



**City of Tombstone, Arizona**  
**Financial Statements**  
Year Ended June 30, 2018

# City of Tombstone, Arizona

## Financial Statements Year Ended June 30, 2018

# CITY OF TOMBSTONE, ARIZONA

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# CITY OF TOMBSTONE, ARIZONA

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**CITY OF TOMBSTONE, ARIZONA  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Tombstone, Arizona (City), as of and for the year ended June 30, 2018, 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, 2018, 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018, 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, net pension liability information, and other postemployment benefit plan information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2019, on our consideration of City of Tombstone, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Tombstone, Arizona's internal control over financial reporting and compliance.

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

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
April 22, 2019

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

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**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2018**

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, 2018. 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 \$705,147 to \$3.1 million primarily due to reductions in debt obligations and deferred outflows related to pension obligations, and business-type activities increased \$426,348 to \$2.2 million. The governmental and business-type activities net positions represent 58 percent and 42 percent respectively, of the total net position of \$5.3 million.
- General revenues from governmental activities accounted for \$2.0 million in revenue, or 69 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$872,066 or 31 percent of total governmental activities revenues. The City had \$1.3 million of program revenues related to business-type activities.
- The City had \$2.2 million in expenses related to governmental activities, a decrease of three percent from the prior fiscal year. The City had \$897,128 in expenses related to business-type activities, an increase of seven percent from the prior fiscal year.
- Among major funds, the General Fund had \$2.5 million in current fiscal year revenues, which primarily consisted of City sales taxes and contribution revenues, and \$2.2 million in expenditures. The General Fund's fund balance increase from \$1.5 million at the prior fiscal year end to \$1.8 million at the end of the current fiscal year was primarily due to increases in local revenues.
- The Highway User Revenue Fund had \$123,227 in revenues, which consisted of intergovernmental revenues, and \$161,454 in expenditures. The Highway User Revenue Fund's fund balance decreased from a deficit of \$178,250 at the prior fiscal year end to a deficit of \$181,477.
- The Building Renovation Fund had \$113,127 in revenues, which consisted of intergovernmental revenues, and \$248,258 in expenditures. The Building Renovation Fund's fund balance decreased from \$7,465 at the prior fiscal year end to a deficit of \$127,666 primarily due to less than anticipated donations.
- The total Wastewater, Water, and Sanitation Funds net position increased \$426,348. Operating revenues of \$923,824 exceeded operating expenses by \$41,180 at the end of the current fiscal year.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2018**

## **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2018**

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2018**

**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 \$5.3 million at the current fiscal year end.

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

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2018 and June 30, 2017.

	2018 Governmental Activities	2017 Governmental Activities	2018 Business-type Activities	2017 Business-type Activities	2018 Total	2017 Total
Current and other assets	\$ 2,385,199	\$ 2,129,820	\$ 276,712	\$ 212,270	\$ 2,661,911	\$ 2,342,090
Capital assets, net	2,480,792	2,229,299	2,750,963	2,426,345	5,231,755	4,655,644
<b>Total assets</b>	<u>4,865,991</u>	<u>4,359,119</u>	<u>3,027,675</u>	<u>2,638,615</u>	<u>7,893,666</u>	<u>6,997,734</u>
Deferred outflows	138,313	241,218	49,289	84,811	187,602	326,029
Current and other liabilities	131,000	144,520	117,402	121,184	248,402	265,704
Long-term liabilities	1,664,786	1,873,042	685,606	775,128	2,350,392	2,648,170
<b>Total liabilities</b>	<u>1,795,786</u>	<u>2,017,562</u>	<u>803,008</u>	<u>896,312</u>	<u>2,598,794</u>	<u>2,913,874</u>
Deferred inflows	110,607	210,903	31,945	42,123	142,552	253,026
Net position:						
Net investment in capital assets	2,081,407	1,778,169	2,409,570	2,021,657	4,490,977	3,799,826
Restricted	19,651	55,953	401,562	463,866	421,213	519,819
Unrestricted	996,853	537,750	(569,121)	(700,532)	427,732	(162,782)
<b>Total net position</b>	<u>\$ 3,097,911</u>	<u>\$ 2,371,872</u>	<u>\$ 2,242,011</u>	<u>\$ 1,784,991</u>	<u>\$ 5,339,922</u>	<u>\$ 4,156,863</u>

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

- Governmental capital asset additions of \$428,698 and business type capital asset additions of \$402,837.
- Depreciation expense of \$168,076 related to governmental assets and \$78,218 for business-type assets.
- Governmental activity principal payments of \$100,000 for general obligation bonds.

**CITY OF TOMBSTONE, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Changes in net position.** The City's total revenues for the current fiscal year were \$4.2 million. The total cost of all programs and services was \$3.1 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

