,816,744</u>	<u>976,585</u>	<u>1,053,561</u>	<u>4,691,448</u>	<u>3,870,305</u>
<b>Expenses:</b>						
General government	898,631	1,078,039			898,631	1,078,039
Public safety	927,841	978,708			927,841	978,708
Highways and streets	236,812	134,485			236,812	134,485
Culture and recreation	347,208	324,548			347,208	324,548
Redevelopment and housing	1,580	906			1,580	906
Health and welfare	114,885	106,474			114,885	106,474
Interest on long-term debt	12,716	16,445			12,716	16,445
Wastewater			255,667	255,209	255,667	255,209
Water			536,078	524,547	536,078	524,547
Sanitation			194,044	184,004	194,044	184,004
<b>Total expenses</b>	<u>2,539,673</u>	<u>2,639,605</u>	<u>985,789</u>	<u>963,760</u>	<u>3,525,462</u>	<u>3,603,365</u>
<b>Transfers</b>	<u>(453,176)</u>		<u>453,176</u>			
<b>Changes in net position</b>	<u>722,014</u>	<u>177,139</u>	<u>443,972</u>	<u>89,801</u>	<u>1,165,986</u>	<u>266,940</u>
<b>Net position, beginning</b>	<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>
<b>Net position, ending</b>	<u>\$ 4,505,526</u>	<u>\$ 3,783,512</u>	<u>\$ 2,785,326</u>	<u>\$ 2,341,354</u>	<u>\$ 7,290,852</u>	<u>\$ 6,124,866</u>

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following are significant current year transactions that have had an impact on the changes in net position.

- Governmental charges for services increased \$141,037 primarily due to an increase in Boothill Graveyard sales as tourism increased significantly post pandemic closure.
- Governmental operating grants and contributions decreased \$112,338 due to a decrease in state shared revenues and Cares Act funding.
- Governmental capital grants and contributions increased \$499,292 primarily due to increased CDBG monies received to fund a water line project.
- City sales taxes increased \$356,990 primarily due to increased tourism.
- General government expenses decreased \$179,408 due primarily to the reallocation of employee related costs, as well as increases in general insurance and legal costs.
- Highway and streets expenses increased \$102,327 due primarily to the reallocation of employee related costs for special projects.
- Business-type capital grants and contributions decreased \$113,310 due to a grant received in the prior year to complete a water infrastructure project.
- Transfers of \$453,176 from governmental activities to business-type activities to help fund a waterline project.

**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.

	2021		2020	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
<b>Governmental Activities</b>				
General government	\$ 898,631	\$ (83,767)	\$ 1,078,039	\$ (686,800)
Public safety	927,841	(885,736)	978,708	(805,092)
Highways and streets	236,812	(113,424)	134,485	176,683
Culture and recreation	347,208	(192,079)	324,548	(168,687)
Redevelopment and housing	1,580	451,596	906	27,881
Health and welfare	114,885	(114,885)	106,474	(106,474)
Interest on long-term debt	12,716	(12,716)	16,445	(16,445)
<b>Total</b>	<u>2,539,673</u>	<u>(951,011)</u>	<u>2,639,605</u>	<u>(1,578,934)</u>
<b>Business-type Activities</b>				
Wastewater	255,667	4,450	255,209	(3,504)
Water	536,078	37,346	524,547	133,947
Sanitation	194,044	(51,137)	184,004	(43,971)
<b>Total</b>	<u>\$ 985,789</u>	<u>\$ (9,341)</u>	<u>\$ 963,760</u>	<u>\$ 86,472</u>

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

- The cost of all governmental activities this year was \$2.5 million, a decrease of \$99,932 from the prior year.
- The cost of all business-type activities this year was \$985,789, an increase of \$22,029.
- Federal and state grants and charges for services subsidized certain governmental programs and business-type programs with revenues of \$2.6 million.
- Net cost of governmental activities of \$951,011 was financed by general revenues of \$2.1 million, which are made up of primarily of City sales taxes, property taxes, and unrestricted state revenues.

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

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

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

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 \$2.0 million, an increase of \$654,342 primarily due to an increase in city sales tax collections.

The General Fund's fund balance increased \$706,548. General Fund revenues increased \$635,851 primarily due to an increase in city sales tax collections and Boothill tourism. General Fund expenditures decreased \$137,572.

Community Development Block Grant Fund revenues increased \$424,389 due to funding received for a water line project.

**Proprietary funds.** Net position of the enterprise funds at the end of the year amounted to \$2.8 million, an increase of \$443,972 due to a transfer of monies received from the Community Development Block Grant Fund to fund a water line project.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021**

**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 2020-21 operating and capital budget. The significant variances are summarized as follows:

- The favorable variance of \$223,852 in city sales taxes was a result of a significant increase in tourism after COVID-19 pandemic closure restrictions were lifted.
- The favorable variance of \$309,832 in contributions and donations was a result of a large unexpected donation received at year-end.
- The favorable variance of \$203,330 in general government expenditures was a result of an increased contingency reserve, as well as less than expected employee insurance benefit costs and capital expenses.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of year end, the City had invested \$6.2 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 \$286,655 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$305,901.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2021 and June 30, 2020.

	2021 Governmental Activities	2020 Governmental Activities	2021 Business-type Activities	2020 Business-type Activities
Capital assets – non-depreciable	\$ 80,184	\$ 21,161	\$ 540,576	\$ 1,371,001
Capital assets – depreciable, net	2,593,869	2,791,987	3,026,868	1,770,693
<b>Total</b>	<u>\$ 2,674,053</u>	<u>\$ 2,813,148</u>	<u>\$ 3,567,444</u>	<u>\$ 3,141,694</u>

The estimated cost to complete current construction projects is \$513,365. Additional information on the City's capital assets can be found in Note 6.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Debt Administration.** At year end, the City had \$644,234 in long-term debt outstanding, \$229,635 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, 2021 and June 30, 2020.

	As of <u>June 30, 2021</u>	As of <u>June 30, 2020</u>
Revenue bonds payable	\$ 174,000	\$ 204,000
General obligation bonds payable	300,000	400,000
Capital leases	170,234	266,217
<b>Total</b>	<u>\$ 644,234</u>	<u>\$ 870,217</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 \$2.9 million in the 20 percent capacity and \$855,669 in the six percent capacity. Additional information on the City's long-term debt can be found in Notes 7 through 10.

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

The adopted combined operating and capital expenditure budget for fiscal year 2021-22 totals \$6.6 million, an increase of \$138,963 or two percent greater than fiscal year 2020-21.

***General Fund***

The budget for the General Fund increased by \$131,219 in fiscal year 2021-22, an increase of approximately six percent.

