

**CITY OF TOMBSTONE, ARIZONA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

CITY OF TOMBSTONE, ARIZONA

| <u>CONTENTS</u> | <u>Page</u> |
|--|--------------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Required Supplementary Information) | 5 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 19 |
| Statement of Activities | 20 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 24 |
| Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position | 25 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 26 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities | 27 |
| Statement of Net Position – Proprietary Funds | 28 |
| Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds | 30 |
| Statement of Cash Flows – Proprietary Funds | 32 |
| Statement of Net Position – Fiduciary Funds | 34 |
| Statement of Changes in Net Position – Fiduciary Funds | 35 |
| Notes to Financial Statements | 36 |

CITY OF TOMBSTONE, ARIZONA

CONTENTS

Page

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues Expenditures and Changes in Fund Balances –
Budget and Actual:

General Fund 70

Schedule of Proportionate Share of the Net Pension Liability 71

Schedules of Changes in the Net Pension Liability and Related Ratios 72

Schedule of Contributions 73

Schedule of Funding Progress 74

Notes to Required Supplementary Information 75

SUPPLEMENTARY INFORMATION

Governmental Funds:

Combining Schedule of Revenues, Expenditures and Changes in Fund
Balances – Budget and Actual – Non-Major Special Revenue Funds 80

Schedule of Revenues, Expenditures and Changes in Fund
Balances – Budget and Actual – Debt Service Fund 87

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

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* 91

Schedule of Findings and Responses 93

(This page intentionally left blank)

**CITY OF TOMBSTONE, ARIZONA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

(This page intentionally left blank)



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Tombstone, Arizona (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Tombstone, Arizona, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended June 30, 2015, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, on our consideration of City of Tombstone, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Tombstone, Arizona's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

March 29, 2016

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

(This page intentionally left blank)

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

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, 2015. 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 \$174,491 to \$1.8 million primarily due to an additional property tax levy, and business-type activities increased \$45,741 to \$1.6 million. The governmental and business-type activities net positions represent 52 percent and 48 percent respectively, of the total net position of \$3.5 million.
- General revenues from governmental activities accounted for \$1.7 million in revenue, or 83 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$357,203 or 17 percent of total governmental activities revenues. The City had \$924,793 of program revenues related to business-type activities.
- The City had \$1.9 million in expenses related to governmental activities, an increase of nine percent from the prior fiscal year. The City had \$879,955 in expenses related to business-type activities, an increase of seven percent from the prior fiscal year. The increased governmental expenses are primarily due to reallocation of staffing and increased street maintenance and repairs.
- Among major funds, the General Fund had \$1.7 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues, and \$1.7 million in expenditures. The General Fund's fund balance increased \$39,252 to \$1.5 million.
- The total Wastewater, Water, and Sanitation Funds net position increased \$45,741. Operating revenues of \$924,793 exceeded operating expenses by \$61,038.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

OVERVIEW OF 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, 2015**

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. 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 as required supplementary information.

CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$3.5 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, 2015 and June 30, 2014.

| | 2015 Governmental Activities | 2014 Governmental Activities | 2015 Business-type Activities | 2014 Business-type Activities | 2015 Total | 2014 Total |
|----------------------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|---------------------|--------------------|
| Current and other assets | \$ 2,072,764 | \$ 1,555,224 | \$ 447,434 | \$ 482,335 | \$ 2,520,198 | \$ 2,037,559 |
| Capital assets, net | 1,439,073 | 1,444,439 | 2,146,725 | 1,915,617 | 3,585,798 | 3,360,056 |
| Total assets | <u>3,511,837</u> | <u>2,999,663</u> | <u>2,594,159</u> | <u>2,397,952</u> | <u>6,105,996</u> | <u>5,397,615</u> |
| Deferred outflows | 73,068 | | 35,030 | | 108,098 | |
| Current and other liabilities | 111,156 | 93,024 | 277,852 | 101,410 | 389,008 | 194,434 |
| Long-term liabilities | 1,447,249 | 1,024,961 | 649,078 | 367,195 | 2,096,327 | 1,392,156 |
| Total liabilities | <u>1,558,405</u> | <u>1,117,985</u> | <u>926,930</u> | <u>468,605</u> | <u>2,485,335</u> | <u>1,586,590</u> |
| Deferred inflows | 212,341 | | 56,453 | | 268,794 | |
| Net position: | | | | | | |
| Net investment in capital assets | 1,439,073 | 1,438,930 | 1,809,725 | 1,555,617 | 3,248,798 | 2,994,547 |
| Restricted | 18,334 | 56,536 | 729,153 | 978,748 | 747,487 | 1,035,284 |
| Unrestricted | 356,752 | 386,212 | (893,072) | (605,018) | (536,320) | (218,806) |
| Total net position | <u>\$ 1,814,159</u> | <u>\$ 1,881,678</u> | <u>\$ 1,645,806</u> | <u>\$ 1,929,347</u> | <u>\$ 3,459,965</u> | <u>\$3,811,025</u> |

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

- Governmental capital asset additions of \$76,095 and business type capital asset additions of \$295,527.
- Depreciation expense of \$81,461 related to governmental assets and \$64,419 for business-type assets.

CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS

- Governmental activity principal payments of \$100,000 for general obligation bonds.
- Business-type activity principal payments of \$23,000 for revenue bonds.
- Governmental pension liability additions of \$44,293 (net) and business-type pension liability additions of \$307,533 due to the implementation of new pension reporting standards.

Changes in net position. The City's total revenues for the current fiscal year were \$3.0 million. The total cost of all programs and services was \$2.8 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

| | 2015 Governmental Activities | 2014 Governmental Activities | 2015 Business-type Activities | 2014 Business-type Activities | 2015 Total | 2014 Total |
|---|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|---------------------|---------------------|
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 117,666 | \$ 142,308 | \$ 924,793 | \$ 935,865 | \$ 1,042,459 | \$ 1,078,173 |
| Operating grants and contributions | 239,537 | 235,954 | | | 239,537 | 235,954 |
| General revenues: | | | | | | |
| Property taxes | 269,544 | 138,672 | | | 269,544 | 138,672 |
| City sales taxes | 966,195 | 925,121 | | | 966,195 | 925,121 |
| Franchise taxes | 56,709 | 57,140 | | | 56,709 | 57,140 |
| Unrestricted state revenues | 368,913 | 351,528 | | | 368,913 | 351,528 |
| Investment income | 1,422 | 920 | 903 | 35 | 2,325 | 955 |
| Miscellaneous | 29,599 | 15,476 | | | 29,599 | 15,476 |
| Total revenues | 2,049,585 | 1,867,119 | 925,696 | 935,900 | 2,975,281 | 2,803,019 |
| Expenses: | | | | | | |
| General government | 579,764 | 480,039 | | | 579,764 | 480,039 |
| Public safety | 665,359 | 737,462 | | | 665,359 | 737,462 |
| Highways and streets | 154,810 | 66,902 | | | 154,810 | 66,902 |
| Culture and recreation | 277,644 | 317,405 | | | 277,644 | 317,405 |
| Redevelopment and housing | 62,883 | 23,831 | | | 62,883 | 23,831 |
| Health and welfare | 101,384 | 95,803 | | | 101,384 | 95,803 |
| Interest on long-term debt | 33,250 | 424 | | | 33,250 | 424 |
| Wastewater | | | 329,216 | 247,488 | 329,216 | 247,488 |
| Water | | | 393,806 | 368,011 | 393,806 | 368,011 |
| Sanitation | | | 156,933 | 206,911 | 156,933 | 206,911 |
| Total expenses | 1,875,094 | 1,721,866 | 879,955 | 822,410 | 2,755,049 | 2,544,276 |
| Transfers | | (1,107,183) | | 1,107,183 | | |
| Changes in net position | 174,491 | (961,930) | 45,741 | 1,220,673 | 220,232 | 258,743 |
| Net position, beginning, as restated | 1,639,668 | 2,843,608 | 1,600,065 | 708,674 | 3,239,733 | 3,552,282 |
| Net position, ending | \$ 1,814,159 | \$ 1,881,678 | \$ 1,645,806 | \$ 1,929,347 | \$ 3,459,965 | \$ 3,811,025 |

- Property tax revenues increased \$130,872 due to a new secondary levy for debt repayments.
- General government expenses increased \$99,725 due to reallocation of public works staffing costs from Sanitation.
- Public safety expenses decreased \$72,103 due primarily to attrition in the Marshal's department which led to a temporary contract with the Cochise County Sheriff's department for police services.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

- Highways and streets expenses increased \$87,908 due primarily to an increased focus on roadway and sidewalk maintenance and repair.
- Wastewater expenses increased \$81,728 due primarily to an increase repairs and maintenance.
- Sanitation expenses decreased \$49,978 due primarily to a recent audit of actual trash containers and Waste Management billing adjustments.