	2018 Governmental Activities	2017 Governmental Activities	2018 Business-type Activities	2017 Business-type Activities	2018 Total	2017 Total
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 194,107	\$ 194,877	\$ 923,824	\$ 904,387	\$ 1,117,931	\$ 1,099,264
Operating grants and contributions	558,399	340,859	7,735		566,134	340,859
Capital grants and contributions	119,560	268,091	386,840		506,400	268,091
General revenues:						
Property taxes	242,147	236,065			242,147	236,065
City sales taxes	1,201,993	973,908			1,201,993	973,908
Franchise taxes	54,598	52,332			54,598	52,332
Unrestricted state revenues	375,019	368,249			375,019	368,249
Investment income	10,008	5,098	5,077	2,592	15,085	7,690
Miscellaneous	113,723	50,164			113,723	50,164
<b>Total revenues</b>	<u>2,869,554</u>	<u>2,489,643</u>	<u>1,323,476</u>	<u>906,979</u>	<u>4,193,030</u>	<u>3,396,622</u>
<b>Expenses:</b>						
General government	748,622	691,715			748,622	691,715
Public safety	775,545	849,522			775,545	849,522
Highways and streets	157,378	189,311			157,378	189,311
Culture and recreation	375,552	288,848			375,552	288,848
Redevelopment and housing	10,243	63,660			10,243	63,660
Health and welfare	72,684	117,916			72,684	117,916
Interest on long-term debt	24,383	27,817			24,383	27,817
Wastewater			244,024	291,217	244,024	291,217
Water			485,578	366,417	485,578	366,417
Sanitation			167,526	183,922	167,526	183,922
<b>Total expenses</b>	<u>2,164,407</u>	<u>2,228,789</u>	<u>897,128</u>	<u>841,556</u>	<u>3,061,535</u>	<u>3,070,345</u>
<b>Changes in net position</b>	705,147	260,854	426,348	65,423	1,131,495	326,277
<b>Net position, beginning restated</b>	2,392,764	2,111,018	1,815,663	1,719,568	4,208,427	3,830,586
<b>Net position, ending</b>	<u>\$ 3,097,911</u>	<u>\$ 2,371,872</u>	<u>\$ 2,242,011</u>	<u>\$ 1,784,991</u>	<u>\$ 5,339,922</u>	<u>\$ 4,156,863</u>

- Governmental operating grants and contributions increased \$217,540 primarily due to the increase in tourism collections from the Boothill Cemetery.
- Governmental capital grants and contributions decreased \$148,531 primarily due to a decrease in airport grant funding received during the fiscal year.
- Water expenses increased \$119,161 due primarily to reallocation of wage benefit expenses.
- City sales taxes increased \$228,085 primarily due to increased tourism traffic.



**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	2018		2017	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
<b>Governmental Activities</b>				
General government	\$ 748,622	\$ (402,295)	\$ 691,715	\$ (460,455)
Public safety	775,545	(771,169)	849,522	(644,731)
Highways and streets	157,378	(34,151)	189,311	(84,676)
Culture and recreation	375,552	1,273	288,848	(76,144)
Redevelopment and housing	10,243	11,068	63,660	(13,223)
Health and welfare	72,684	(72,684)	117,916	(117,916)
Interest on long-term debt	24,383	(24,383)	27,817	(27,817)
<b>Total</b>	<u>\$ 2,164,407</u>	<u>\$ (1,292,341)</u>	<u>\$ 2,228,789</u>	<u>\$ (1,424,962)</u>
<b>Business-type Activities</b>				
Wastewater	\$ 244,024	\$ 1,104	\$ 291,217	\$ (46,464)
Water	485,578	445,430	366,417	152,988
Sanitation	167,526	(25,263)	183,922	(43,693)
<b>Total</b>	<u>\$ 897,128</u>	<u>\$ 421,271</u>	<u>\$ 841,556</u>	<u>\$ 62,831</u>

- The cost of all governmental activities this year was \$2.2 million, a decrease of \$64,382 from the prior year.
- The cost of all business-type activities this year was \$897,128 an increase of \$55,572.
- Federal and state grants and charges for services subsidized certain governmental programs and business-type programs with revenues of \$2.0 million.
- Net cost of governmental activities of \$1.3 million was financed by general revenues of \$2.0 million, which are made up of primarily of City sales taxes, property taxes, and unrestricted state revenues.

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

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

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

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2018**

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$1.5 million, an increase of \$147,661 primarily due to increases in local revenues and sales taxes and decreases in capital purchases.

The General Fund is the principal operating fund of the City. The increase in fund balance of \$280,696 to \$1.8 million as of fiscal year end was a result of increases in local revenues and sales taxes and decreases in capital purchases. General Fund revenues increased \$509,702 primarily as a result of an increase in state shared revenue and contributions and donations. General Fund expenditures decreased \$243,285 primarily as a result of a reduction of capital purchases.

**Proprietary funds.** Net position of the enterprise funds at the end of the year amounted to \$2.2 million, an increase of \$426,348.

**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 2017-18 operating and capital budget. The significant variances are summarized as follows:

- The favorable variance of \$205,993 in city sales tax was a result of increases in tourism traffic.
- The favorable variance of \$131,893 in contributions and donations was a result of increased public contributions at Boothill.
- The favorable variance of \$81,223 in miscellaneous was a result of proceeds from seizures.
- The unfavorable variance of \$142,158 in capital outlay was a result of the old City Hall renovation project.

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2018**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of year end, the City had invested \$5.2 million in capital assets (net of depreciation), including buildings, facilities, vehicles, computers, equipment, infrastructure assets, and construction in progress. This amount represents a net increase of \$576,111 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$246,294.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2018 and June 30, 2017.

	2018 Governmental Activities	2017 Governmental Activities	2018 Business-type Activities	2017 Business-type Activities
Capital assets – non-depreciable	\$ 526,131	\$ 282,193	\$ 825,264	\$ 422,427
Capital assets – depreciable, net	1,954,661	1,947,106	1,925,699	2,003,918
<b>Total</b>	<b>\$ 2,480,792</b>	<b>\$ 2,229,299</b>	<b>\$ 2,750,963</b>	<b>\$ 2,426,345</b>

The estimated cost to complete current construction projects is \$325,000.

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Debt Administration.** At year end, the City had \$1.3 million in long-term debt outstanding, \$268,434 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, 2018 and June 30, 2017.

	As of June 30, 2018	As of June 30, 2017
Revenue bonds payable	\$ 261,000	\$ 288,000
General obligation bonds payable	600,000	700,000
Capital leases	484,063	581,060
<b>Total</b>	<b>\$ 1,345,063</b>	<b>\$ 1,569,060</b>

State statutes limit a municipality's bonded debt capacity to certain percentages of its full cash assessed valuation and by the type of project to be constructed with general obligation (GO) bonds. For projects involving water, wastewater, artificial lighting, parks, open space, recreational facility improvements, streets, public safety, and fire and emergency facilities, the City can issue GO bonds up to 20 percent of its full cash assessed valuation. For any other general-purpose improvements, the City may issue bonds up to six percent of its full cash assessed valuation. The City's debt limits at year end were \$2.7 million in the 20 percent capacity and \$805,539 in the six percent capacity.