***Enterprise Funds***

The City's budget for utility enterprise funds increased by \$4,434, an increase of less than one percent over the 2020-21 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, 2021**

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 1,021,347	\$ 300,585	\$ 1,321,932
Cash and investments - restricted	14,420		14,420
Accounts receivable	227,091	113,261	340,352
Property taxes receivable	7,667		7,667
Due from governmental entities	230,472		230,472
Internal balances	644,705	(644,705)	
Inventory	43,918		43,918
Prepaid items	23,413	1,469	24,882
<b>Total current assets</b>	<u>2,213,033</u>	<u>(229,390)</u>	<u>1,983,643</u>
Noncurrent assets:			
Cash and investments - restricted		143,027	143,027
Net pension asset	907,338		907,338
Capital assets, non-depreciable	80,184	540,576	620,760
Capital assets, depreciable (net)	2,593,869	3,026,868	5,620,737
<b>Total noncurrent assets</b>	<u>3,581,391</u>	<u>3,710,471</u>	<u>7,291,862</u>
<b>Total assets</b>	<u>5,794,424</u>	<u>3,481,081</u>	<u>9,275,505</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>262,807</u>	<u>80,605</u>	<u>343,412</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	228,355	68,928	297,283
Accrued payroll and employee benefits	3,228	1,003	4,231
Compensated absences payable	33,388	10,356	43,744
Customer deposits		103,317	103,317
Capital leases payable	80,388	17,247	97,635
General obligation bonds payable	100,000		100,000
Revenue bonds payable		32,000	32,000
<b>Total current liabilities</b>	<u>445,359</u>	<u>232,851</u>	<u>678,210</u>
Noncurrent liabilities:			
Capital leases payable	59,470	13,129	72,599
General obligation bonds payable	200,000		200,000
Revenue bonds payable		142,000	142,000
Net pension liability	741,309	388,380	1,129,689
<b>Total noncurrent liabilities</b>	<u>1,000,779</u>	<u>543,509</u>	<u>1,544,288</u>
<b>Total liabilities</b>	<u>1,446,138</u>	<u>776,360</u>	<u>2,222,498</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>105,567</u>		<u>105,567</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	2,534,195	3,363,068	5,897,263
Restricted for:			
Grants	32,335		32,335
Debt service	23,342	39,710	63,052
Highways and streets	179		179
Other purposes	22,589		22,589
Unrestricted	1,892,886	(617,452)	1,275,434
<b>Total net position</b>	<u>\$ 4,505,526</u>	<u>\$ 2,785,326</u>	<u>\$ 7,290,852</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, 2021**

<b>Functions/Programs</b>	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
<b>Primary Government</b>						
Governmental activities:						
General government	\$ 898,631	\$ 450,409	\$ 332,223	\$ 32,232		\$ (83,767)
Public safety	927,841		1,500	40,605		(885,736)
Highway and streets	236,812		123,388			(113,424)
Culture and recreation	347,208		155,129			(192,079)
Redevelopment and housing	1,580			453,176		451,596
Health and welfare	114,885					(114,885)
Interest on long term debt	12,716					(12,716)
Total governmental activities	<u>2,539,673</u>	<u>450,409</u>	<u>612,240</u>	<u>526,013</u>		<u>(951,011)</u>
Business-type activities:						
Wastewater	255,667	260,117				
Water	536,078	573,424				
Sanitation	194,044	142,907				
Total business-type activities	<u>985,789</u>	<u>976,448</u>				
<b>Total primary government</b>	<u>\$ 3,525,462</u>	<u>\$ 1,426,857</u>	<u>\$ 612,240</u>	<u>\$ 526,013</u>		<u>(951,011)</u>

**General revenues:**

Taxes:

Property taxes, levied for general purposes	132,056
Property taxes, levied for debt purposes	105,241
City sales taxes	1,360,642
Franchise taxes	56,612
Unrestricted state revenues	451,210
Investment income	2,104
Miscellaneous	18,336

**Transfers**

<b>Total general revenues and transfers</b>	<u>(453,176)</u>
	<u>1,673,025</u>

**Changes in net position**

722,014

**Net position, beginning of year**

3,783,512

**Net position, end of year**

\$ 4,505,526

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
\$	\$
	(83,767)
	(885,736)
	(113,424)
	(192,079)
	451,596
	(114,885)
	(12,716)
	<u>(951,011)</u>
	4,450
	37,346
	(51,137)
	<u>(9,341)</u>
	<u>(9,341)</u>
	<u>(960,352)</u>
	132,056
	105,241
	1,360,642
	56,612
	451,210
	82
	2,186
	55
	18,391
	453,176
	<u>453,313</u>
	<u>2,126,338</u>
	443,972
	1,165,986
	<u>2,341,354</u>
	<u>6,124,866</u>
\$	\$
2,785,326	<u>7,290,852</u>

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**FUND FINANCIAL STATEMENTS**



**CITY OF TOMBSTONE, ARIZONA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2021**

	General	Community Development Block Grant	Non-Major Governmental Funds
<b><u>ASSETS</u></b>			
Cash and investments	\$ 956,367	\$ 29,634	\$ 35,346
Cash and investments - restricted	14,420		
Accounts receivable	227,091		
Property taxes receivable	4,006		3,661
Due from governmental entities	219,604		10,868
Advances to other funds	644,705		
Inventory	43,918		
Prepaid items	21,492		1,921
<b>Total assets</b>	<b>\$ 2,131,603</b>	<b>\$ 29,634</b>	<b>\$ 51,796</b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 213,272	\$ 847	\$ 14,236
Accrued payroll and employee benefits	2,827		401
<b>Total liabilities</b>	<b>216,099</b>	<b>847</b>	<b>14,637</b>
Fund balances:			
Nonspendable	710,115		1,921
Restricted	14,420	28,787	35,238
Unassigned	1,190,969		
<b>Total fund balances</b>	<b>1,915,504</b>	<b>28,787</b>	<b>37,159</b>
 <b>Total liabilities and fund balances</b>	 <b>\$ 2,131,603</b>	 <b>\$ 29,634</b>	 <b>\$ 51,796</b>

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

Total  
Governmental  
Funds

---

\$ 1,021,347  
14,420  
227,091  
7,667  
230,472  
644,705  
43,918  
23,413  

---

\$ 2,213,033

\$ 228,355  

---

3,228  

---

231,583

712,036  
78,445  

---

1,190,969  

---

1,981,450

---

\$ 2,213,033

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**CITY OF TOMBSTONE, ARIZONA**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2021**

<b>Total governmental fund balances</b>		<b>\$ 1,981,450</b>
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 7,882,290	
Less accumulated depreciation	<u>(5,208,237)</u>	2,674,053
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources related to pensions	262,807	
Deferred inflows of resources related to pensions	<u>(105,567)</u>	157,240
<p>The net pension assets are not current financial resources and, therefore, are not reported in the funds.</p>		
		907,338
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Compensated absences payable	(33,388)	
Obligations under capital leases	(139,858)	
Net pension liability	(741,309)	
Bonds payable	<u>(300,000)</u>	<u>(1,214,555)</u>
<b>Net position of governmental activities</b>		<b><u>\$ 4,505,526</u></b>

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, 2021**

	General	Community Development Block Grant	Non-Major Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 132,056	\$	\$ 105,241
City sales taxes	1,360,642		
Franchise taxes	56,612		
Licenses and permits	68,098		
Intergovernmental	460,428	453,176	163,993
Charges for services	331,606		860
Fines and forfeits	49,845		
Investment income	2,104		
Contributions and donations	510,366		1,500
Miscellaneous	18,336		
<b>Total revenues</b>	2,990,093	453,176	271,594
<b>Expenditures:</b>			
Current -			
General government	810,186		811
Public safety	878,963		
Highway and streets			211,124
Culture and recreation	316,970		
Health and welfare	113,276		
Capital outlay	88,934		39,256
Debt service -			
Principal retirement	56,863		122,164
Interest and fiscal charges	2,271		10,445
<b>Total expenditures</b>	2,267,463		383,800
<b>Excess (deficiency) of revenues over expenditures</b>	722,630	453,176	(112,206)
<b>Other financing sources (uses):</b>			
Transfer in			60,000
Transfer out	(60,000)	(453,176)	
<b>Total other financing sources (uses)</b>	(60,000)	(453,176)	60,000
<b>Changes in fund balances</b>	662,630		(52,206)
<b>Fund balances, beginning of year, as restated</b>	1,208,956	28,787	89,365
Increase (decrease) in reserve for inventory	43,918		
<b>Fund balances, end of year</b>	\$ 1,915,504	\$ 28,787	\$ 37,159