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.

| | 2015 | | 2014 | |
|---------------------------------|---------------------|------------------------|---------------------|------------------------|
| | Total Expenses | Net (Expense)/ Revenue | Total Expenses | Net (Expense)/ Revenue |
| Governmental Activities | | | | |
| General government | \$ 579,764 | \$ (462,098) | \$ 480,039 | \$ (337,731) |
| Public safety | 665,359 | (584,695) | 737,462 | (614,584) |
| Highways and streets | 154,810 | (58,145) | 66,902 | 22,944 |
| Culture and recreation | 277,644 | (277,644) | 317,405 | (317,405) |
| Redevelopment and housing | 62,883 | (675) | 23,831 | (601) |
| Health and welfare | 101,384 | (101,384) | 95,803 | (95,803) |
| Interest on long-term debt | 33,250 | (33,250) | 424 | (424) |
| Total | <u>\$ 1,875,094</u> | <u>\$ (1,517,891)</u> | <u>\$ 1,721,866</u> | <u>\$ (1,343,604)</u> |
| Business-type Activities | | | | |
| Wastewater | \$ 329,216 | \$ (84,939) | \$ 247,488 | \$ (5,948) |
| Water | 393,806 | 146,343 | 368,011 | 190,458 |
| Sanitation | 156,933 | (16,566) | 206,911 | (71,055) |
| Total | <u>\$ 879,955</u> | <u>\$ 44,838</u> | <u>\$ 822,410</u> | <u>\$ 113,455</u> |

- The cost of all governmental activities this year was \$1.9 million, an increase of \$153,228 from the prior year.
- The cost of all business-type activities this year was \$879,953 an increase of \$57,545 from the prior year.
- Federal and state grants and charges for services subsidized certain governmental programs and business-type programs with revenues of \$1.3 million.
- Net cost of governmental activities of \$1.5 million was financed by general revenues of \$1.7 million, which are made up of primarily of City sales taxes, property taxes, and unrestricted state revenues.

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$1.5 million, an increase of \$20,068.

The General Fund is the principal operating fund of the City. The General Fund's fund balance increased \$39,252 for the current fiscal year.

Proprietary funds. Net position of the enterprise funds at the end of the year amounted to \$1.6 million, an increase of \$45,741.

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 2014-15 operating and capital budget. The significant variances are summarized as follows:

- The favorable variance of \$133,239 in City sales taxes was a result of better than projected performance of new businesses.
- The unfavorable variance of \$34,546 in charges for services was a result of lower than expected revenue from the Senior Center.
- The favorable variance of \$74,685 in public safety was a result of a temporary contract for police protection with Cochise County after the resignation of the Marshal and several deputies.

CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of year end, the City had invested \$3.6 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 \$225,742 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$145,880.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2015 and June 30, 2014.

| | 2015 Governmental Activities | 2014 Governmental Activities | 2015 Business-type Activities | 2014 Business-type Activities |
|-----------------------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Capital assets – non-depreciable | \$ 14,528 | \$ 4,949 | \$ 384,249 | \$ 88,722 |
| Capital assets – depreciable, net | 1,424,545 | 1,439,490 | 1,762,476 | 1,826,895 |
| Total | <u>\$ 1,439,073</u> | <u>\$ 1,444,439</u> | <u>\$ 2,146,725</u> | <u>\$ 1,915,617</u> |

The estimated cost to complete current construction projects is \$12,344.

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

Debt Administration. At year end, the City had \$1.2 million in long-term debt outstanding, \$126,808 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, 2015 and June 30, 2014.

| | As of June 30, 2015 | As of June 30, 2014 |
|----------------------------------|------------------------|------------------------|
| Revenue bonds payable | \$ 337,000 | \$ 360,000 |
| General obligation bonds payable | 900,000 | 1,000,000 |
| Capital leases | 3,276 | 5,509 |
| Total | <u>\$ 1,240,276</u> | <u>\$ 1,365,509</u> |

State statutes currently limit the amount of general obligation debt a City may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves, parks, playgrounds and recreational facilities. The current debt limitation for the City is \$3.2 million. State statutes also currently limit the amount of general obligation debt a City may issue to 6 percent of its total assessed valuation for all other purposes. The current debt limitation for the City is \$1.0 million.

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

**CITY OF TOMBSTONE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The adopted combined operating and capital expenditure budget for fiscal year 2015-16 totals \$6.4 million, a decrease of \$404,970 or six percent less than fiscal year 2014-15 due primarily to a reduction in estimated capital project expenditures.

General Fund

The budget for the General Fund increased from \$1.7 million in fiscal year 2014-15 to \$1.8 million in fiscal year 2015-16, an increase of approximately eight percent.

Enterprise Funds

The City's budget for utility enterprise funds in total decreased by \$25,562, a decrease of three percent over the 2014-15 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.

(This page intentionally left blank)

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

(This page intentionally left blank)

CITY OF TOMBSTONE, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2015

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|----------------------------|
| <u>ASSETS</u> | | | |
| Current assets: | | | |
| Cash and investments | \$ 921,267 | \$ 111,242 | \$ 1,032,509 |
| Accounts receivable | 10,914 | 115,375 | 126,289 |
| Property taxes receivable | 10,917 | | 10,917 |
| Due from governmental entities | 67,128 | | 67,128 |
| Internal balances | 583,198 | (583,198) | |
| Total current assets | <u>1,593,424</u> | <u>(356,581)</u> | <u>1,236,843</u> |
| Noncurrent assets: | | | |
| Cash and investments - restricted | | 804,015 | 804,015 |
| Net pension asset | 479,340 | | 479,340 |
| Capital assets, non-depreciable | 14,528 | 384,249 | 398,777 |
| Capital assets, depreciable (net) | 1,424,545 | 1,762,476 | 3,187,021 |
| Total noncurrent assets | <u>1,918,413</u> | <u>2,950,740</u> | <u>4,869,153</u> |
| Total assets | <u><u>3,511,837</u></u> | <u><u>2,594,159</u></u> | <u><u>6,105,996</u></u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Pension plan items | <u>73,068</u> | <u>35,030</u> | <u>108,098</u> |
| <u>LIABILITIES</u> | | | |
| Current liabilities: | | | |
| Accounts payable | 90,622 | 198,390 | 289,012 |
| Accrued payroll and employee benefits | 20,534 | 4,600 | 25,134 |
| Compensated absences payable | 20,340 | 4,545 | 24,885 |
| Customer deposits | | 74,862 | 74,862 |
| Capital leases payable | 2,808 | | 2,808 |
| General obligation bonds payable | 100,000 | | 100,000 |
| Revenue bonds payable | | 24,000 | 24,000 |
| Total current liabilities | <u>234,304</u> | <u>306,397</u> | <u>540,701</u> |
| Noncurrent liabilities: | | | |
| Capital leases payable | 468 | | 468 |
| General obligation bonds payable | 800,000 | | 800,000 |
| Revenue bonds payable | | 313,000 | 313,000 |
| Net pension liability | 523,633 | 307,533 | 831,166 |
| Total noncurrent liabilities | <u>1,324,101</u> | <u>620,533</u> | <u>1,944,634</u> |
| Total liabilities | <u><u>1,558,405</u></u> | <u><u>926,930</u></u> | <u><u>2,485,335</u></u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Pension plan items | <u>212,341</u> | <u>56,453</u> | <u>268,794</u> |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 1,439,073 | 1,809,725 | 3,248,798 |
| Restricted for: | | | |
| Debt service | 16,678 | | 16,678 |
| Capital projects | 1,656 | 689,443 | 691,099 |
| Other purposes | | 39,710 | 39,710 |
| Unrestricted | 356,752 | (893,072) | (536,320) |
| Total net position | <u><u>\$ 1,814,159</u></u> | <u><u>\$ 1,645,806</u></u> | <u><u>\$ 3,459,965</u></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, 2015

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | |
|---|---------------------|-------------------------|--|--|-----------------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-type Activities |
| Primary Government | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 579,764 | \$ 117,666 | \$ | \$ (462,098) | \$ |
| Public safety | 665,359 | | 80,664 | (584,695) | |
| Highway and streets | 154,810 | | 96,665 | (58,145) | |
| Culture and recreation | 277,644 | | | (277,644) | |
| Redevelopment and housing | 62,883 | | 62,208 | (675) | |
| Health and welfare | 101,384 | | | (101,384) | |
| Interest on long term debt | 33,250 | | | (33,250) | |
| Total governmental activities | <u>1,875,094</u> | <u>117,666</u> | <u>239,537</u> | <u>(1,517,891)</u> | |
| Business-type activities: | | | | | |
| Wastewater | 329,216 | 244,277 | | | (84,939) |
| Water | 393,806 | 540,149 | | | 146,343 |
| Sanitation | 156,933 | 140,367 | | | (16,566) |
| Total business-type activities | <u>879,955</u> | <u>924,793</u> | | | <u>44,838</u> |
| Total primary government | <u>\$ 2,755,049</u> | <u>\$ 1,042,459</u> | <u>\$ 239,537</u> | <u>(1,517,891)</u> | <u>44,838</u> |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | 119,864 | |
| Property taxes, levied for debt purposes | | | | 149,680 | |
| City sales taxes | | | | 966,195 | |
| Franchise taxes | | | | 56,709 | |
| Unrestricted state revenues | | | | 368,913 | |
| Investment income | | | | 1,422 | 903 |
| Miscellaneous | | | | 29,599 | |
| Total general revenues | | | | <u>1,692,382</u> | <u>903</u> |
| Changes in net position | | | | 174,491 | 45,741 |
| Net position, beginning of year, as restated | | | | <u>1,639,668</u> | <u>1,600,065</u> |
| Net position, end of year | | | | <u>\$ 1,814,159</u> | <u>\$ 1,645,806</u> |