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

**CITY OF TOMBSTONE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2018**

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

The adopted combined operating and capital expenditure budget for fiscal year 2018-19 totals \$5.9 million, an increase of \$188,175 or three percent greater than fiscal year 2017-18 due primarily to the old City Hall renovation project.

***General Fund***

The budget for the General Fund increased by \$55,548 in fiscal year 2018-19, an increase of approximately three percent.

***Enterprise Funds***

The City's budget for utility enterprise funds in total increased by \$12,343, an increase of one percent over the 2017-18 budgeted amount.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

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## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**



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**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 797,586	\$ 308,933	\$ 1,106,519
Accounts receivable	49,373	99,745	149,118
Property taxes receivable	8,091		8,091
Due from governmental entities	170,276		170,276
Internal balances	622,616	(622,616)	
Total current assets	<u>1,647,942</u>	<u>(213,938)</u>	<u>1,434,004</u>
Noncurrent assets:			
Cash and investments - restricted	4,293	489,509	493,802
Net pension asset	676,274		676,274
Net other postemployment benefit assets	56,690	1,141	57,831
Capital assets, non-depreciable	526,131	825,264	1,351,395
Capital assets, depreciable (net)	1,954,661	1,925,699	3,880,360
Total noncurrent assets	<u>3,218,049</u>	<u>3,241,613</u>	<u>6,459,662</u>
<b>Total assets</b>	<u>4,865,991</u>	<u>3,027,675</u>	<u>7,893,666</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension and other postemployment benefit plan items	<u>138,313</u>	<u>49,289</u>	<u>187,602</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	92,266	23,995	116,261
Accrued payroll and employee benefits	38,734	5,460	44,194
Compensated absences payable	35,783	9,262	45,045
Customer deposits		87,947	87,947
Capital leases payable	82,284	16,385	98,669
General obligation bonds payable	100,000		100,000
Revenue bonds payable		28,000	28,000
Total current liabilities	<u>349,067</u>	<u>171,049</u>	<u>520,116</u>
Noncurrent liabilities:			
Capital leases payable	321,394	64,000	385,394
General obligation bonds payable	500,000		500,000
Revenue bonds payable		233,000	233,000
Net pension liability	623,840	334,209	958,049
Net OPEB liability	1,485	750	2,235
Total noncurrent liabilities	<u>1,446,719</u>	<u>631,959</u>	<u>2,078,678</u>
<b>Total liabilities</b>	<u>1,795,786</u>	<u>803,008</u>	<u>2,598,794</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension and other postemployment benefit plan items	<u>110,607</u>	<u>31,945</u>	<u>142,552</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	2,081,407	2,409,570	4,490,977
Restricted for:			
Debt service	13,715		13,715
Capital projects	4,293	361,852	366,145
Other purposes	1,643	39,710	41,353
Unrestricted	996,853	(569,121)	427,732
<b>Total net position</b>	<u>\$ 3,097,911</u>	<u>\$ 2,242,011</u>	<u>\$ 5,339,922</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, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>					
Governmental activities:					
General government	\$ 748,622	\$ 194,107	\$ 136,893	\$ 15,327	\$ (402,295)
Public safety	775,545		4,376		(771,169)
Highway and streets	157,378		123,227		(34,151)
Culture and recreation	375,552		272,592	104,233	1,273
Redevelopment and housing	10,243		21,311		11,068
Health and welfare	72,684				(72,684)
Interest on long term debt	24,383				(24,383)
Total governmental activities	<u>2,164,407</u>	<u>194,107</u>	<u>558,399</u>	<u>119,560</u>	<u>(1,292,341)</u>
Business-type activities:					
Wastewater	244,024	245,128			
Water	485,578	536,433	7,735	386,840	
Sanitation	167,526	142,263			
Total business-type activities	<u>897,128</u>	<u>923,824</u>	<u>7,735</u>	<u>386,840</u>	
<b>Total primary government</b>	<u>\$ 3,061,535</u>	<u>\$ 1,117,931</u>	<u>\$ 566,134</u>	<u>\$ 506,400</u>	<u>(1,292,341)</u>
<b>General revenues:</b>					
Taxes:					
Property taxes, levied for general purposes					123,238
Property taxes, levied for debt purposes					118,909
City sales taxes					1,201,993
Franchise taxes					54,598
Unrestricted state revenues					375,019
Investment income					10,008
Miscellaneous					113,723
<b>Total general revenues</b>					<u>1,997,488</u>
<b>Changes in net position</b>					705,147
<b>Net position, beginning of year, as restated</b>					<u>2,392,764</u>
<b>Net position, end of year</b>					<u>\$ 3,097,911</u>

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

Net (Expense) Revenue and  
Changes in Net Position

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Business-type Activities	Totals
\$	\$
	(402,295)
	(771,169)
	(34,151)
	1,273
	11,068
	(72,684)
	(24,383)
	<u>(1,292,341)</u>
	1,104
	445,430
	<u>(25,263)</u>
	421,271
	<u>421,271</u>
	<u>(871,070)</u>
	123,238
	118,909
	1,201,993
	54,598
	375,019
5,077	15,085
	113,723
<u>5,077</u>	<u>2,002,565</u>
426,348	1,131,495
<u>1,815,663</u>	<u>4,208,427</u>
<u>\$ 2,242,011</u>	<u>\$ 5,339,922</u>

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## **FUND FINANCIAL STATEMENTS**