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

Total  
Governmental  
Funds

\$ 237,297  
1,360,642  
56,612  
68,098  
1,077,597  
332,466  
49,845  
2,104  
511,866  
18,336  
3,714,863

810,997  
878,963  
211,124  
316,970  
113,276  
128,190

179,027  
12,716

2,651,263

1,063,600

60,000  
(513,176)  
(453,176)

610,424

1,327,108

43,918

\$ 1,981,450

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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, 2021**

<b>Changes in fund balances - total governmental funds</b>	<b>\$</b>	<b>610,424</b>
<p>Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:</p> <p>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 and reported as depreciation expense.</p>		
Expenditures for capitalized assets	\$ 79,385	
Less current year depreciation	<u>(218,480)</u>	(139,095)
<p>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.</p>		
Capital lease principal retirement	79,027	
Bond principal retirement	<u>100,000</u>	179,027
<p>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 items, is reported as pension expense in the Statement of Activities.</p>		
Current year pension contributions	74,302	
Pension expense	<u>(46,836)</u>	27,466
<p>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.</p>		
Inventory	43,918	
Compensated absences	<u>274</u>	<u>44,192</u>
<b>Changes in net position in governmental activities</b>	<b>\$</b>	<b><u>722,014</u></b>

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, 2021**

	Enterprise Funds		
	Wastewater	Water	Sanitation
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$	\$ 300,585	\$
Accounts receivable	23,452	75,968	13,841
Prepaid items		1,469	
Total current assets	<u>23,452</u>	<u>378,022</u>	<u>13,841</u>
Noncurrent assets:			
Cash and investments - restricted		143,027	
Capital assets, non-depreciable		540,576	
Capital assets, depreciable (net)	861,923	2,164,945	
Total noncurrent assets	<u>861,923</u>	<u>2,848,548</u>	
<b>Total assets</b>	<u>885,375</u>	<u>3,226,570</u>	<u>13,841</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>17,810</u>	<u>61,746</u>	<u>1,049</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	10,677	36,914	21,337
Accrued payroll and employee benefits	220	770	13
Compensated absences payable	2,277	7,956	123
Customer deposits		103,317	
Capital leases payable		17,247	
Revenue bonds payable		32,000	
Total current liabilities	<u>13,174</u>	<u>198,204</u>	<u>21,473</u>
Noncurrent liabilities:			
Advances from other funds	162,678		482,027
Capital leases payable		13,129	
Revenue bonds payable		142,000	
Net pension liability	177,616	191,962	18,802
Total noncurrent liabilities	<u>340,294</u>	<u>347,091</u>	<u>500,829</u>
<b>Total liabilities</b>	<u>353,468</u>	<u>545,295</u>	<u>522,302</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	861,923	2,501,145	
Restricted for:			
Debt service		39,710	
Unrestricted	(312,206)	202,166	(507,412)
<b>Total net position</b>	<u>\$ 549,717</u>	<u>\$ 2,743,021</u>	<u>\$ (507,412)</u>

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

Enterprise Funds

Totals

\$ 300,585  
113,261  
1,469  
415,315

143,027  
540,576  
3,026,868  
3,710,471  
4,125,786

80,605

68,928  
1,003  
10,356  
103,317  
17,247  
32,000  
232,851

644,705  
13,129  
142,000  
388,380  
1,188,214  
1,421,065

3,363,068

39,710  
(617,452)  
\$ 2,785,326

**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	Enterprise Funds		
	Wastewater	Water	Sanitation
<b>Operating revenues:</b>			
Charges for services	\$ 260,117	\$ 573,424	\$ 142,907
<b>Total operating revenues</b>	<u>260,117</u>	<u>573,424</u>	<u>142,907</u>
<b>Operating expenses:</b>			
Administration	84,118	265,096	7,709
Cost of sales and services	125,239	220,014	186,335
Depreciation	46,310	41,111	
<b>Total operating expenses</b>	<u>255,667</u>	<u>526,221</u>	<u>194,044</u>
<b>Operating income (loss)</b>	<u>4,450</u>	<u>47,203</u>	<u>(51,137)</u>
<b>Nonoperating revenues (expenses):</b>			
Investment income		82	
Miscellaneous			55
Interest expense		(9,857)	
<b>Total nonoperating revenues (expenses)</b>		<u>(9,775)</u>	<u>55</u>
<b>Income (loss) before transfers</b>	<u>4,450</u>	<u>37,428</u>	<u>(51,082)</u>
<b>Transfer in</b>		<u>453,176</u>	
<b>Changes in net position</b>	<u>4,450</u>	<u>490,604</u>	<u>(51,082)</u>
<b>Total net position, beginning of year</b>	545,267	2,252,417	(456,330)
<b>Total net position, end of year</b>	<u>\$ 549,717</u>	<u>\$ 2,743,021</u>	<u>\$ (507,412)</u>

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

Enterprise Funds

Totals  
\$ 976,448  
976,448

356,923  
531,588  
87,421  
975,932  
516

82  
55  
(9,857)  
(9,720)

(9,204)

453,176

443,972

2,341,354

\$ 2,785,326

**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	Enterprise Funds			
	Wastewater	Water	Sanitation	Totals
<b><u>Increase (Decrease) in Cash and Cash Equivalents</u></b>				
Cash flows from operating activities:				
Cash received from customers	\$ 260,487	\$ 569,953	\$ 142,407	\$ 972,847
Cash payments to suppliers for goods and services	(120,085)	(194,065)	(178,761)	(492,911)
Cash payments to employees for services	(80,542)	(252,990)	(7,509)	(341,041)
<b>Net cash provided by (used for) operating activities</b>	<u>59,860</u>	<u>122,898</u>	<u>(43,863)</u>	<u>138,895</u>
Cash flows from noncapital and related financing activities:				
Intergovernmental			55	55
Interfund transfers		453,176		453,176
Interfund advances	(49,260)		43,808	(5,452)
<b>Net cash provided by (used for) noncapital financing activities</b>	<u>(49,260)</u>	<u>453,176</u>	<u>43,863</u>	<u>447,779</u>
Cash flows from capital and related financing activities:				
Principal paid on long-term debt		(46,956)		(46,956)
Interest paid on long-term debt		(9,857)		(9,857)
Acquisition of capital assets	(10,600)	(502,571)		(513,171)
<b>Net cash provided by (used for) capital and related financing activities</b>	<u>(10,600)</u>	<u>(559,384)</u>		<u>(569,984)</u>
Cash flows from investing activities:				
Investment income		82		82
<b>Net cash provided by investing activities</b>		<u>82</u>		<u>82</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>16,772</u>		<u>16,772</u>
<b>Cash and cash equivalents, beginning of year</b>		<u>426,840</u>		<u>426,840</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$</u>	<u>\$ 443,612</u>	<u>\$</u>	<u>\$ 443,612</u>
<b><u>Reconciliation of Operating Income (Loss) to</u></b>				
<b><u>Net Cash Provided by (Used for) Operating Activities</u></b>				
<b>Operating income (loss)</b>	\$ 4,450	\$ 47,203	\$ (51,137)	\$ 516
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	46,310	41,111		87,421
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	370	(10,026)	(500)	(10,156)
Decrease (increase) in prepaid items		127		127
Increase (decrease) in accounts payable	5,154	25,822	7,574	38,550
Increase (decrease) in accrued payroll and employee benefits	220	770	13	1,003
Increase (decrease) in compensated absences payable	519	1,501	20	2,040
Increase (decrease) in deposits held for others		6,555		6,555
Increase (decrease) in pension items	2,837	9,835	167	12,839
<b>Total adjustments</b>	<u>55,410</u>	<u>75,695</u>	<u>7,274</u>	<u>138,379</u>
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 59,860</u>	<u>\$ 122,898</u>	<u>\$ (43,863)</u>	<u>\$ 138,895</u>