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

Net (Expense)
Revenue and
Changes in Net
Position

Totals

\$ (462,098)
(584,695)
(58,145)
(277,644)
(675)
(101,384)
(33,250)

(1,517,891)

(84,939)
146,343

(16,566)
44,838

(1,473,053)

119,864
149,680
966,195
56,709
368,913
2,325
29,599

1,693,285

220,232

3,239,733

\$ 3,459,965

(This page intentionally left blank)

FUND FINANCIAL STATEMENTS

CITY OF TOMBSTONE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

| | General | Non-Major Governmental Funds | Total Governmental Funds |
|---|----------------------------|------------------------------------|--------------------------------|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 910,769 | \$ 10,498 | \$ 921,267 |
| Accounts receivable | 10,914 | | 10,914 |
| Property taxes receivable | 4,737 | 6,180 | 10,917 |
| Due from governmental entities | 46,593 | 20,535 | 67,128 |
| Due from other funds | 47,509 | | 47,509 |
| Advances to other funds | 583,198 | | 583,198 |
| Total assets | <u>\$ 1,603,720</u> | <u>\$ 37,213</u> | <u>\$ 1,640,933</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 78,510 | \$ 12,112 | \$ 90,622 |
| Due to other funds | | 47,509 | 47,509 |
| Accrued payroll and employee benefits | 19,428 | 1,106 | 20,534 |
| Total liabilities | <u>97,938</u> | <u>60,727</u> | <u>158,665</u> |
| Fund balances (deficits): | | | |
| Restricted | 1,656 | 16,678 | 18,334 |
| Unassigned | 1,504,126 | (40,192) | 1,463,934 |
| Total fund balances | <u>1,505,782</u> | <u>(23,514)</u> | <u>1,482,268</u> |
| Total liabilities and fund balances | <u>\$ 1,603,720</u> | <u>\$ 37,213</u> | <u>\$ 1,640,933</u> |

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

CITY OF TOMBSTONE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

| | | |
|---|-----------|------------------|
| Total governmental fund balances | \$ | 1,482,268 |
|---|-----------|------------------|

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

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

| | | |
|-------------------------------|--------------------|-----------|
| Governmental capital assets | \$ 6,217,395 | |
| Less accumulated depreciation | <u>(4,778,322)</u> | 1,439,073 |

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

| | | |
|--|------------------|-----------|
| Deferred outflows of resources related to pensions | 73,068 | |
| Deferred inflows of resources related to pensions | <u>(212,341)</u> | (139,273) |

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

| | | |
|-----------------------------------|------------------|------------------|
| Compensated absences payable | (20,340) | |
| Obligations under capital leases | (3,276) | |
| Net pension asset/liability (net) | (44,293) | |
| Bonds payable | <u>(900,000)</u> | <u>(967,909)</u> |

| | | |
|--|-----------|-------------------------|
| Net position of governmental activities | \$ | <u>1,814,159</u> |
|--|-----------|-------------------------|

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, 2015

| | General | Non-Major Governmental Funds | Total Governmental Funds |
|--|---------------------|------------------------------------|--------------------------------|
| Revenues: | | | |
| Property taxes | \$ 119,864 | \$ 149,680 | \$ 269,544 |
| City sales taxes | 966,195 | | 966,195 |
| Franchise taxes | 56,709 | | 56,709 |
| Licenses and permits | 39,253 | | 39,253 |
| Intergovernmental | 377,571 | 158,873 | 536,444 |
| Charges for services | 57,604 | | 57,604 |
| Fines and forfeits | 20,809 | | 20,809 |
| Investment income | 1,404 | 18 | 1,422 |
| Contributions and donations | 72,006 | | 72,006 |
| Miscellaneous | 29,599 | | 29,599 |
| Total revenues | <u>1,741,014</u> | <u>308,571</u> | <u>2,049,585</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 546,879 | | 546,879 |
| Public safety | 706,842 | | 706,842 |
| Highway and streets | | 146,092 | 146,092 |
| Culture and recreation | 263,102 | | 263,102 |
| Redevelopment and housing | | 62,909 | 62,909 |
| Health and welfare | 101,384 | | 101,384 |
| Capital outlay | 48,856 | 17,970 | 66,826 |
| Debt service - | | | |
| Principal retirement | | 102,233 | 102,233 |
| Interest and fiscal charges | | 33,250 | 33,250 |
| Total expenditures | <u>1,667,063</u> | <u>362,454</u> | <u>2,029,517</u> |
| Excess (deficiency) of revenues over expenditures | <u>73,951</u> | <u>(53,883)</u> | <u>20,068</u> |
| Other financing sources (uses): | | | |
| Transfer in | | 34,699 | 34,699 |
| Transfer out | (34,699) | | (34,699) |
| Total other financing sources (uses): | <u>(34,699)</u> | <u>34,699</u> | <u></u> |
| Changes in fund balances | <u>39,252</u> | <u>(19,184)</u> | <u>20,068</u> |
| Fund balances (deficits), beginning of year | 1,466,530 | (4,330) | 1,462,200 |
| Fund balances (deficits), end of year | <u>\$ 1,505,782</u> | <u>\$ (23,514)</u> | <u>\$ 1,482,268</u> |

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

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, 2015

| | | |
|--|-----------|---------------|
| Net changes in fund balances - total governmental funds | \$ | 20,068 |
|--|-----------|---------------|

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

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

| | | | |
|-------------------------------------|-----------------|--|---------|
| Expenditures for capitalized assets | \$ 76,095 | | |
| Less current year depreciation | <u>(81,461)</u> | | (5,366) |

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

| | | | |
|------------------------------------|----------------|--|---------|
| Capital lease principal retirement | 2,233 | | |
| Bond principal retirement | <u>100,000</u> | | 102,233 |

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

| | | | |
|------------------------------------|---------------|--|--------|
| Current year pension contributions | 43,707 | | |
| Pension income/(expense) | <u>14,737</u> | | 58,444 |

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

(888)

| | | |
|---|-----------|-----------------------|
| Changes in net position in governmental activities | \$ | <u>174,491</u> |
|---|-----------|-----------------------|

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, 2015

| | <u>Enterprise Funds</u> | | |
|--|-------------------------|---------------------|---------------------|
| | <u>Wastewater</u> | <u>Water</u> | <u>Sanitation</u> |
| <u>ASSETS</u> | | | |
| Current assets: | | | |
| Cash and investments | \$ | \$ 111,242 | \$ |
| Accounts receivable | 22,086 | 79,314 | 13,975 |
| Total current assets | <u>22,086</u> | <u>190,556</u> | <u>13,975</u> |
| Noncurrent assets: | | | |
| Cash and investments - restricted | | 804,015 | |
| Capital assets, non-depreciable | | 384,249 | |
| Capital assets, depreciable (net) | 1,073,976 | 688,500 | |
| Total noncurrent assets | <u>1,073,976</u> | <u>1,876,764</u> | |
| Total assets | <u>1,096,062</u> | <u>2,067,320</u> | <u>13,975</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Pension plan items | <u>15,148</u> | <u>17,988</u> | <u>1,894</u> |
| <u>LIABILITIES</u> | | | |
| Current liabilities: | | | |
| Accounts payable | 2,302 | 196,088 | |
| Accrued payroll and employee benefits | 2,513 | 1,986 | 101 |
| Compensated absences payable | 2,393 | 2,062 | 90 |
| Customer deposits | | 74,862 | |
| Revenue bonds payable | | 24,000 | |
| Total current liabilities | <u>7,208</u> | <u>298,998</u> | <u>191</u> |
| Noncurrent liabilities: | | | |
| Advances from other funds | 341,191 | | 242,007 |
| Revenue bonds payable | | 313,000 | |
| Net pension liability | 132,987 | 157,923 | 16,623 |
| Total noncurrent liabilities | <u>474,178</u> | <u>470,923</u> | <u>258,630</u> |
| Total liabilities | <u>481,386</u> | <u>769,921</u> | <u>258,821</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Pension plan items | <u>24,412</u> | <u>28,989</u> | <u>3,052</u> |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 1,073,976 | 735,749 | |
| Restricted for: | | | |
| Capital projects | | 689,443 | |
| Other purposes | | 39,710 | |
| Unrestricted | (468,564) | (178,504) | (246,004) |
| Total net position | <u>\$ 605,412</u> | <u>\$ 1,286,398</u> | <u>\$ (246,004)</u> |