**CITY OF TOMBSTONE, ARIZONA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Building Renovation</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 786,115	\$	\$
Cash and investments - restricted	4,293		
Accounts receivable	33,376		15,997
Property taxes receivable	4,204		
Due from governmental entities	161,287	8,946	
Due from other funds	329,061		
Advances to other funds	622,616		
<b>Total assets</b>	<u><u>\$ 1,940,952</u></u>	<u><u>\$ 8,946</u></u>	<u><u>\$ 15,997</u></u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 87,461	\$ 4,762	\$
Due to other funds		185,398	143,663
Accrued payroll and employee benefits	38,471	263	
<b>Total liabilities</b>	<u><u>125,932</u></u>	<u><u>190,423</u></u>	<u><u>143,663</u></u>
Fund balances (deficits):			
Nonspendable	622,616		
Restricted	4,293		
Unassigned	1,188,111	(181,477)	(127,666)
<b>Total fund balances</b>	<u><u>1,815,020</u></u>	<u><u>(181,477)</u></u>	<u><u>(127,666)</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 1,940,952</u></u>	<u><u>\$ 8,946</u></u>	<u><u>\$ 15,997</u></u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 11,471	\$ 797,586
	4,293
	49,373
3,887	8,091
43	170,276
	329,061
	622,616
<u>\$ 15,401</u>	<u>\$ 1,981,296</u>

\$ 43	\$ 92,266
	329,061
	38,734
<u>43</u>	<u>460,061</u>

	622,616
15,358	19,651
	878,968
<u>15,358</u>	<u>1,521,235</u>
<u>\$ 15,401</u>	<u>\$ 1,981,296</u>



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**CITY OF TOMBSTONE, ARIZONA**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

<b>Total governmental fund balances</b>	<b>\$</b>	<b>1,521,235</b>
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Amounts reported for *governmental activities* in the Statement of Net Position are different because:

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

Governmental capital assets	\$ 7,396,039	
Less accumulated depreciation	<u>(4,915,247)</u>	2,480,792

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

Deferred outflows of resources related to pensions/OPEB	138,313	
Deferred inflows of resources related to pensions/OPEB	<u>(110,607)</u>	27,706

The Net pension and OPEB assets are not current financial resources and, therefore, are not reported in the funds.

Net pension assets	676,274	
Net OPEB assets	<u>56,690</u>	732,964

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

Compensated absences payable	(35,783)	
Obligations under capital leases	(403,678)	
Net pension liability	(623,840)	
Net OPEB liability	(1,485)	
Bonds payable	<u>(600,000)</u>	<u>(1,664,786)</u>

<b>Net position of governmental activities</b>	<b>\$</b>	<b><u><u>3,097,911</u></u></b>
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**The notes to the basic financial statements are an integral part of this statement.**

**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Building Renovation</u>
<b>Revenues:</b>			
Property taxes	\$ 123,238	\$	\$
City sales taxes	1,201,993		
Franchise taxes	54,598		
Licenses and permits	50,836		
Intergovernmental	383,184	123,227	113,127
Charges for services	102,829		
Fines and forfeits	40,442		
Investment income	10,008		
Contributions and donations	409,485		
Miscellaneous	113,723		
<b>Total revenues</b>	<u>2,490,336</u>	<u>123,227</u>	<u>113,127</u>
<b>Expenditures:</b>			
Current -			
General government	692,215		
Public safety	829,884		
Highway and streets		138,406	
Culture and recreation	345,830		
Redevelopment and housing			
Health and welfare	70,475		
Capital outlay	157,818		248,258
Debt service -			
Principal retirement	59,833	21,056	
Interest and fiscal charges	5,662	1,992	
<b>Total expenditures</b>	<u>2,161,717</u>	<u>161,454</u>	<u>248,258</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>328,619</u>	<u>(38,227)</u>	<u>(135,131)</u>
<b>Other financing sources (uses):</b>			
Transfer in		35,000	
Transfer out	(47,923)		
<b>Total other financing sources (uses)</b>	<u>(47,923)</u>	<u>35,000</u>	
<b>Changes in fund balances</b>	<u>280,696</u>	<u>(3,227)</u>	<u>(135,131)</u>
<b>Fund balances (deficits), beginning of year, as restated</b>	1,534,324	(178,250)	7,465
<b>Fund balances (deficits), end of year</b>	<u>\$ 1,815,020</u>	<u>\$ (181,477)</u>	<u>\$ (127,666)</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 118,909	\$ 242,147
	1,201,993
	54,598
	50,836
36,638	656,176
	102,829
	40,442
	10,008
	409,485
	113,723
<u>155,547</u>	<u>2,882,237</u>
3,752	695,967
	829,884
	138,406
	345,830
8,628	8,628
	70,475
34,038	440,114
100,000	180,889
16,729	24,383
<u>163,147</u>	<u>2,734,576</u>
<u>(7,600)</u>	<u>147,661</u>
12,923	47,923
<u>12,923</u>	<u>(47,923)</u>
5,323	147,661
10,035	1,373,574
<u>\$ 15,358</u>	<u>\$ 1,521,235</u>

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**CITY OF TOMBSTONE, ARIZONA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

**Changes in fund balances - total governmental funds** **\$ 147,661**

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	\$ 428,698	
Less current year depreciation	<u>(168,076)</u>	260,622

Some intergovernmental revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(12,682)
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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	89,838	
Bond principal retirement	<u>100,000</u>	189,838

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

Current year pension/OPEB contributions	65,776	
Pension/OPEB income/expense	<u>69,918</u>	135,694

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.