**CITY OF TOMBSTONE, ARIZONA  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2021**

	Pension Trust
<b><u>ASSETS</u></b>	
Cash and investments	\$ 88,471
<b>Total assets</b>	<b>88,471</b>
<b><u>LIABILITIES</u></b>	
Accounts payable	572
<b>Total liabilities</b>	<b>572</b>
<b><u>NET POSITION</u></b>	
Held in trust	\$ 87,899

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, 2021**

	Pension Trust
<b>Additions:</b>	
Contributions	\$ 4,734
<b>Total additions</b>	<b>4,734</b>
<b>Deductions:</b>	
Distributions	5,272
<b>Total deductions</b>	<b>5,272</b>
<b>Changes in net position</b>	<b>(538)</b>
<b>Net position, beginning of year</b>	88,437
<b>Net position, end of year</b>	<b>\$ 87,899</b>

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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, 2021**

**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, 2021**

**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.

Community Development Block Grant (CDBG) – This fund accounts for monies received from the U.S. Department of Housing and Urban Development for affordable housing activities including housing rehabilitation and redevelopment activities.

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, 2021**

**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, 2021**

**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.

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 federal depository 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) as required by debt covenants, (2) for customer deposits, and (3) for court-directed purposes.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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. Inventory**

All inventories are valued at cost using the average cost method. Inventories consist of expendable supplies for consumption. Inventories are recorded as expenses when consumed on the government-wide financial statements and as expenditures when purchased on the fund financial statements.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**J. 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.

**K. 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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**L. 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.

**M. 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.

**N. 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.

**O. 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.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

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.

**P. 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.

**Q. 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.

**R. 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.



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

***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.

***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.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

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

	<u>General Fund</u>	<u>Community Development Block Grant</u>	<u>Non-Major Governmental Funds</u>
Fund Balances:			
Nonspendable:			
Advances to other funds	\$ 644,705	\$	\$
Prepaid items	21,492		1,921
Inventory	43,918		
Restricted:			
Debt service			23,342
Grants		28,787	3,548
Highways and Streets			179
Other purposes	14,420		8,169
Unassigned	<u>1,190,969</u>		
Total fund balances	<u>\$ 1,915,504</u>	<u>\$ 28,787</u>	<u>\$ 37,159</u>

The City reclassified the activity of the Building Renovation Fund to the General Fund based on the provisions of GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions. The Building Renovation Fund was previously reported as a special revenue fund. The resulting beginning fund balances have been restated from the prior year to reflect the changes.

	<u>General Fund</u>	<u>Building Renovation Fund</u>
Fund balance, June 30, 2020, as previously reported	\$ 1,733,986	\$ (525,030)
Fund reclassification	<u>(525,030)</u>	<u>525,030</u>
Fund balance, July 1, 2020, as restated	<u>\$ 1,208,956</u>	<u>\$</u>

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

**Individual Deficit Fund Balance** – At year end, the Sanitation Fund, a major enterprise fund, reported a deficit of \$507,412 in fund balance.

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 2021 and will be presented during the fiscal year 2023 budget process that will include a 5 year rate structure.

**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.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 4 – CASH AND INVESTMENTS**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of bank failure the City’s deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the City’s deposits was \$839,652 and the bank balance was \$987,952. At year end, \$737,952 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.

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

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

	Maturities	Fair Value
State Treasurer’s investment pool 5	66 days	\$ 728,198

*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. The State Treasurer’s Local Government Investment Pool 5 was rated AAA by Moody’s at year end.

*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.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 5 – RECEIVABLES**

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

	General Fund	Non-Major Governmental Funds
Due from other governmental entities:		
Due from federal government	\$ 9,623	\$
Due from state government	209,981	10,868
Net due from governmental entities	\$ 219,604	\$ 10,868

**NOTE 6 – CAPITAL ASSETS**

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

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 4,949	\$	\$	\$ 4,949
Construction in progress	16,212	79,385	20,362	75,235
Total capital assets, not being depreciated	21,161	79,385	20,362	80,184
Capital assets, being depreciated:				
Buildings and improvements	3,840,901	20,362		3,861,263
Infrastructure	2,058,748			2,058,748
Machinery, equipment, and vehicles	1,982,175		100,080	1,882,095
Total capital assets being depreciated	7,881,824	20,362	100,080	7,802,106
Less accumulated depreciation for:				
Buildings and improvements	(1,716,096)	(97,017)		(1,813,113)
Infrastructure	(2,012,090)	(5,184)		(2,017,274)
Machinery, equipment, and vehicles	(1,361,651)	(116,279)	(100,080)	(1,377,850)
Total accumulated depreciation	(5,089,837)	(218,480)	(100,080)	(5,208,237)
Total capital assets, being depreciated, net	2,791,987	(198,118)		2,593,869
Governmental activities capital assets, net	\$ 2,813,148	\$ (118,733)	\$ 20,362	\$ 2,674,053

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 – CAPITAL ASSETS**

<u>Business-Type Activities</u>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 8,000	\$	\$	\$ 8,000
Construction in progress	1,363,001	502,570	1,332,995	532,576
Total capital assets, not being depreciated	<u>1,371,001</u>	<u>502,570</u>	<u>1,332,995</u>	<u>540,576</u>
Capital assets, being depreciated:				
Buildings and improvements	185,650			185,650
Infrastructure	4,606,022	1,332,996		5,939,018
Machinery, equipment, and vehicles	218,421	10,600		229,021
Total capital assets being depreciated	<u>5,010,093</u>	<u>1,343,596</u>		<u>6,353,689</u>
Less accumulated depreciation for:				
Buildings and improvements	(113,657)	(4,025)		(117,682)
Infrastructure	(2,976,574)	(59,558)		(3,036,132)
Machinery, equipment, and vehicles	(149,169)	(23,838)		(173,007)
Total accumulated depreciation	<u>(3,239,400)</u>	<u>(87,421)</u>		<u>(3,326,821)</u>
Total capital assets, being depreciated, net	<u>1,770,693</u>	<u>1,256,175</u>		<u>3,026,868</u>
Business-type activities capital assets, net	<u>\$ 3,141,694</u>	<u>\$ 1,758,745</u>	<u>\$ 1,332,995</u>	<u>\$ 3,567,444</u>

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
General government	\$ 81,406
Public safety	96,643
Highways and streets	20,230
Culture and recreation	20,201
Total depreciation expense – governmental activities	<u>\$ 218,480</u>
Business-type activities:	
Wastewater	\$ 46,310
Water	41,111
Total depreciation expense – business-type activities	<u>\$ 87,421</u>

**Construction Commitments** – At year end, the City had contractual commitments related to airport improvements and a water blending project. At year end, the City had spent \$607,812 on the projects and had estimated remaining contractual commitments of \$513,365. These projects are primarily funded with bond and grant proceeds.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 7 – GENERAL OBLIGATION BONDS PAYABLE**

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

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2021</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Private placement general obligation bonds:					
GO Bonds Series Project of 2013, Series 2014	\$ 1,000,000	2.39%	7/1/22-24	\$ 300,000	\$ 100,000

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

Year ending June 30:	<u>Private Placement General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 100,000	\$ 7,170
2023	100,000	4,780
2024	100,000	2,390
Total	<u>\$ 300,000</u>	<u>\$ 14,340</u>

**NOTE 8 – REVENUE BONDS PAYABLE**

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

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2021</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Private placement revenue bonds:					
Water Revenue Bonds, Project of 1994	\$ 586,500	4.5%	7/1/22-26	\$ 174,000	\$ 32,000

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 – REVENUE BONDS PAYABLE**

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

Year ending June 30:	Business-type Activities	
	Principal	Interest
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	\$ 174,000	\$ 24,165

**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 \$198,165. The current total customer gross revenues were \$573,424 and the total principal and interest paid on the bonds was \$39,180, or seven percent of gross revenues.