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

Enterprise Funds

Totals

| | |
|----|----------------|
| \$ | 111,242 |
| | <u>115,375</u> |
| | <u>226,617</u> |

| | |
|--|------------------|
| | 804,015 |
| | 384,249 |
| | <u>1,762,476</u> |
| | <u>2,950,740</u> |
| | <u>3,177,357</u> |

| | |
|--|---------------|
| | <u>35,030</u> |
|--|---------------|

| | |
|--|----------------|
| | 198,390 |
| | 4,600 |
| | 4,545 |
| | 74,862 |
| | <u>24,000</u> |
| | <u>306,397</u> |

| | |
|--|------------------|
| | 583,198 |
| | 313,000 |
| | <u>307,533</u> |
| | <u>1,203,731</u> |
| | <u>1,510,128</u> |

| | |
|--|---------------|
| | <u>56,453</u> |
|--|---------------|

| | |
|----|-------------------------|
| | 1,809,725 |
| | 689,443 |
| | 39,710 |
| | <u>(893,072)</u> |
| \$ | <u><u>1,645,806</u></u> |

CITY OF TOMBSTONE, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

| | Enterprise Funds | | |
|---|-------------------|---------------------|---------------------|
| | Wastewater | Water | Sanitation |
| Operating revenues: | | | |
| Charges for services | \$ 244,277 | \$ 540,149 | \$ 140,367 |
| Total operating revenues | <u>244,277</u> | <u>540,149</u> | <u>140,367</u> |
| Operating expenses: | | | |
| Administration | 164,245 | 144,761 | 13,141 |
| Cost of sales and services | 127,749 | 205,648 | 143,792 |
| Depreciation | 37,222 | 27,197 | |
| Total operating expenses | <u>329,216</u> | <u>377,606</u> | <u>156,933</u> |
| Operating income (loss) | <u>(84,939)</u> | <u>162,543</u> | <u>(16,566)</u> |
| Nonoperating revenues (expenses): | | | |
| Investment income | | 903 | |
| Interest expense | | (16,200) | |
| Total nonoperating revenues (expenses) | | <u>(15,297)</u> | |
| Changes in net position | <u>(84,939)</u> | <u>147,246</u> | <u>(16,566)</u> |
| Total net position, beginning of year, as restated | 690,351 | 1,139,152 | (229,438) |
| Total net position, end of year | <u>\$ 605,412</u> | <u>\$ 1,286,398</u> | <u>\$ (246,004)</u> |

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

Enterprise Funds

Totals

| | |
|----|----------------|
| \$ | 924,793 |
| | <u>924,793</u> |

322,147

477,189

64,419

863,755

61,038

903

(16,200)

(15,297)

45,741

1,600,065

| | |
|----|-------------------------|
| \$ | 1,645,806 |
| | <u><u>1,645,806</u></u> |

**CITY OF TOMBSTONE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

| | Enterprise Funds | | | |
|---|--------------------|-------------------|--------------------|-------------------|
| | Wastewater | Water | Sanitation | Totals |
| <u>Increase (Decrease) in Cash and Cash Equivalents</u> | | | | |
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 245,929 | \$ 553,469 | \$ 140,003 | \$ 939,401 |
| Cash payments to suppliers for goods and services | (128,946) | (19,586) | (155,819) | (304,351) |
| Cash payments to employees for services | (165,702) | (148,800) | (14,099) | (328,601) |
| Net cash provided by (used for) operating activities | (48,719) | 385,083 | (29,915) | 306,449 |
| Cash flows from noncapital and related financing activities: | | | | |
| Interfund advances | 48,719 | (182,530) | 29,915 | (103,896) |
| Net cash provided by (used for) noncapital financing activities | 48,719 | (182,530) | 29,915 | (103,896) |
| Cash flows from capital and related financing activities: | | | | |
| Principal paid on long-term debt | | (23,000) | | (23,000) |
| Interest paid on long-term debt | | (16,200) | | (16,200) |
| Acquisition of capital assets | | (295,527) | | (295,527) |
| Net cash provided by (used for) capital and related financing activities | | (334,727) | | (334,727) |
| Cash flows from investing activities: | | | | |
| Investment income | | 903 | | 903 |
| Net cash provided by investing activities | | 903 | | 903 |
| Net decrease in cash and cash equivalents | | (131,271) | | (131,271) |
| Cash and cash equivalents, July 1, 2014 | | 1,046,528 | | 1,046,528 |
| Cash and cash equivalents, June 30, 2015 | \$ | \$ 915,257 | \$ | \$ 915,257 |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u> | | | | |
| Operating income (loss) | \$ (84,939) | \$ 162,543 | \$ (16,566) | \$ 61,038 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 37,222 | 27,197 | | 64,419 |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in accounts receivable | 1,652 | 6,238 | (364) | 7,526 |
| Increase (decrease) in accounts payable | (1,197) | 186,062 | (12,027) | 172,838 |
| Increase (decrease) in accrued payroll and employee benefits | (778) | (2,203) | (497) | (3,478) |
| Increase (decrease) in compensated absences payable | (538) | (1,669) | (443) | (2,650) |
| Increase in deposits held for others | | 7,082 | | 7,082 |
| Decrease in pension items | (141) | (167) | (18) | (326) |
| Total adjustments | 36,220 | 222,540 | (13,349) | 245,411 |
| Net cash provided by (used for) operating activities | \$ (48,719) | \$ 385,083 | \$ (29,915) | \$ 306,449 |

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

(This page intentionally left blank)

**CITY OF TOMBSTONE, ARIZONA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

| | |
|--------------------------------|---------------------------------|
| | <u>Pension Trust</u> |
| <u>ASSETS</u> | |
| Cash and investments | <u>\$ 93,003</u> |
| Total assets | <u> 93,003</u> |
| <u>NET POSITION</u> | |
| Held in trust | <u><u>\$ 93,003</u></u> |

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

CITY OF TOMBSTONE, ARIZONA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015

| | <u>Pension Trust</u> |
|--|-------------------------|
| Additions: | |
| Contributions | \$ 11,629 |
| Total additions | <u>11,629</u> |
| Deductions: | |
| Distributions | 5,100 |
| Participant refunds | <u>9,844</u> |
| Total deductions | <u>14,944</u> |
| Changes in net position | <u>(3,315)</u> |
| Net position, beginning of year | 96,318 |
| Net position, end of year | <u><u>\$ 93,003</u></u> |

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

During the year ended June 30, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.

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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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

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

The City reports the following major governmental funds.

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

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, 2015

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 Fund 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. Cash and Investments

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

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

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain resources set aside for specific purposes are classified as cash and investments – restricted on the statement of net position. The resources are restricted for (1) the purposes outlined in the debt agreement, (2) as required by debt covenants, and (3) to restrict customer deposits.

E. Investment Income

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

F. Receivables and Payables

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

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

G. Property Tax Calendar

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

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. 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.

J. 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.

K. Pensions

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. 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, as well as the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

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

M. 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.

N. 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.

O. 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.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 – FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

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, 2015

NOTE 2 – FUND BALANCE CLASSIFICATIONS

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

| | General Fund | Non-Major Governmental Funds |
|---------------------|---------------------|------------------------------------|
| Fund Balances: | | |
| Restricted: | | |
| Debt service | \$ | \$ 16,678 |
| Capital projects | 1,656 | |
| Unassigned | 1,504,126 | (40,192) |
| Total fund balances | <u>\$ 1,505,782</u> | <u>\$ (23,514)</u> |

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

| | Deficit |
|-----------------------------------|------------|
| Major Enterprise Fund: | |
| Sanitation | \$ 246,004 |
| Non-Major Governmental Funds: | |
| Community Development Block Grant | 25,712 |
| Highway User Revenue | 14,480 |

The deficits arose because of operations during the current and prior years. The City plans to address its need for increased revenues to eliminate the deficit in the Sanitation Fund through a rate study to be completed and implemented in fiscal year 2016. Deficit balances for the non-major governmental funds will be eliminated through activity in the next fiscal year.

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 \$623,857 and the bank balance was \$643,576. At year end, \$393,576 of the City's deposits were covered by collateral held by the pledging financial institution but not in the City's name.