Loss on disposal of assets	(9,129)	
Compensated absences	<u>(6,857)</u>	<u>(15,986)</u>

**Changes in net position in governmental activities** **\$ 705,147**

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, 2018**

	Enterprise Funds		
	Wastewater	Water	Sanitation
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$	\$ 308,933	\$
Accounts receivable	23,950	60,596	15,199
Total current assets	<u>23,950</u>	<u>369,529</u>	<u>15,199</u>
Noncurrent assets:			
Cash and investments - restricted		489,509	
Net other postemployment benefit assets	398	725	18
Capital assets, non-depreciable		825,264	
Capital assets, depreciable (net)	969,585	956,114	
Total noncurrent assets	<u>969,983</u>	<u>2,271,612</u>	<u>18</u>
<b>Total assets</b>	<u>993,933</u>	<u>2,641,141</u>	<u>15,217</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension and other postemployment benefit plan items	<u>17,195</u>	<u>31,331</u>	<u>763</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	1,811	8,519	13,665
Accrued payroll and employee benefits	1,899	3,499	62
Compensated absences payable	3,344	5,781	137
Customer deposits		87,947	
Capital leases payable		16,385	
Revenue bonds payable		28,000	
Total current liabilities	<u>7,054</u>	<u>150,131</u>	<u>13,864</u>
Noncurrent liabilities:			
Advances from other funds	279,910		342,706
Capital leases payable		64,000	
Revenue bonds payable		233,000	
Net pension liability	168,004	148,000	18,205
Net OPEB liability	261	478	11
Total noncurrent liabilities	<u>448,175</u>	<u>445,478</u>	<u>360,922</u>
<b>Total liabilities</b>	<u>455,229</u>	<u>595,609</u>	<u>374,786</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension and other postemployment benefit plan items	<u>11,144</u>	<u>20,306</u>	<u>495</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	969,585	1,439,985	
Restricted for:			
Capital projects		361,852	
Other purposes		39,710	
Unrestricted	(424,830)	215,010	(359,301)
<b>Total net position</b>	<u>\$ 544,755</u>	<u>\$ 2,056,557</u>	<u>\$ (359,301)</u>

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

Enterprise Funds

Totals

\$	308,933
	99,745
	<u>408,678</u>

	489,509
	1,141
	825,264
	<u>1,925,699</u>
	<u>3,241,613</u>
	<u>3,650,291</u>

49,289

	23,995
	5,460
	9,262
	87,947
	16,385
	<u>28,000</u>
	<u>171,049</u>

	622,616
	64,000
	233,000
	334,209
	<u>750</u>
	<u>1,254,575</u>
	<u>1,425,624</u>

31,945

2,409,570

	361,852
	39,710
	<u>(569,121)</u>
\$	<u>2,242,011</u>



**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Enterprise Funds		
	Wastewater	Water	Sanitation
<b>Operating revenues:</b>			
Charges for services	\$ 245,128	\$ 536,433	\$ 142,263
<b>Total operating revenues</b>	<u>245,128</u>	<u>536,433</u>	<u>142,263</u>
<b>Operating expenses:</b>			
Administration	87,803	234,427	4,329
Cost of sales and services	119,979	194,691	163,197
Depreciation	36,242	41,976	
<b>Total operating expenses</b>	<u>244,024</u>	<u>471,094</u>	<u>167,526</u>
<b>Operating income (loss)</b>	<u>1,104</u>	<u>65,339</u>	<u>(25,263)</u>
<b>Nonoperating revenues (expenses):</b>			
Intergovernmental		7,735	
Investment income		5,077	
Interest expense		(14,484)	
<b>Total nonoperating revenues (expenses)</b>		<u>(1,672)</u>	
<b>Income (loss)</b>	<u>1,104</u>	<u>63,667</u>	<u>(25,263)</u>
<b>Capital contributions</b>		<u>386,840</u>	
<b>Changes in net position</b>	<u>1,104</u>	<u>450,507</u>	<u>(25,263)</u>
<b>Total net position, beginning of year, as restated</b>	543,651	1,606,050	(334,038)
<b>Total net position, end of year</b>	<u>\$ 544,755</u>	<u>\$ 2,056,557</u>	<u>\$ (359,301)</u>

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

Enterprise Funds

<u>Totals</u>	
\$	923,824
	<u>923,824</u>

326,559
477,867
<u>78,218</u>
<u>882,644</u>
<u>41,180</u>

7,735
5,077
<u>(14,484)</u>
<u>(1,672)</u>

<u>39,508</u>
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<u>386,840</u>
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<u>426,348</u>
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1,815,663
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<u>\$</u>	<u>2,242,011</u>
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**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Enterprise Funds			
	Wastewater	Water	Sanitation	Totals
<b><u>Increase (Decrease) in Cash and Cash Equivalents</u></b>				
Cash flows from operating activities:				
Cash received from customers	\$ 245,676	\$ 548,340	\$ 140,849	\$ 934,865
Cash payments to suppliers for goods and services	(123,148)	(200,000)	(162,232)	(485,380)
Cash payments to employees for services	(90,257)	(236,315)	(4,813)	(331,385)
<b>Net cash provided by (used for) operating activities</b>	<u>32,271</u>	<u>112,025</u>	<u>(26,196)</u>	<u>118,100</u>
Cash flows from noncapital and related financing activities:				
Intergovernmental		7,735		7,735
Interfund advances	(32,271)		26,196	(6,075)
<b>Net cash provided by (used for) noncapital financing activities</b>	<u>(32,271)</u>	<u>7,735</u>	<u>26,196</u>	<u>1,660</u>
Cash flows from capital and related financing activities:				
Proceeds from capital lease		8,949		8,949
Principal paid on long-term debt		(43,108)		(43,108)
Interest paid on long-term debt		(14,484)		(14,484)
Acquisition of capital assets		(14,527)		(14,527)
<b>Net cash provided by (used for) capital and related financing activities</b>		<u>(63,170)</u>		<u>(63,170)</u>
Cash flows from investing activities:				
Investment income		5,077		5,077
<b>Net cash provided by investing activities</b>		<u>5,077</u>		<u>5,077</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>61,667</u>		<u>61,667</u>
<b>Cash and cash equivalents, beginning of year</b>		<u>736,775</u>		<u>736,775</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$</u>	<u>\$ 798,442</u>	<u>\$</u>	<u>\$ 798,442</u>
<b><u>Reconciliation of Operating Income (Loss) to</u></b>				
<b><u>Net Cash Provided by (Used for) Operating Activities</u></b>				
<b>Operating income (loss)</b>	\$ 1,104	\$ 65,339	\$ (25,263)	\$ 41,180
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	36,242	41,976		78,218
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	548	5,307	(1,414)	4,441
Increase (decrease) in accounts payable	(3,169)	(5,309)	965	(7,513)
Increase (decrease) in accrued payroll and employee benefits	(1,807)	(1,490)	(219)	(3,516)
Increase in compensated absences payable	97	953	(231)	819
Increase in deposits held for others		6,600		6,600
Increase (decrease) in pension/OPEB items	(744)	(1,351)	(34)	(2,129)
<b>Total adjustments</b>	<u>31,167</u>	<u>46,686</u>	<u>(933)</u>	<u>76,920</u>
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 32,271</u>	<u>\$ 112,025</u>	<u>\$ (26,196)</u>	<u>\$ 118,100</u>