**NOTE 9 – 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.

	Governmental Activities	Water Fund
Asset		
Machinery, equipment, and vehicles	\$ 556,489	\$ 107,296
Less: Accumulated depreciation	(317,977)	(46,819)
Total	\$ 238,512	\$ 60,477

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES**

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

Year Ending June 30:	Governmental Activities	Water Fund
2022	\$ 82,181	\$ 17,632
2023	61,636	13,224
Total minimum lease payments	<u>143,817</u>	<u>30,856</u>
Less: amount representing interest	<u>2,230</u>	<u>480</u>
Present value of minimum lease payments	<u>141,587</u>	<u>30,376</u>
Due within one year	<u>\$ 80,388</u>	<u>\$ 17,247</u>

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Private placement general obligation bonds	\$ 400,000	\$	\$ 100,000	\$ 300,000	\$ 100,000
Net pension liability	571,020	170,289		741,309	
Compensated absences payable	33,662	43,560	43,834	33,388	33,388
Capital leases payable	218,885		79,027	139,858	80,388
Governmental activity long-term liabilities	<u>\$ 1,223,567</u>	<u>\$ 213,849</u>	<u>\$ 222,861</u>	<u>\$ 1,214,555</u>	<u>\$ 213,776</u>
<b>Business-type activities:</b>					
Private placement revenue bonds	\$ 204,000	\$	\$ 30,000	\$ 174,000	\$ 32,000
Net pension liability	307,870	80,510		388,380	
Compensated absences payable	8,316	12,475	10,435	10,356	10,356
Capital leases payable	47,332		16,956	30,376	17,247
Business-type activities long-term liabilities	<u>\$ 567,518</u>	<u>\$ 92,985</u>	<u>\$ 57,391</u>	<u>\$ 603,112</u>	<u>\$ 59,603</u>



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 11 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

At year end, interfund balances were as follows.

**Advances to/from other funds**

	Wastewater	Sanitation	Total Advances to Other Funds
General Fund	\$ 162,678	\$ 482,027	\$ 644,705

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 \$453,176 from the Community Development Block Grant Fund to the Water Fund were used to move cash balances to fund a waterline project. Transfers of \$60,000 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 12 – CONTINGENT LIABILITIES**

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 13 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

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

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

**NOTE 14 – 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, 2021, 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 asset	\$ 907,338	\$	\$ 907,338
Net pension liability	741,309	388,380	1,129,689
Deferred outflows of resources	262,807	80,605	343,412
Deferred inflows of resources	105,567		105,567
Pension expense	46,836	38,106	84,942
Contributions	74,302	25,267	99,569

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 14 – PENSIONS**

The City reported \$74,302 of pension contributions as expenditures in the governmental funds related to all plans to which it contributes.

**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](http://www.azasrs.gov).

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

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

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, 2021**

**NOTE 14 – 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 12.22 percent (12.04 percent for retirement and 0.18 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 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 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, 2021 were \$79,235.

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 10.21 percent (10.14 for retirement 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, 2020. 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, 2019, to the measurement date of June 30, 2020. 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, 2020.

At June 30, 2021, the City reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2020, the City’s percentage proportion for the plan and the related change from its proportion measured as of June 30, 2019 was:

Net Liability	City % Proportion	Increase (Decrease)
\$ 1,129,689	0.007	0.000

**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, 2021 was \$119,497.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 14 – PENSIONS**

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	\$ 10,220	\$
Net difference between projected and actual earnings on pension investments	108,960	
Changes in proportion and differences between contributions and proportionate share of contributions	54,357	
Contributions subsequent to the measurement date	79,235	
Total	\$ 252,772	\$

The City did not have deferred inflows of resources related to ASRS pensions during the year.

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, 2022. 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:		
2022	\$	44,522
2023		55,902
2024		39,412
2025		33,701

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

Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 14 – PENSIONS**

The actuarial assumptions used in the June 30, 2019 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%	6.39%
Credit	20	5.44
Interest rate sensitive bonds	10	0.22
Real estate	20	5.85
Total	100%	

**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.

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 14 – PENSIONS**

**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	\$ 1,544,835	\$ 1,129,689	\$ 782,649

**Contributions payable.** The City’s accrued payroll and employee benefits included \$6,907 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2021.

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

**B. Public Safety Personnel Retirement System**

**Plan Descriptions.** City public safety employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) 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) plans. 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.

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](http://www.psprs.com).

The PSPRS Tier 3 Risk Pool plan and PSPRS OPEB plan are not further disclosed because of their relative insignificance to the City’s financial statements.

**CITY OF TOMBSTONE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 14 – PENSIONS**

**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
Retirement and disability:		
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, 2021**

**NOTE 14 – PENSIONS**

**Employees Covered by Benefit Terms.** At June 30, 2021, the following employees were covered by the agent pension plan’s benefit terms:

	PSPRS - Police
Inactive, non-retired members	3
Active members	3
Total	6

**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, 2021, 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	12.74%
Health insurance	0.00%

The City’s contributions to the pension plan for the year ended June 30, 2021 were \$20,334.

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 Assets/Liability.** At June 30, 2021, the City reported \$907,338 as a net pension asset. The net pension asset was measured as of June 30, 2020. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 14 – PENSIONS**

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

	Pension
Actuarial valuation date	June 30, 2020
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, 2020, 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.

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
U.S. public equity	23%	4.93%
International public equity	15	6.09
Global private equity	18	8.42
Other assets (capital appreciation)	7	5.61
Core bonds	2	0.22
Private credit	22	5.31
Diversifying strategies	12	3.22
Cash – Mellon	1	-0.60
Total	100%	

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 14 – PENSIONS**

**Discount Rate.** At June 30, 2020, the discount rate used to measure the total pension liability was 7.3 percent.

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.

**Changes in Net (Assets)/Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
<b>PSPRS - Police</b>			
Balances at June 30, 2020	\$ 317,392	\$ 1,163,655	\$ (846,263)
Changes for the year:			
Service cost	32,196		32,196
Interest on the total liability	25,518		25,518
Differences between expected and actual experience in the measurement of the liability	(70,321)		(70,321)
Contributions – employer		20,309	(20,309)
Contributions – employee		16,309	(16,309)
Net investment income		14,902	(14,902)
Administrative expense		(1,215)	1,215
Other changes	(20)	(1,857)	1,837
Net changes	<u>(12,627)</u>	<u>48,448</u>	<u>(61,075)</u>
Balances at June 30, 2021	<u>\$ 304,765</u>	<u>\$ 1,212,103</u>	<u>\$ (907,338)</u>

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 14 – PENSIONS**

**Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate.** The following presents the City’s net pension (asset) liability calculated using the discount rate noted above, as well as what the City’s net pension (asset) 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
<b>PSPRS - Police:</b>			
Rate	6.30%	7.30%	8.30%
Net pension (asset) liability	\$ (870,250)	\$ (907,338)	\$ (935,021)

**Pension 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](http://www.psprs.com).

**Pension Expense.** For the year ended June 30, 2021, the City recognized \$(34,555) in pension expense.

**Deferred Outflows/Inflows of Resources.** At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>PSPRS - Police:</b>		
Differences between expected and actual experience	\$ 2,126	\$ 104,753
Changes of assumptions or other inputs	2,812	814
Net difference between projected and actual earnings on plan investments	65,368	
Contributions subsequent to the measurement date	20,334	
Total	\$ 90,640	\$ 105,567

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 14 – 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 increase in the net pension assets or of the net pension liability in the year ended June 30, 2022. 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
2022	\$ (17,096)
2023	(9,873)
2024	(10,783)
2025	2,491

**Contributions payable.** The City’s accrued payroll and employee benefits included \$1,792 of outstanding pension contribution amounts payable to PSPRS for the year ended June 30, 2021.