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

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

| | <u>Maturities</u> | <u>Fair Value</u> |
|-------------------------------------|-------------------|-------------------|
| State Treasurer's investment pool 5 | 47 days | \$ 1,305,670 |

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

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

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 | \$ | \$ 11,539 |
| Due from state government | 46,593 | 8,996 |
| Net due from governmental entities | <u>\$ 46,593</u> | <u>\$ 20,535</u> |

NOTE 6 – CAPITAL ASSETS

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

| Governmental Activities | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|-------------------|-----------|---------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,949 | \$ | \$ | \$ 4,949 |
| Construction in progress | | 9,579 | | 9,579 |
| Total capital assets, not being depreciated | <u>4,949</u> | <u>9,579</u> | | <u>14,528</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 2,656,558 | 39,281 | | 2,695,839 |
| Infrastructure | 2,058,748 | | | 2,058,748 |
| Machinery, equipment, and vehicles | 1,421,045 | 27,235 | | 1,448,280 |
| Total capital assets being depreciated | <u>6,136,351</u> | <u>66,516</u> | | <u>6,202,867</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,316,613) | (64,890) | | (1,381,503) |
| Infrastructure | (1,980,985) | (5,184) | | (1,986,169) |
| Machinery, equipment, and vehicles | (1,399,263) | (11,387) | | (1,410,650) |
| Total accumulated depreciation | <u>(4,696,861)</u> | <u>(81,461)</u> | | <u>(4,778,322)</u> |
| Total capital assets, being depreciated, net | <u>1,439,490</u> | <u>(14,945)</u> | | <u>1,424,545</u> |
| Governmental activities capital assets, net | <u>\$ 1,444,439</u> | <u>\$ (5,366)</u> | <u>\$</u> | <u>\$ 1,439,073</u> |

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – CAPITAL ASSETS

| Business-Type Activities | Beginning Balance | Increase | Decrease | Ending Balance |
|--|------------------------------|-------------------|-----------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 88,722 | \$ 295,527 | \$ | \$ 384,249 |
| Total capital assets, not being depreciated | 88,722 | 295,527 | | 384,249 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 185,650 | | | 185,650 |
| Infrastructure | 4,302,843 | | | 4,302,843 |
| Machinery, equipment, and vehicles | 178,037 | | | 178,037 |
| Total capital assets being depreciated | 4,666,530 | | | 4,666,530 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (86,853) | (4,556) | | (91,409) |
| Infrastructure | (2,628,483) | (53,620) | | (2,682,103) |
| Machinery, equipment, and vehicles | (124,299) | (6,243) | | (130,542) |
| Total accumulated depreciation | (2,839,635) | (64,419) | | (2,904,054) |
| Total capital assets, being depreciated, net | 1,826,895 | (64,419) | | 1,762,476 |
| Business-type activities capital assets, net | <u>\$ 1,915,617</u> | <u>\$ 231,108</u> | <u>\$</u> | <u>\$ 2,146,725</u> |

Depreciation expense was charged to functions/programs as follows.

| | |
|---|------------------|
| Governmental activities: | |
| General government | \$ 31,069 |
| Public safety | 16,851 |
| Highways and streets | 8,771 |
| Culture and recreation | 24,770 |
| Total depreciation expense – governmental activities | <u>\$ 81,461</u> |
| Business-type activities: | |
| Wastewater | \$ 37,222 |
| Water | 27,197 |
| Total depreciation expense – business-type activities | <u>\$ 64,419</u> |

Construction Commitments – At year end, the City had contractual commitments related to a new marshal's facility, water blending project, and a fire hydrant replacement project. At year end the City had spent \$393,828 on the projects and had estimated remaining contractual commitments of \$12,344. These projects are primarily funded with bond proceeds.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015</u> | <u>Due Within One Year</u> |
|---|---------------------------------------|---------------------------|---------------------------------|--|------------------------------------|
| Governmental activities: | | | | | |
| GO Bonds Series Project of 2013, Series 2014 | \$ 1,000,000 | 2.39% | 7/1/16-24 | \$ 900,000 | \$ 100,000 |
| Total | | | | <u>\$ 900,000</u> | <u>\$ 100,000</u> |

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

| <u>Year ending June 30:</u> | | <u>Business-type Activities</u> | |
|-----------------------------|---------|---------------------------------|-------------------|
| | | <u>Principal</u> | <u>Interest</u> |
| | 2016 | \$ 100,000 | \$ 21,510 |
| | 2017 | 100,000 | 19,120 |
| | 2018 | 100,000 | 16,730 |
| | 2019 | 100,000 | 14,340 |
| | 2020 | 100,000 | 11,950 |
| | 2021-24 | 400,000 | 23,900 |
| Total | | <u>\$ 900,000</u> | <u>\$ 107,550</u> |

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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.

| Purpose | Original Amount Issued | Interest Rates | Remaining Maturities | Outstanding Principal June 30, 2015 | Due Within One Year |
|---|------------------------------|-------------------|-------------------------|---|---------------------------|
| Business-type activities: | | | | | |
| Water Revenue Bonds, Project of 1994 | \$ 586,500 | 4.5% | 7/1/16-26 | \$ 337,000 | \$ 24,000 |
| Total | | | | <u>\$ 337,000</u> | <u>\$ 24,000</u> |

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 |
| | 2016 | \$ 24,000 | \$ 15,165 |
| | 2017 | 25,000 | 14,085 |
| | 2018 | 27,000 | 12,960 |
| | 2019 | 28,000 | 11,745 |
| | 2020 | 29,000 | 10,485 |
| | 2021-25 | 166,000 | 31,635 |
| | 2026 | 38,000 | 1,710 |
| Total | | <u>\$ 337,000</u> | <u>\$ 97,785</u> |

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 \$434,785. The current total customer gross revenues were \$540,149 and the total principal and interest paid on the bonds was \$39,200, or seven percent of gross revenues.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES

The City has acquired vehicles and equipment under the provisions of long-term lease agreements classified as governmental capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Revenues from the Highway User Revenue Fund, a non-major governmental fund, are used to pay the capital lease obligations.

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

| Asset | <u>Governmental Activities</u> |
|------------------------------------|------------------------------------|
| Machinery, equipment, and vehicles | \$ 13,275 |
| Less: Accumulated depreciation | <u>(5,310)</u> |
| Total | <u>\$ 7,965</u> |

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: | <u>Governmental Activities</u> |
|---|------------------------------------|
| 2016 | \$ 2,947 |
| 2017 | <u>474</u> |
| Total minimum lease payments | 3,421 |
| Less: amount representing interest | <u>145</u> |
| Present value of minimum lease payments | <u>\$ 3,276</u> |
| Due within one year | <u>\$ 2,808</u> |

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,000,000 | \$ | \$ 100,000 | \$ 900,000 | \$ 100,000 |
| Net pension asset/liability (net) | 242,010 | | 197,717 | 44,293 | |
| Compensated absences payable | 19,452 | 26,447 | 25,559 | 20,340 | 20,340 |
| Capital leases payable | 5,509 | | 2,233 | 3,276 | 2,808 |
| Governmental activity long-term liabilities | <u>\$ 1,266,971</u> | <u>\$ 26,447</u> | <u>\$ 325,509</u> | <u>\$ 967,909</u> | <u>\$ 123,148</u> |
| Business-type activities: | | | | | |
| Revenue bonds | \$ 360,000 | \$ | \$ 23,000 | \$ 337,000 | \$ 24,000 |
| Net pension liability | 329,282 | | 21,749 | 307,533 | |
| Compensated absences payable | 7,195 | 12,234 | 14,884 | 4,545 | 4,545 |
| Business-type activities long-term liabilities | <u>\$ 696,477</u> | <u>\$ 12,234</u> | <u>\$ 59,633</u> | <u>\$ 649,078</u> | <u>\$ 28,545</u> |

NOTE 11 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows.

Due to/from other funds – At year end, the Community Development Block Grant and Highway User Revenue Funds, both non-major governmental funds, had negative cash balances of \$47,509 in the pooled cash accounts. Negative cash on deposit was reduced by interfund borrowing with the General Fund. All interfund balances are expected to be paid within one year.

Advances to/from other funds:

| | <u>Wastewater</u> | <u>Sanitation</u> | <u>Total Advances to Other Funds</u> |
|--------------|-------------------|-------------------|--|
| General Fund | <u>\$ 341,191</u> | <u>\$ 242,007</u> | <u>\$ 583,198</u> |

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

Interfund transfers –Transfers of \$34,699 from the General Fund to the Grant Opportunity Fund, a non-major governmental fund, were used to move cash balances to close the discontinued fund.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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.

NOTE 13 – RISK MANAGEMENT

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

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

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

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

The City reported \$43,707 (net) of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

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

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

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

Contributions. In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the members' annual covered payroll. The City's contributions to the pension plan for the year ended June 30, 2015 were \$52,432.