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**CITY OF TOMBSTONE, ARIZONA**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2018**

	<u>Pension Trust</u>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 89,285
Accounts receivable	<u>3,182</u>
<b>Total assets</b>	<u>92,467</u>
 <b><u>NET POSITION</u></b>	
Held in trust	<u>\$ 92,467</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, 2018**

	<u>Pension Trust</u>
<b>Additions:</b>	
Contributions	<u>\$ 8,447</u>
<b>Total additions</b>	<u>8,447</u>
<b>Deductions:</b>	
Distributions	<u>4,800</u>
<b>Total deductions</b>	<u>4,800</u>
<b>Changes in net position</b>	<u>3,647</u>
<b>Net position, beginning of year</b>	88,820
<b>Net position, end of year</b>	<u><u>\$ 92,467</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, 2018**

**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, 2018, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement requires governments providing defined benefit postemployment benefits other than pensions to recognize the long-term obligation for those benefits as a liability, and to more comprehensively and comparably measure the annual costs of those 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.

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

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

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

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

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



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

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

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

The City reports the following major governmental funds.

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

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

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

The City reports the following major proprietary funds.

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

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

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

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.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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. Budgets and Budgetary Accounting**

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

1. In accordance with Arizona Revised Statutes, the Finance Director submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. State law requires that, prior to April 1, the Economic Estimates Commission provide the City with a final expenditure limit for the coming fiscal year. However, the City currently follows a voter-approved alternative expenditure limitation that was adopted on November 8, 2016.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by funds for other funds.
6. The City has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Capital Projects, Debt Service, and Enterprise funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**D. Budgets and Budgetary Accounting**

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

**E. Cash and Investments**

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

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

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

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

**F. Investment Income**

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**G. Receivables and Payables**

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

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

**H. Property Tax Calendar**

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

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

**I. Prepaid Items**

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

**J. Capital Assets**

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

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

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

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

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

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

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**L. Compensated Absences**

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

**M. Pensions and Other Postemployment Benefits**

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

**N. Long-term Obligations**

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**O. Interfund Activity**

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

**P. Net Position Flow Assumption**

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

**Q. Estimates**

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

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

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

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

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

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

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

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

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

	General Fund	Highway User Revenue Fund	Building Renovation Fund	Non-Major Governmental Funds
Fund Balances:				
Nonspendable:				
Advances to other funds	\$ 622,616	\$	\$	\$
Restricted:				
Capital projects	4,293			
Debt service				13,715
Other purposes				1,643
Unassigned	1,188,111	(181,477)	(127,666)	
Total fund balances	<u>\$ 1,815,020</u>	<u>\$ (181,477)</u>	<u>\$ (127,666)</u>	<u>\$ 15,358</u>



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

	<u>Deficit</u>
Major Governmental Fund:	
Highway User Revenue	\$ 181,477
Building Renovation	127,666
Major Enterprise Fund:	
Sanitation	359,301

The City plans to address the Sanitation Fund deficit through renegotiation of provider agreements and through a rate adjustment and rate study that was finalized during fiscal year 2019. This will be presented during the fiscal year 2020 budget process that will include a 5 year rate structure. Deficit balances for the Highway User Revenue Fund and Building Renovation Fund are expected to be eliminated through activity in the next fiscal year.

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

**NOTE 4 – CASH AND INVESTMENTS**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of bank failure the City's deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the City's deposits was \$696,833 and the bank balance was \$741,224. At year end, \$486,931 of the City's deposits were covered by collateral held by the pledging financial institution's trust department or agent but not in the City's name.

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

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 – CASH AND INVESTMENTS**

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

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

	Maturities	Fair Value
State Treasurer's investment pool 5	33 days	\$ 992,773

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

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

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

**NOTE 5 – RECEIVABLES**

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

	General Fund	Highway User Revenue Fund	Non-Major Governmental Funds
Due from other governmental entities:			
Due from federal government	\$	\$	\$ 43
Due from state government	161,287	8,946	
Net due from governmental entities	<u>\$ 161,287</u>	<u>\$ 8,946</u>	<u>\$ 43</u>