**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 of Arizona. 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, 2021, was \$47,336. Contributions made for the year ended June 30, 2021, were \$4,734, which consisted of \$2,367 from employees and \$2,367 from the City. As of year end, there were seven eligible employees participating in the plan.

**NOTE 15 – SUBSEQUENT EVENT**

In September 2021, the City traded parcels of real property with Armada Minerals Incorporated. The City is utilizing the property to develop a new Public Works facility. In November 2021, the City awarded a contractor to begin building on the new land. The contract price is estimated at \$76,000, with a project budget of \$100,000. Completion of the facility is expected in fiscal year 2023.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL**  
**YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts	Non-GAAP	Variance with Final Budget
	Original & Final	Actual	Positive (Negative)
<b>Revenues:</b>			
Property taxes	\$ 124,927	\$ 132,056	\$ 7,129
City sales taxes	1,136,790	1,360,642	223,852
Franchise taxes	53,000	56,612	3,612
Licenses and permits	54,170	68,098	13,928
Intergovernmental	411,653	460,428	48,775
Charges for services	21,600	17,202	(4,398)
Fines and forfeits	24,600	49,845	25,245
Investment income	11,200	2,104	(9,096)
Contributions and donations	44,000	353,832	309,832
Miscellaneous	29,500	18,336	(11,164)
<b>Total revenues</b>	<u>1,911,440</u>	<u>2,519,155</u>	<u>607,715</u>
<b>Expenditures:</b>			
Current -			
General government	746,685	543,355	203,330
Public safety	896,711	878,963	17,748
Culture and recreation	194,972	189,349	5,623
Health and welfare	91,911	113,276	(21,365)
Capital outlay	26,000	88,934	(62,934)
Debt service -			
Principal retirement	58,523	56,863	1,660
Interest and fiscal charges	6,638	2,271	4,367
<b>Total expenditures</b>	<u>2,021,440</u>	<u>1,873,011</u>	<u>148,429</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(110,000)</u>	<u>646,144</u>	<u>756,144</u>
<b>Other financing sources (uses):</b>			
Transfer in	110,000		(110,000)
<b>Total other financing sources (uses)</b>	<u>110,000</u>		<u>(110,000)</u>
<b>Changes in fund balances</b>		<u>646,144</u>	<u>646,144</u>
<b>Fund balances, beginning of year</b>		1,494,745	1,494,745
<b>Fund balances, end of year</b>	<u>\$</u>	<u>\$ 2,140,889</u>	<u>\$ 2,140,889</u>

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
COMMUNITY DEVELOPMENT BLOCK GRANT  
YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
<b>Revenues:</b>			
Intergovernmental	\$ 481,679	\$ 453,176	\$ (28,503)
<b>Total revenues</b>	481,679	453,176	(28,503)
<b>Expenditures:</b>			
Current -			
General government	481,679		481,679
<b>Total expenditures</b>	481,679		481,679
<b>Excess (deficiency) of revenues over expenditures</b>		453,176	453,176
<b>Other financing sources (uses):</b>			
Transfer out		(453,176)	(453,176)
<b>Total other financing sources (uses)</b>		(453,176)	(453,176)
<b>Changes in fund balances</b>			
<b>Fund balances, beginning of year</b>		28,787	28,787
<b>Fund balances, end of year</b>	\$	\$ 28,787	\$ 28,787

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 SEVEN FISCAL YEARS**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
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	\$ 1,129,689	\$ 878,890	\$ 821,448	\$ 958,048	\$ 1,041,095
City's covered payroll	\$ 696,533	\$ 637,021	\$ 585,642	\$ 592,375	\$ 593,548
City's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	162.19%	137.97%	140.26%	161.73%	175.40%
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.40%	69.92%	67.06%

	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2015	June 30, 2014
City's proportion of the net pension (assets) liability	0.01%	0.01%
City's proportionate share of the net pension (assets) liability	\$ 936,903	\$ 831,166
City's covered payroll	\$ 563,214	\$ 754,551
City's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	166.35%	110.15%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

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

See accompanying notes to this schedule.

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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 SEVEN FISCAL YEARS**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total pension liability</b>				
Service cost	\$ 32,196	\$ 36,716	\$ 28,068	\$ 49,315
Interest	25,518	24,945	22,479	19,211
Changes of benefit terms				1,075
Differences between expected and actual experience	(70,321)	(48,885)	(34,538)	5,194
Changes of assumptions or other inputs		4,235		(1,990)
Benefit payments, including refunds of employee contributions			(10,725)	(18,395)
Other changes	(20)			
<b>Net change in total pension liability</b>	<u>(12,627)</u>	<u>17,011</u>	<u>5,284</u>	<u>54,410</u>
<b>Total pension liability—beginning</b>	<u>317,392</u>	<u>300,381</u>	<u>295,097</u>	<u>240,687</u>
<b>Total pension liability—ending</b>	<u>\$ 304,765</u>	<u>\$ 317,392</u>	<u>\$ 300,381</u>	<u>\$ 295,097</u>
<b>Plan fiduciary net position</b>				
Contributions—employer	\$ 20,309	\$ 16,713	\$ 20,454	\$ 13,386
Contributions—employee	16,309	17,567	25,571	31,190
Net investment income	14,902	57,301	69,116	100,201
Benefit payments, including refunds of employee contributions			(10,725)	(18,395)
Administrative expense	(1,215)	(1,974)	(1,752)	(1,287)
Other changes	(1,857)		13	8,014
<b>Net change in plan fiduciary net position</b>	<u>48,448</u>	<u>89,607</u>	<u>102,677</u>	<u>133,109</u>
<b>Plan fiduciary net position—beginning</b>	<u>1,163,655</u>	<u>1,074,048</u>	<u>971,371</u>	<u>838,262</u>
<b>Plan fiduciary net position—ending</b>	<u>\$ 1,212,103</u>	<u>\$ 1,163,655</u>	<u>\$ 1,074,048</u>	<u>\$ 971,371</u>
<b>Net pension (assets) liability—ending</b>	<u>\$ (907,338)</u>	<u>\$ (846,263)</u>	<u>\$ (773,667)</u>	<u>\$ (676,274)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	397.72%	366.63%	357.56%	329.17%
<b>Covered payroll</b>	\$ 274,388	\$ 258,600	\$ 226,194	\$ 267,300
<b>Net pension (assets) liability as a percentage of covered payroll</b>	(330.68)%	(327.25)%	(342.04)%	(253.00)%