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

| | | Health Benefit Supplement Fund | Long-Term Disability Fund |
|----------------------|------|--------------------------------------|---------------------------------|
| Year ending June 30: | | | |
| | 2015 | \$ 2,841 | \$ 578 |
| | 2014 | 5,037 | 2,015 |
| | 2013 | 5,856 | 2,162 |

Pension Liability. At June 30, 2015, the City reported a liability of \$831,166 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the City's proportion was 0.006 percent, which did not change from its proportion measured as of June 30, 2013.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Expense and Deferred Outflows/Inflows of Resources. For the year ended June 30, 2015, the City recognized pension expense for ASRS of \$51,550 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 42,243 | \$ |
| Net difference between projected and actual earnings on pension plan investments | | 145,345 |
| Changes in proportion and differences between contributions and proportionate share of contributions | | 7,231 |
| Contributions subsequent to the measurement date | 52,432 | |
| Total | <u>\$ 94,675</u> | <u>\$ 152,576</u> |

The deferred outflows of resources related to ASRS pensions resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30:

| | |
|------|------------|
| 2016 | \$(21,114) |
| 2017 | (21,114) |
| 2018 | (31,770) |
| 2019 | (36,336) |

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

| | |
|-----------------------------|-------------------|
| Actuarial valuation date | June 30, 2013 |
| Actuarial roll forward date | June 30, 2014 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8.0% |
| Projected salary increases | 3.0-6.75% |
| Inflation | 3.0% |
| Permanent base increases | Included |
| Mortality rates | 1994 GAM Scale BB |

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------|----------------------|--|
| Equity | 63% | 7.03% |
| Fixed income | 25 | 3.20 |
| Real estate | 8 | 4.75 |
| Commodities | 4 | 4.50 |
| Total | <u>100%</u> | |

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

| | 1% Decrease (7.0%) | Current Discount Rate (8.0%) | 1% Increase (9.0%) |
|---|--------------------------|------------------------------------|--------------------------|
| City's proportionate share of the net pension liability | \$1,050,551 | \$831,166 | \$712,139 |

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

B. Public Safety Personnel Retirement System

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

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

| | Retirement Initial Membership Date: | |
|--|--|---|
| | Before January 1, 2012 | On or After January 1, 2012 |
| Years of service and age required to receive benefit | 20 years any age 15 years age 62 | 25 years and age 52.5 |
| Final average salary is based on | Highest 36 months of last 20 years | Highest 60 months of last 20 years |
| Normal retirement | 50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80% | 2.5% per year of credited service, not to exceed 80% |
| Accidental disability retirement | 50% or normal retirement, whichever is greater | |
| Survivor benefit: | | |
| Retired members | 80% of retired member's pension benefit | |
| Active members | 80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job | |
| Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. 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, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Employees Covered by Benefit Terms. At June 30, 2015, the following employees were covered by the agent pension plan's benefit terms:

| | <u>PSPRS – Police</u> |
|-------------------------------|-----------------------|
| Retirees and beneficiaries | 0 |
| Inactive, non-retired members | 5 |
| Active members | <u>3</u> |
| Total | <u>8</u> |

Contributions and Annual OPEB Cost. State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members' annual covered payroll.

| | <u>PSPRS – Police</u> |
|--------------------------|-----------------------|
| Active members – pension | 11.05% |
| City: | |
| Pension | 8.80% |
| Health insurance | 1.36% |

In addition, the City was required by statute to contribute at the actuarially determined rate of 19.65 percent for the PSPRS of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to the PSPRS.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

| | PSPRS – Police |
|-----------------------------------|-------------------|
| Pension: | |
| Contributions made | \$ 10,675 |
| Health insurance premium benefit: | |
| Annual OPEB cost | 1,650 |
| Contributions made | 1,650 |

Pension Asset. At June 30, 2015, the City reported \$479,340 in net pension asset for police. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2014, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption.

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

| | |
|----------------------------|--|
| Actuarial valuation date | June 30, 2014 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.85% |
| Projected salary increases | 4.0 - 8.0% |
| Inflation | 4.0% |
| Permanent benefit increase | Included |
| Mortality rates | RP-2000 mortality table, adjusted by 105% for both males and females |

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Short-term investments | 2% | 3.25% |
| Absolute return | 4 | 6.75 |
| Risk parity | 4 | 6.04 |
| Fixed income | 7 | 4.75 |
| Real assets | 8 | 5.96 |
| GTAA | 10 | 5.73 |
| Private equity | 11 | 9.50 |
| Real estate | 11 | 6.50 |
| Credit opportunities | 13 | 8.00 |
| Non-U.S. equity | 14 | 8.63 |
| U.S. equity | 16 | 7.60 |
| Total | <u>100%</u> | |

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

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

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Changes in the Agent Plans Net Pension Asset

| | Increase/Decrease | | |
|--|----------------------------|--------------------------------|-------------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| PSPRS – Police | | | |
| Balances at June 30, 2014 | \$ 423,555 | \$ 728,386 | \$ (304,831) |
| Changes for the year: | | | |
| Service cost | 30,962 | | 30,962 |
| Interest on the total pension liability | 31,998 | | 31,998 |
| Changes of benefit terms | (367) | | (367) |
| Differences between expected and actual experience in the measurement of the pension liability | (114,176) | | (114,176) |
| Changes of assumptions or other inputs | 3,736 | | 3,736 |
| Contributions – employer | | 13,826 | (13,826) |
| Contributions – employee | | 15,048 | (15,048) |
| Net investment income | | 98,582 | (98,582) |
| Benefit payments, including refunds of employee contributions | (62,834) | (62,834) | |
| Administrative expense | | (794) | 794 |
| Net changes | (110,681) | 63,828 | (174,509) |
| Balances at June 30, 2015 | \$ 312,874 | \$ 792,214 | \$ (479,340) |

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

| | 1% Decrease | Current Discount Rate | 1% Increase |
|------------------------|----------------|-----------------------------|----------------|
| PSPRS – Police: | | | |
| Rate | 6.85% | 7.85% | 8.85% |
| Net pension asset | \$ 454,027 | \$ 479,340 | \$ 500,037 |

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

Pension Income. For the year ended June 30, 2015, the City recognized \$(47,213) as pension income.

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Deferred Outflows/Inflows of Resources. At June 30, 2015, 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 |
|---|--------------------------------------|-------------------------------------|
| PSPRS – Police | | |
| Differences between expected and actual experience | \$ | \$ 83,972 |
| Changes of assumptions or other inputs | 2,748 | |
| Net difference between projected and actual earnings on pension plan investments | | 32,246 |
| Contributions subsequent to the measurement date | 10,675 | |
| Total | <u>\$ 13,423</u> | <u>\$ 116,218</u> |

The amounts reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as an addition/reduction of the net pension asset/liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension income/expense as follows:

| | |
|----------------------|-------------|
| Year Ending June 30: | |
| 2016 | \$ (37,277) |
| 2017 | (37,277) |
| 2018 | (30,853) |
| 2019 | (8,063) |

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

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual Cost Contributed | Net OPEB Obligation |
|------------------------|---------------------|---|------------------------|
| PSPRS – Police: | | | |
| June 30, 2015 | \$2,372 | 100% | \$ - 0 - |
| June 30, 2014 | 2,337 | 100% | - 0 - |
| June 30, 2013 | 3,871 | 100% | - 0 - |

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

Projections of benefits are based on (1) the plan as understood by the City and plan's members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plan's members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements, are as follows:

| | |
|-------------------------------|--|
| Actuarial valuation date | June 30, 2013 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 23 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value (80%/120% market) |
| Actuarial assumptions: | |
| Investment rate of return | 7.85% |
| Projected salary increases | 4.5%-8.5% |
| includes inflation at | 4.5% |

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2015, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

| | |
|-------------------------------|--|
| Actuarial valuation date | June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 21 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value (80%/120% market) |
| Actuarial assumptions: | |
| Investment rate of return | 7.85% |
| Projected salary increases | 4%-8% |
| includes inflation at | 4% |

Agent Plan OPEB Funded Status. The following table presents the funded status of the health insurance premium benefit plan as of the most recent valuation date, June 30, 2015.

| | |
|--|-------------------|
| | PSPRS – Police |
| Actuarial value of assets | \$ 53,316 |
| Actuarial accrued liability | 307 |
| Unfunded actuarial accrued liability (funding excess) | (53,009) |
| Funded ratio | 17366.8% |
| Annual covered payroll | 82,704 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll | 0% |

CITY OF TOMBSTONE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

C. Beginning Net Position Restatement

The implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, represents a change in accounting principle. Net position as of July 1, 2014, has been restated as follows for this change in accounting principle:

| | Governmental Activities | Business- Type Activities | Wastewater Fund | Water Fund | Sanitation Fund |
|--|----------------------------|---------------------------------|--------------------|--------------------|--------------------|
| Net position, June 30, 2014, as previously reported | \$ 1,881,678 | \$ 1,929,347 | \$ 832,743 | \$1,308,243 | \$(211,639) |
| Net pension asset/liability (net) | (242,010) | (329,282) | (142,392) | (169,091) | (17,799) |
| Net position, July 1, 2014, as restated | <u>\$ 1,639,668</u> | <u>\$ 1,600,065</u> | <u>\$ 690,351</u> | <u>\$1,139,152</u> | <u>\$(229,438)</u> |

D. Volunteer Firefighters' Relief and Pension

Defined Contribution Plan. The Volunteer Firefighters' Relief and Pension Fund (VFRPF) is a defined contribution plan to provide pensions to volunteer firefighters only. State statute requires that both the employee and the City make contributions equal to five percent of the employees' compensation. Some monies are also received from the state. After a volunteer firefighter has 25 years of service, he or she is entitled to a monthly pension, the amount of which is determined by the board of trustees of the VFRPF, not to exceed \$150. 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, 2015, was \$47,660. Contributions made for the year ended June 30, 2015, were \$4,766, which consisted of \$2,383 from employees and \$2,383 from the City.