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 – CAPITAL ASSETS**

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

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 4,949	\$	\$	\$ 4,949
Construction in progress	277,244	257,328	13,390	521,182
Total capital assets, not being depreciated	282,193	257,328	13,390	526,131
Capital assets, being depreciated:				
Buildings and improvements	2,709,982	13,390		2,723,372
Infrastructure	2,058,748			2,058,748
Machinery, equipment, and vehicles	1,928,953	171,370	12,535	2,087,788
Total capital assets being depreciated	6,697,683	184,760	12,535	6,869,908
Less accumulated depreciation for:				
Buildings and improvements	(1,515,022)	(68,532)		(1,583,554)
Infrastructure	(1,996,538)	(5,184)		(2,001,722)
Machinery, equipment, and vehicles	(1,239,017)	(94,360)	(3,406)	(1,329,971)
Total accumulated depreciation	(4,750,577)	(168,076)	(3,406)	(4,915,247)
Total capital assets, being depreciated, net	1,947,106	16,684	9,129	1,954,661
Governmental activities capital assets, net	<u>\$ 2,229,299</u>	<u>\$ 274,012</u>	<u>\$ 22,519</u>	<u>\$ 2,480,792</u>
<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Construction in progress	\$ 422,427	\$ 402,837	\$	\$ 825,264
Total capital assets, not being depreciated	422,427	402,837		825,264
Capital assets, being depreciated:				
Buildings and improvements	185,650			185,650
Infrastructure	4,606,022			4,606,022
Machinery, equipment, and vehicles	218,421			218,421
Total capital assets being depreciated	5,010,093			5,010,093
Less accumulated depreciation for:				
Buildings and improvements	(121,495)	(24,465)		(145,960)
Infrastructure	(2,776,477)	(40,098)		(2,816,575)
Machinery, equipment, and vehicles	(108,204)	(13,655)		(121,859)
Total accumulated depreciation	(3,006,176)	(78,218)		(3,084,394)
Total capital assets, being depreciated, net	2,003,917	(78,218)		1,925,699
Business-type activities capital assets, net	<u>\$ 2,426,344</u>	<u>\$ 324,619</u>	<u>\$</u>	<u>\$ 2,750,963</u>

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 – CAPITAL ASSETS**

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
General government	\$ 46,286
Public safety	77,938
Highways and streets	19,082
Culture and recreation	24,770
Total depreciation expense – governmental activities	<u>\$ 168,076</u>
Business-type activities:	
Wastewater	\$ 36,242
Water	41,976
Total depreciation expense – business-type activities	<u>\$ 78,218</u>

**Construction Commitments** – At year end, the City had contractual commitments related to a new marshals’ facility and water blending project. At year end the City had spent \$1.3 million on the projects and had estimated remaining contractual commitments of \$125,000 and \$200,000, respectively. These projects are primarily funded with bond proceeds.

**NOTE 7 – GENERAL OBLIGATION BONDS PAYABLE**

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

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2018</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
GO Bonds Series Project of 2013, Series 2014	\$ 1,000,000	2.39%	7/1/19-24	<u>\$ 600,000</u>	<u>\$ 100,000</u>

**CITY OF TOMBSTONE, ARIZONA**  
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**NOTE 7 – GENERAL OBLIGATION BONDS PAYABLE**

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

Year ending June 30:		Governmental Activities	
		Principal	Interest
	2019	\$ 100,000	\$ 14,340
	2020	100,000	11,950
	2021	100,000	9,560
	2022	100,000	7,170
	2023	100,000	4,780
	2024	100,000	2,390
Total		<u>\$ 600,000</u>	<u>\$ 50,190</u>

**NOTE 8 – REVENUE BONDS PAYABLE**

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

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2018	Due Within One Year
<b>Business-type activities:</b>					
Water Revenue Bonds, Project of 1994	\$ 586,500	4.5%	7/1/19-26	<u>\$ 261,000</u>	<u>\$ 28,000</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
	2019	\$ 28,000	\$ 11,745
	2020	29,000	10,485
	2021	30,000	9,180
	2022	32,000	7,830
	2023	33,000	6,390
	2024-26	109,000	9,945
Total		<u>\$ 261,000</u>	<u>\$ 55,575</u>

**CITY OF TOMBSTONE, ARIZONA**  
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**NOTE 8 – REVENUE BONDS PAYABLE**

**Pledged revenues - business-type activities.** The City has pledged future water customer revenues, net of specified operating expenses, to repay a \$586,500 loan of utility revenue bonds issued in fiscal year 1998. Proceeds from the bonds provided financing for improvements to local water infrastructure. The bonds are payable from water customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds are estimated to require less than 20 percent of gross revenues. The total principal and interest remaining to be paid on the bonds is \$316,575. The current total customer gross revenues were \$536,433 and the total principal and interest paid on the bonds was \$39,960, or seven percent of gross revenues.

**NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES**

The City has acquired vehicles and equipment under the provisions of a long-term lease agreement classified as a capital lease. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. Revenues from the General Fund, Highway User Revenue Fund, and the Water Fund are used to pay the capital lease obligations. Amortization of assets recorded under capital leases is included with depreciation expense. During the fiscal year the City transferred a portion of the governmental activities lease liability of \$8,949 to the Water Fund to properly account for the assets purchased from lease proceeds and recorded in the Water Fund.