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>2017</u>	<u>2016</u>	<u>2015</u>
June 30, 2016	June 30, 2015	June 30, 2014
\$ 37,106	\$ 19,439	\$ 30,962
23,001	25,324	31,998
4,697		(367)
(101,482)	(83,185)	(114,176)
2,913		3,736
		(62,834)
(33,765)	(38,422)	(110,681)
274,452	312,874	423,555
\$ 240,687	\$ 274,452	\$ 312,874
\$ 16,328	\$ 10,686	\$ 13,826
26,346	13,419	15,048
4,722	29,457	98,582
		(62,834)
(1,079)	(1,095)	(794)
(52,074)	(662)	
(5,757)	51,805	63,828
844,019	792,214	728,386
\$ 838,262	\$ 844,019	\$ 792,214
\$ (597,575)	\$ (569,567)	\$ (479,340)
348.28%	307.53%	253.21%
\$ 226,150	\$ 121,307	\$ 209,144
(264.24)%	(469.53)%	(229.19)%

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Arizona State Retirement System:</b>				
Actuarially determined contribution	\$ 79,235	\$ 79,753	\$ 71,219	\$ 63,835
Contributions in relation to the actuarially determined contribution	<u>79,235</u>	<u>79,753</u>	<u>71,219</u>	<u>63,835</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 680,129	\$ 696,533	\$ 637,021	\$ 585,642
Contributions as a percentage of covered payroll	11.65%	11.45%	11.18%	10.90%
 <b>Public Safety Personnel Retirement System - Police:</b>				
Actuarially determined contribution	\$ 20,334	\$ 32,268	\$ 28,808	\$ 21,036
Contributions in relation to the actuarially determined contribution	<u>20,334</u>	<u>32,268</u>	<u>28,808</u>	<u>21,036</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 159,608	\$ 274,388	\$ 258,600	\$ 226,194
Contributions as a percentage of covered payroll	12.74%	11.76%	11.14%	9.30%

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>2017</u>	<u>2016</u>	<u>2015</u>
\$ 63,858	\$ 64,400	\$ 61,344
<u>63,858</u>	<u>64,400</u>	<u>61,344</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 592,375	\$ 593,548	\$ 563,214
10.78%	10.85%	10.89%
\$ 13,365	\$ 16,328	\$ 10,675
<u>13,365</u>	<u>16,328</u>	<u>10,675</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 267,300	\$ 226,150	\$ 121,307
5.00%	7.22%	8.80%

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2021**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

The City budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America, except for certain activities reported in the General Fund that are budgeted as Special Revenue funds.

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

	Total Expenditures	Fund Balances End of Year
Statement of Revenues, Expenditures and Changes in		
Fund Balances – Governmental Funds	\$ 2,267,463	\$ 1,915,504
Activity budgeted as special revenue funds	(394,452)	(299,645)
Activity budgeted as capital funds		525,030
Schedule of Revenues, Expenditures and Changes in		
Fund Balances – Budget and Actual	\$ 1,873,011	\$ 2,140,889

**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, 2019, 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, 2020 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.

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, 2021**

**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, 2021**

	Fire Truck Fund		Variance - Positive (Negative)
	Budget	Non-GAAP Actual	
<b>Revenues:</b>			
Intergovernmental	\$	\$	\$
Charges for services	30,000		(30,000)
Contributions and donations			
<b>Total revenues</b>	<u>30,000</u>	<u></u>	<u>(30,000)</u>
<b>Expenditures:</b>			
Current -			
General government	20,000	23,177	(3,177)
Highway and streets			
Culture and recreation			
Capital outlay	10,000		10,000
Debt service -			
Principal retirement			
Interest and fiscal charges			
<b>Total expenditures</b>	<u>30,000</u>	<u>23,177</u>	<u>6,823</u>
<b>Excess (deficiency) of revenues over expenditures</b>		<u>(23,177)</u>	<u>(23,177)</u>
<b>Other financing sources (uses):</b>			
Transfer in			
Transfer out			
<b>Total other financing sources (uses)</b>			
<b>Changes in fund balances</b>		<u>(23,177)</u>	<u>(23,177)</u>
<b>Fund balances (deficits), beginning of year</b>		86,453	86,453
Increase (decrease) in reserve for inventory			
<b>Fund balances (deficits), end of year</b>	<u>\$</u>	<u>\$ 63,276</u>	<u>\$ 63,276</u>

Court Improvements Fund			Senior Center Rehabilitation Project		
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$ 5,000	\$ 860	\$ (4,140)	\$	\$	\$
<u>5,000</u>	<u>860</u>	<u>(4,140)</u>		<u>1,405</u>	<u>1,405</u>
				<u>1,405</u>	<u>1,405</u>
5,000		5,000			
<u>5,000</u>	<u>860</u>	<u>5,000</u>			
	<u>860</u>	<u>860</u>		<u>1,405</u>	<u>1,405</u>
	<u>860</u>	<u>860</u>		<u>1,405</u>	<u>1,405</u>
	6,620	6,620			
<u>\$</u>	<u>\$ 7,480</u>	<u>\$ 7,480</u>	<u>\$</u>	<u>\$ 1,405</u>	<u>\$ 1,405</u>

(Continued)

**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2021**

	Christmas Lights Donation Fund		
	Budget	Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$	\$	\$
Charges for services			
Contributions and donations		1,500	1,500
<b>Total revenues</b>		1,500	1,500
<b>Expenditures:</b>			
Current -			
General government		811	(811)
Highway and streets			
Culture and recreation			
Capital outlay			
Debt service -			
Principal retirement			
Interest and fiscal charges			
<b>Total expenditures</b>		811	(811)
<b>Excess (deficiency) of revenues over expenditures</b>		689	689
<b>Other financing sources (uses):</b>			
Transfer in			
Transfer out			
<b>Total other financing sources (uses)</b>			
<b>Changes in fund balances</b>		689	689
<b>Fund balances (deficits), beginning of year</b>			
Increase (decrease) in reserve for inventory			
<b>Fund balances (deficits), end of year</b>	\$	\$ 689	\$ 689

Grant Opportunity Fund			Highway User Revenue Fund		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 1,000,000	\$ 40,605	\$ (959,395)	\$ 121,179	\$ 123,388	\$ 2,209
<u>1,000,000</u>	<u>40,605</u>	<u>(959,395)</u>	<u>121,179</u>	<u>123,388</u>	<u>2,209</u>
			241,132	211,124	30,008
1,000,000	38,120	961,880	12,500	1,136	11,364
			19,206	22,164	(2,958)
			2,141	885	1,256
<u>1,000,000</u>	<u>38,120</u>	<u>961,880</u>	<u>274,979</u>	<u>235,309</u>	<u>39,670</u>
	<u>2,485</u>	<u>2,485</u>	<u>(153,800)</u>	<u>(111,921)</u>	<u>41,879</u>
			153,800	60,000	(93,800)
			<u>153,800</u>	<u>60,000</u>	<u>(93,800)</u>
	<u>2,485</u>	<u>2,485</u>		<u>(51,921)</u>	<u>(51,921)</u>
	1,063	1,063		54,021	54,021
<u>\$</u>	<u>\$ 3,548</u>	<u>\$ 3,548</u>	<u>\$</u>	<u>\$ 2,100</u>	<u>\$ 2,100</u>

(Continued)