NOTE 15 – SUBSEQUENT EVENT

In March 2016, the City entered into a \$700,000 loan agreement to acquire various equipment and vehicles. The loan is payable over the next seven years. Revenues from the General, Highway User Revenue, Wastewater, and Water Funds will be used to pay the loan.

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2015

| | Budgeted Amounts | | Non-GAAP | Variance with Final Budget Positive (Negative) |
|--|---------------------|----|------------------|---|
| | Original & Final | | Actual | |
| Revenues: | | | | |
| Property taxes | \$ 121,407 | \$ | 119,864 | \$ (1,543) |
| City sales taxes | 832,956 | | 966,195 | 133,239 |
| Franchise taxes | 60,000 | | 56,709 | (3,291) |
| Licenses and permits | 64,400 | | 39,253 | (25,147) |
| Intergovernmental | 408,582 | | 377,571 | (31,011) |
| Charges for services | 92,150 | | 57,604 | (34,546) |
| Fines and forfeits | 23,000 | | 20,809 | (2,191) |
| Investment income | 1,400 | | 1,404 | 4 |
| Contributions and donations | | | 871 | 871 |
| Miscellaneous | 50,000 | | 29,599 | (20,401) |
| Total revenues | <u>1,653,895</u> | | <u>1,669,879</u> | <u>15,984</u> |
| Expenditures: | | | | |
| Current - | | | | |
| General government | 568,465 | | 546,879 | 21,586 |
| Public safety | 781,527 | | 706,842 | 74,685 |
| Culture and recreation | 166,686 | | 168,208 | (1,522) |
| Health and welfare | 100,217 | | 101,384 | (1,167) |
| Capital outlay | 37,000 | | 48,856 | (11,856) |
| Total expenditures | <u>1,653,895</u> | | <u>1,572,169</u> | <u>81,726</u> |
| Excess (deficiency) of revenues over expenditures | | | <u>97,710</u> | <u>97,710</u> |
| Other financing sources (uses): | | | | |
| Transfer out | | | (36,479) | (36,479) |
| Total other financing sources (uses): | | | <u>(36,479)</u> | <u>(36,479)</u> |
| Changes in fund balances | | | <u>61,231</u> | <u>61,231</u> |
| Fund balances, beginning of year | | | 1,345,226 | 1,345,226 |
| Fund balances, end of year | <u>\$</u> | \$ | <u>1,406,457</u> | <u>\$ 1,406,457</u> |

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
YEAR ENDED JUNE 30, 2015**

| | <u>2015</u> |
|--|--------------------|
| City's proportion of the net pension liability (asset) | 0.01% |
| City's proportionate share of the net pension liability (asset) | \$ 831,166 |
| City's covered-employee payroll | \$ 549,374 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 151.29% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.49% |

CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - POLICE
YEAR ENDED JUNE 30, 2015

| | <u>2015</u> |
|---|---------------------|
| Total pension liability | |
| Service cost | \$ 30,962 |
| Interest | 31,998 |
| Changes of benefit terms | (367) |
| Differences between expected and actual experience | (114,176) |
| Changes of assumptions | 3,736 |
| Benefit payments, including refunds | (62,834) |
| Net change in total pension liability | (110,681) |
| Total pension liability—beginning | 423,555 |
| Total pension liability—ending | <u>\$ 312,874</u> |
| Plan fiduciary net position | |
| Contributions—employer | \$ 13,826 |
| Contributions—employee | 15,048 |
| Net investment income | 98,582 |
| Benefit payments, including refunds | (62,834) |
| Administrative expense | (794) |
| Net change in plan fiduciary net position | 63,828 |
| Plan fiduciary net position—beginning | 728,386 |
| Plan fiduciary net position—ending | <u>\$ 792,214</u> |
| Net pension liability (asset)—ending | <u>\$ (479,340)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 253.21% |
| Covered-employee payroll | \$ 150,429 |
| Net pension liability as a percentage of covered-employee payroll | -318.65% |

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF CONTRIBUTIONS
ALL PENSION PLANS
YEAR ENDED JUNE 30, 2015**

| | <u>2015</u> |
|---|--------------------|
| Arizona State Retirement System: | |
| Actuarially determined contribution | \$ 52,432 |
| Contributions in relation to the actuarially determined contribution | <u>52,432</u> |
| Contribution deficiency (excess) | <u>\$</u> |
| City's covered-employee payroll | \$ 584,216 |
| Contributions as a percentage of covered-employee payroll | 8.97% |
| Public Safety Personnel Retirement System - Police: | |
| Actuarially determined contribution | \$ 10,675 |
| Contributions in relation to the actuarially determined contribution | <u>10,675</u> |
| Contribution deficiency (excess) | <u>\$</u> |
| City's covered-employee payroll | \$ 123,316 |
| Contributions as a percentage of covered-employee payroll | 8.66% |

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

| <u>Actuarial Valuation Date</u> | <u>Actuarial Valuation of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| PSPRS - Police: | | | | | | |
| 2015 | \$ 53,316 | \$ 307 | \$ (53,009) | 17,366.78 % | \$ 82,704 | 0.00 % |
| 2014 | 49,379 | 10,769 | (38,610) | 458.53 | 112,507 | 0.00 |
| 2013 | -0- | 17,153 | 17,153 | 0.00 | 159,723 | 10.74 |

CITY OF TOMBSTONE, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

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

- Certain activities reported in the General Fund are budgeted as Special Revenue funds.

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

| | <u>Total Expenditures</u> | <u>Fund Balances End of Year</u> |
|---|-------------------------------|--------------------------------------|
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | \$ 1,667,063 | \$ 1,505,782 |
| Activity budgeted as special revenue funds | <u>(94,894)</u> | <u>(99,325)</u> |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund | <u>\$ 1,572,169</u> | <u>\$ 1,406,457</u> |

NOTE 2 – PENSION PLAN SCHEDULES

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

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2013, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The actuarial assumptions used in the June 30, 2014, valuation for PSPRS were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011. The total pension liability used to calculate the net pension liability for PSPRS was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2014, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption from 4.5% to 4.0%.

(This page intentionally left blank)

SUPPLEMENTARY INFORMATION

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, 2015

| | Community Development Block Grant | | |
|--|-----------------------------------|--------------------|--------------------------------------|
| | Budget | Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Intergovernmental | \$ 250,000 | \$ 62,208 | \$ (187,792) |
| Contributions and donations | | | |
| Total revenues | <u>250,000</u> | <u>62,208</u> | <u>(187,792)</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | | | |
| Highway and streets | | | |
| Culture and recreation | | | |
| Redevelopment and housing | 250,000 | 62,909 | 187,091 |
| Capital outlay | | | |
| Debt service - | | | |
| Principal retirement | | | |
| Interest and fiscal charges | | | |
| Total expenditures | <u>250,000</u> | <u>62,909</u> | <u>187,091</u> |
| Excess (deficiency) of revenues over expenditures | | <u>(701)</u> | <u>(701)</u> |
| Other financing sources (uses): | | | |
| Transfer in | | | |
| Total other financing sources (uses): | | | |
| Changes in fund balances | | <u>(701)</u> | <u>(701)</u> |
| Fund balances (deficits), beginning of year | | (25,011) | (25,011) |
| Fund balances (deficits), end of year | <u>\$</u> | <u>\$ (25,712)</u> | <u>\$ (25,712)</u> |

| AOT Grant | | | Senior Center Rehabilitation Project | | |
|------------|--------|--------------------------------------|--------------------------------------|--------------------|--------------------------------------|
| Budget | Actual | Variance - Positive (Negative) | Budget | Non-GAAP Actual | Variance - Positive (Negative) |
| \$ 440,000 | \$ | \$ (440,000) | \$ | \$ | \$ |
| 440,000 | | (440,000) | | 500 | 500 |
| | | | | 500 | 500 |
| 440,000 | | 440,000 | | | |
| 440,000 | | 440,000 | | | |
| | | | | 500 | 500 |
| | | | | | |
| | | | | 500 | 500 |
| | | | | 1,156 | 1,156 |
| \$ | \$ | \$ | \$ | \$ 1,656 | \$ 1,656 |

(Continued)