**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2021**

	Boothill Sales		Variance - Positive (Negative)
	Budget	Non-GAAP Actual	
<b>Revenues:</b>			
Intergovernmental	\$	\$	\$
Charges for services	220,000	314,404	94,404
Contributions and donations			
<b>Total revenues</b>	<u>220,000</u>	<u>314,404</u>	<u>94,404</u>
<b>Expenditures:</b>			
Current -			
General government	220,000	243,654	(23,654)
Highway and streets			
Culture and recreation			
Capital outlay			
Debt service -			
Principal retirement			
Interest and fiscal charges			
<b>Total expenditures</b>	<u>220,000</u>	<u>243,654</u>	<u>(23,654)</u>
<b>Excess (deficiency) of revenues over expenditures</b>		<u>70,750</u>	<u>70,750</u>
<b>Other financing sources (uses):</b>			
Transfer in			
Transfer out			
<b>Total other financing sources (uses)</b>			
<b>Changes in fund balances</b>		<u>70,750</u>	<u>70,750</u>
<b>Fund balances (deficits), beginning of year</b>		(74,037)	(74,037)
Increase (decrease) in reserve for inventory		43,918	43,918
<b>Fund balances (deficits), end of year</b>	<u>\$</u>	<u>\$ 40,631</u>	<u>\$ 40,631</u>

Boothill Donations			Archives		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
282,000	155,129	(126,871)			
<u>282,000</u>	<u>155,129</u>	<u>(126,871)</u>			
182,000	127,621	54,379			
<u>182,000</u>	<u>127,621</u>	<u>54,379</u>			
100,000	27,508	(72,492)			
<u>100,000</u>	<u>27,508</u>	<u>(72,492)</u>			
(100,000)	(60,000)	40,000			
<u>(100,000)</u>	<u>(60,000)</u>	<u>40,000</u>			
	(32,492)	(32,492)			
	322,154	322,154		(95,329)	(95,329)
<u>\$</u>	<u>\$ 289,662</u>	<u>\$ 289,662</u>	<u>\$</u>	<u>\$ (95,329)</u>	<u>\$ (95,329)</u>

(Continued)

**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2021**

	Totals		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$ 1,121,179	\$ 163,993	\$ (957,186)
Charges for services	255,000	315,264	60,264
Contributions and donations	282,000	158,034	(123,966)
<b>Total revenues</b>	<u>1,658,179</u>	<u>637,291</u>	<u>(1,020,888)</u>
<b>Expenditures:</b>			
Current -			
General government	245,000	267,642	(22,642)
Highway and streets	241,132	211,124	30,008
Culture and recreation	182,000	127,621	54,379
Capital outlay	1,022,500	39,256	983,244
Debt service -			
Principal retirement	19,206	22,164	(2,958)
Interest and fiscal charges	2,141	885	1,256
<b>Total expenditures</b>	<u>1,711,979</u>	<u>668,692</u>	<u>1,043,287</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(53,800)</u>	<u>(31,401)</u>	<u>22,399</u>
<b>Other financing sources (uses):</b>			
Transfer in	153,800	60,000	(93,800)
Transfer out	(100,000)	(60,000)	40,000
<b>Total other financing sources (uses)</b>	<u>53,800</u>	<u></u>	<u>(53,800)</u>
<b>Changes in fund balances</b>	<u></u>	<u>(31,401)</u>	<u>(31,401)</u>
<b>Fund balances (deficits), beginning of year</b>		300,945	300,945
Increase (decrease) in reserve for inventory		43,918	43,918
<b>Fund balances (deficits), end of year</b>	<u>\$</u>	<u>\$ 313,462</u>	<u>\$ 313,462</u>

**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, 2021**

	Debt Service		Variance - Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Property taxes	\$ 115,038	\$ 105,241	\$ (9,797)
<b>Total revenues</b>	<u>115,038</u>	<u>105,241</u>	<u>(9,797)</u>
<b>Expenditures:</b>			
Debt service -			
Principal retirement	100,000	100,000	
Interest and fiscal charges	15,038	9,560	5,478
<b>Total expenditures</b>	<u>115,038</u>	<u>109,560</u>	<u>5,478</u>
<b>Changes in fund balances</b>		<u>(4,319)</u>	<u>(4,319)</u>
<b>Fund balances, beginning of year</b>		27,661	27,661
<b>Fund balances, end of year</b>	<u>\$</u>	<u>\$ 23,342</u>	<u>\$ 23,342</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, 2021**

	Building Renovation		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$ 100,000	\$	\$ (100,000)
<b>Total revenues</b>	100,000		(100,000)
<b>Expenditures:</b>			
Capital outlay	100,000		100,000
<b>Total expenditures</b>	100,000		100,000
<b>Changes in fund balances</b>			
<b>Fund balances (deficits), beginning of year</b>		(525,030)	(525,030)
<b>Fund balances (deficits), end of year</b>	\$	\$ (525,030)	\$ (525,030)

Capital Projects			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$ 850,000	\$	\$ (850,000)	\$ 950,000	\$	\$ (950,000)
<u>850,000</u>		<u>(850,000)</u>	<u>950,000</u>		<u>(950,000)</u>
850,000		850,000	950,000		950,000
<u>850,000</u>		<u>850,000</u>	<u>950,000</u>		<u>950,000</u>
				(525,030)	(525,030)
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (525,030)</u>	<u>\$ (525,030)</u>

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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, 2021, and the related notes to the financial statements, which collectively comprise City of Tombstone, Arizona's basic financial statements, and have issued our report thereon dated March 28, 2022.

Report on 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-2021-001 and FS-2021-002 that we consider to be significant deficiencies.

### Report on 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 other 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  
March 28, 2022

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2021**

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

**Finding Number:** FS-2021-001

**Repeat Finding:** Yes, FS-2019-001, FS-2020-001

**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 accurately valuing assets.

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 remove vehicles under the capitalization threshold and to correctly state the cost of a construction in progress 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 and valuation of assets donated to the City, or those acquired via direct-to-vendor payments, to ensure the asset schedules are complete.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2021**

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

**Finding Number:** FS-2021-001

**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**

City staff, with the assistance of a consulting firm, is in the process of developing policies and procedures and will be presented to the Mayor and Council for approval and codification no later than June of 2022.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2021**

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

**Finding Number:** FS-2021-002

**Repeat Finding:** Yes, FS-2019-002, FS-2020-002

**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 expenditure exceeded the authorized amount on the purchase orders, or the purchase orders did not include an authorized amount.
- For four 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 one of six credit card transactions reviewed, a receipt was not obtained or retained for a fuel purchase.
- For one of six credit card transactions reviewed, determined the purchase order was prepared and approved after the purchase.
- For one of 50 disbursements reviewed, a purchase order was not prepared to support a purchase.
- For 19 of 50 disbursements reviewed, the purchase order was missing either the requisitioner and/or department head signatures.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2021**

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

**Finding Number:** FS-2021-002

- The City does not consistently adhere to its procurement policy. Auditors noted two purchases that exceeded \$10,000 where the City did not publish a notice inviting bids or obtain Mayor or City Council approval. Auditors also noted two purchases considered “exclusive services” where the City did not obtain Mayor or City Council approval.
- The City does not periodically request/retain conflict of interest forms from all employees and City Council members to identify potential conflicts with vendors used by the City. Additionally, the City does not have a procurement policy that addresses purchases of goods or services made from employee-owned or Council member-owned businesses.

**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 City Council members to prepare conflict of interest forms on a periodic basis (i.e. annually), and develop a policy that addresses purchase requirements for employee-owned and Council member-owned businesses.

**VIEWS OF RESPONSIBLE OFFICIALS**

In March 2022, the Mayor and Council approved updates to Chapter 18 of the City Code related to purchasing policies and procedures. City staff is undergoing training, and a new purchase order application will be launched by May 1, 2022. In addition, a signed conflict of interest form has now been added to employee files.