CITY OF TOMBSTONE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2015

| | Grant Opportunity Fund | | |
|--|------------------------|---------------|--------------------------------------|
| | Budget | Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Intergovernmental | \$ 750,000 | \$ | \$ (750,000) |
| Contributions and donations | | | |
| Total revenues | <u>750,000</u> | <u></u> | <u>(750,000)</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 750,000 | | 750,000 |
| Highway and streets | | | |
| Culture and recreation | | | |
| Redevelopment and housing | | | |
| Capital outlay | | | |
| Debt service - | | | |
| Principal retirement | | | |
| Interest and fiscal charges | | | |
| Total expenditures | <u>750,000</u> | <u></u> | <u>750,000</u> |
| Excess (deficiency) of revenues over expenditures | <u></u> | <u></u> | <u></u> |
| Other financing sources (uses): | | | |
| Transfer in | | 34,699 | 34,699 |
| Total other financing sources (uses): | <u></u> | <u>34,699</u> | <u>34,699</u> |
| Changes in fund balances | <u></u> | <u>34,699</u> | <u>34,699</u> |
| Fund balances (deficits), beginning of year | | (34,699) | (34,699) |
| Fund balances (deficits), end of year | <u>\$</u> | <u>\$</u> | <u>\$</u> |

| Highway User Revenue Fund | | | Marshall's Office Grants | | |
|---------------------------|-------------|--------------------------------------|--------------------------|--------------------|--------------------------------------|
| Budget | Actual | Variance - Positive (Negative) | Budget | Non-GAAP Actual | Variance - Positive (Negative) |
| \$ 102,984 | \$ 96,665 | \$ (6,319) | \$ | \$ | \$ |
| 102,984 | 96,665 | (6,319) | | | |
| 87,279 | 146,092 | (58,813) | | | |
| 9,000 | 17,970 | (8,970) | | | |
| 5,000 | 2,233 | 2,767 | | | |
| 1,705 | 230 | 1,475 | | | |
| 102,984 | 166,525 | (63,541) | | | |
| | (69,860) | (69,860) | | | |
| | | | | 1,780 | 1,780 |
| | | | | 1,780 | 1,780 |
| | (69,860) | (69,860) | | 1,780 | 1,780 |
| | 55,380 | 55,380 | | (1,780) | (1,780) |
| \$ | \$ (14,480) | \$ (14,480) | \$ | \$ | \$ |

(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, 2015

| | Boothill Sales | | |
|--|----------------|--------------------|--------------------------------------|
| | Budget | Non-GAAP Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Intergovernmental | \$ | \$ | \$ |
| Contributions and donations | | | |
| Total revenues | | | |
| Expenditures: | | | |
| Current - | | | |
| General government | | | |
| Highway and streets | | | |
| Culture and recreation | | | |
| Redevelopment and housing | | | |
| Capital outlay | | | |
| Debt service - | | | |
| Principal retirement | | | |
| Interest and fiscal charges | | | |
| Total expenditures | | | |
| Excess (deficiency) of revenues over expenditures | | | |
| Other financing sources (uses): | | | |
| Transfer in | | | |
| Total other financing sources (uses): | | | |
| Changes in fund balances | | | |
| Fund balances (deficits), beginning of year | | (97,073) | (97,073) |
| Fund balances (deficits), end of year | \$ | \$ (97,073) | \$ (97,073) |

| Boothill Donations | | | Archives | | |
|--------------------|-----------------|--------------------------------|----------|-----------------|--------------------------------|
| Budget | Non-GAAP Actual | Variance - Positive (Negative) | Budget | Non-GAAP Actual | Variance - Positive (Negative) |
| \$ | \$ | \$ | \$ | \$ | \$ |
| 135,000 | 70,635 | (64,365) | 62,104 | | (62,104) |
| 135,000 | 70,635 | (64,365) | 62,104 | | (62,104) |
| 135,000 | 70,621 | 64,379 | 62,104 | 24,273 | 37,831 |
| 135,000 | 70,621 | 64,379 | 62,104 | 24,273 | 37,831 |
| | 14 | 14 | | (24,273) | (24,273) |
| | | | | | |
| | 14 | 14 | | (24,273) | (24,273) |
| | 290,057 | 290,057 | | (71,056) | (71,056) |
| \$ | \$ 290,071 | \$ 290,071 | \$ | \$ (95,329) | \$ (95,329) |

(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, 2015

| | Totals | | |
|--|------------------|--------------------|--------------------------------------|
| | Budget | Non-GAAP Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Intergovernmental | \$ 1,542,984 | \$ 158,873 | \$ (1,384,111) |
| Contributions and donations | 197,104 | 71,135 | (125,969) |
| Total revenues | <u>1,740,088</u> | <u>230,008</u> | <u>(1,510,080)</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 750,000 | | 750,000 |
| Highway and streets | 87,279 | 146,092 | (58,813) |
| Culture and recreation | 197,104 | 94,894 | 102,210 |
| Redevelopment and housing | 250,000 | 62,909 | 187,091 |
| Capital outlay | 449,000 | 17,970 | 431,030 |
| Debt service - | | | |
| Principal retirement | 5,000 | 2,233 | 2,767 |
| Interest and fiscal charges | 1,705 | 230 | 1,475 |
| Total expenditures | <u>1,740,088</u> | <u>324,328</u> | <u>1,415,760</u> |
| Excess (deficiency) of revenues over expenditures | | <u>(94,320)</u> | <u>(94,320)</u> |
| Other financing sources (uses): | | | |
| Transfer in | | 36,479 | 36,479 |
| Total other financing sources (uses): | | <u>36,479</u> | <u>36,479</u> |
| Changes in fund balances | | <u>(57,841)</u> | <u>(57,841)</u> |
| Fund balances (deficits), beginning of year | | 116,974 | 116,974 |
| Fund balances, end of year | <u>\$</u> | <u>\$ 59,133</u> | <u>\$ 59,133</u> |

CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE
YEAR ENDED JUNE 30, 2015

| | Budgeted Amounts | | Variance with Final Budget Positive (Negative) |
|---|---------------------|-------------------------|---|
| | Original & Final | Actual | |
| Revenues: | | | |
| Property taxes | \$ 132,995 | \$ 149,680 | \$ 16,685 |
| Investment income | | 18 | 18 |
| Total revenues | <u>132,995</u> | <u>149,698</u> | <u>16,703</u> |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 100,000 | 100,000 | |
| Interest and fiscal charges | <u>32,995</u> | <u>33,020</u> | <u>(25)</u> |
| Total expenditures | <u>132,995</u> | <u>133,020</u> | <u>(25)</u> |
| Changes in fund balances | | <u>16,678</u> | <u>16,678</u> |
| Fund balances, beginning of year | | | |
| Fund balances, end of year | <u><u>\$</u></u> | <u><u>\$ 16,678</u></u> | <u><u>\$ 16,678</u></u> |

(This page intentionally left blank)

**REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE**

(This page intentionally left blank)



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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Tombstone, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Tombstone, Arizona's basic financial statements, and have issued our report thereon dated March 29, 2016. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 68, as amended by Statement No. 71.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items FS-2015-001 and FS-2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

City of Tombstone, Arizona's Response to Findings

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

Purpose of this Report

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

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

March 29, 2016

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

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

Reference Number: FS-2015-001

Type of Finding: Significant Deficiency

Description: Internal Controls Over Capital Assets

CRITERIA

The City must establish and maintain internal controls over capital assets to demonstrate its custodial responsibility for assets purchased with local and grant monies, as well as to ensure accurate and proper presentation in the City's financial statements.

CONDITION/CONTEXT

The City does not have a formal capital asset policy in place or detailed, written procedures for identifying, recording, or tracking capital assets. Additionally, the City has not performed a complete physical inventory in several years.

CAUSE

Limited staff size and resources.

EFFECT/POTENTIAL EFFECT

The City's internal controls over capital assets were not adequate to ensure that a misstatement in the capital asset balances or related depreciation would be prevented and/or detected in a timely manner.

RECOMMENDATION

The City should adopt a formal policy and written procedures that address capital asset identification, recognition, and tracking. Additionally, the City should conduct a complete physical inventory of all City capital assets and reconcile the results of the physical inventory process to the capital asset listing to identify and correct errors or outdated information in the listing.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

A capital asset policy will presented to the Mayor and Council for approval in fiscal year 2016.
Physical inventory will be completed by June 30, 2016

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

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

Reference Number: FS-2015-002

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/CONTEXT

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

- For 13 of 40 disbursements reviewed, no purchase order was prepared.
- For one of 40 disbursements reviewed, the invoice was paid prior to the receipt of goods or services.
- For three of 40 disbursements reviewed, the purchase orders prepared lacked evidence of authorization.
- For 16 of 40 disbursements reviewed, the purchase orders were incomplete as they did not include an authorized dollar amount and/or quantity.
- For two of 40 disbursements reviewed, there was no supporting invoice for the purchase.
- For two of 40 disbursements reviewed, the purchases were incorrectly coded in the general ledger.
- For one of five credit card transactions reviewed that required purchase orders, the purchase order was incomplete as it did not include authorized dollar amounts.
- The City does not consistently adhere to its procurement policy which requires quotes and formal bids at specified spending levels.

CAUSE

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

EFFECT/POTENTIAL EFFECT

The City's internal controls over the purchasing process may not prevent or detect inaccurate or unauthorized payments, and could also result in budget violations.

RECOMMENDATION

The City should strengthen 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 purchases.

**CITY OF TOMBSTONE, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

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

Reference Number: FS-2015-002

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

City administration is in the process of creating an accounting manual and plans to present it to the Mayor and Council for approval by June 30, 2016.

(This page intentionally left blank)