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

	<u>Governmental Activities</u>	<u>Water Fund</u>
Asset		
Machinery, equipment, and vehicles	\$ 602,815	\$ 107,296
Less: Accumulated depreciation	(135,795)	(17,932)
Total	<u>\$ 467,020</u>	<u>\$ 89,364</u>

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

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

Year Ending June 30:	Governmental Activities	Water Fund
2019	\$ 88,544	17,632
2020	88,544	17,632
2021	88,544	17,632
2022	88,544	17,632
2023	66,408	13,224
Total minimum lease payments	420,584	83,752
Less: amount representing interest	16,906	3,367
Present value of minimum lease payments	<u>\$ 403,678</u>	<u>80,385</u>
Due within one year	<u>\$ 82,284</u>	<u>\$ 16,385</u>

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 700,000	\$	\$ 100,000	\$ 600,000	\$ 100,000
Net OPEB liability	1,473	12		1,485	
Net pension liability	679,745		55,905	623,840	
Compensated absences payable	28,925	37,887	31,029	35,783	35,783
Capital leases payable	493,516		89,838	403,678	82,284
Governmental activity long-term liabilities	<u>\$ 1,903,659</u>	<u>\$ 37,899</u>	<u>\$ 276,772</u>	<u>\$ 1,664,786</u>	<u>\$ 218,067</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ 288,000	\$	\$ 27,000	\$ 261,000	\$ 28,000
Net OPEB liability	744	6		750	
Net pension liability	361,350		27,141	334,209	
Compensated absences payable	8,443	5,103	4,284	9,262	9,262
Capital leases payable	87,544	8,949	16,108	80,385	16,385
Business-type activities long-term liabilities	<u>\$ 746,081</u>	<u>\$ 14,058</u>	<u>\$ 74,533</u>	<u>\$ 685,606</u>	<u>\$ 53,647</u>

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

At year end, interfund balances were as follows.

**Due to/from other funds** – At year end, the Highway User Revenue Fund and the Building Renovation Fund, both major governmental funds, had negative cash balances of \$185,398 and \$143,663, respectively. Negative cash on deposit was reduced by interfund borrowing with the General Fund. All interfund balances are expected to be paid within one year.

**Advances to/from other funds:**

	<u>Wastewater</u>	<u>Sanitation</u>	Total Advances to <u>Other Funds</u>
General Fund	\$ 279,910	\$ 342,706	\$ 622,616

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 \$35,000 from the General Fund to the Highway User Revenue Fund were used to move cash balances for additional sidewalks and roadway improvements. Transfers of \$12,923 from the General Fund to the Community Development Block Grant Fund were to close out prior years' grant balances.

**NOTE 12 – CONTINGENT LIABILITIES**

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

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



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 13 – PRIOR PERIOD ADJUSTMENTS**

The July 1, 2017, government-wide and proprietary net position, as well as the General Fund and Highway User Revenue Fund fund balances do not agree to the prior year financial statements due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principle, and due to reallocations of the existing capital lease obligation, and to correct other errors.

	Governmental	Governmental Activities	
	Activities	General Fund	Highway User Revenue Fund
Net position/fund balance,			
June 30, 2017, as previously reported	\$ 2,371,872	\$ 1,537,712	\$ (180,170)
Capital lease reallocation	(29,144)		
Error corrections	(1,468)	(3,388)	1,920
Net OPEB asset	52,421		
Net OPEB liability	(917)		
Net position/fund balance, July 1, 2017,			
as restated	<u>\$ 2,392,764</u>	<u>\$ 1,534,324</u>	<u>\$ (178,250)</u>

	Business-type	Enterprise Funds		
	Activities	Wastewater Fund	Water Fund	Sanitation Fund
Net position/fund balance,				
June 30, 2017, as previously reported	\$ 1,784,991	\$ 517,592	\$ 1,601,438	\$ (334,039)
Capital lease reallocation	29,144	26,039	3,105	
Error corrections	1,469		1,469	
Net OPEB asset	522	182	332	8
Net OPEB liability	(463)	(162)	(294)	(7)
Net position/fund balance, July 1, 2017,				
as restated	<u>\$ 1,815,663</u>	<u>\$ 543,651</u>	<u>\$ 1,606,050</u>	<u>\$ (334,038)</u>

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 14 – RISK MANAGEMENT**

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

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

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

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

**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

**Aggregate Amounts.** At June 30, 2018, the City reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes.

	Governmental Activities	Business-type Activities	Total
Net pension and OPEB assets	\$ 732,964	\$ 1,141	\$ 734,105
Net pension and OPEB liability	625,325	334,959	960,284
Deferred outflows of resources	138,313	49,289	187,602
Deferred inflows of resources	110,607	31,945	142,552
Pension and OPEB expense	(69,918)	20,484	(49,434)

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The City reported \$65,776 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

**A. Arizona State Retirement System**

**Plan Description.** City employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at [www.azasrs.gov](http://www.azasrs.gov).

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

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

Retired and disabled members, with at least five years of credited service, are eligible to receive health insurance premium benefits. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with five to nine years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a long-term disability benefit in the event they become unable to perform their work. The monthly benefit is equal to two-thirds of their monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999 are limited to 30 years of service or the service on record as of the effective disability date, if their service is greater than 30 years.

**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 11.50 percent (11.34 percent for retirement and 0.16 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 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll. The City's contributions for the year ended June 30, 2018 were as follows:

	<u>Contributions</u>
Pension	\$ 63,835
Health Insurance Premium	2,577
Long-Term Disability	937

Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. The City was required by statute to contribute at the actuarially determined rate of 9.49 percent (9.26 for retirement, 0.10 percent for health insurance premium benefit, and 0.13 percent for long-term disability). ACR contributions are included in employer contributions presented above.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

**Pension and OPEB Assets/Liability.** The net pension and OPEB assets/liability were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The City's proportion of the net asset/liability was based on the City's actual contributions to the applicable plan relative to the total of all participating employers' contributions to the plan for the year ended June 30, 2017.

At June 30, 2018, the City reported the following amounts for its proportionate share of the ASRS plans net assets/liability. In addition, at June 30, 2017, the City's percentage proportion for each plan and the related change from its proportion measured as of June 30, 2016 was:

	Net (Assets) Liability	City % Proportion	Increase (Decrease)
Pension	\$ 958,048	0.006	0.000
Health Insurance Premium	(3,397)	0.006	
Long-Term Disability	2,236	0.006	

**Pension/OPEB Expense and Deferred Outflows/Inflows of Resources.** The City has deferred outflows and inflows of resources related to the net pension and OPEB assets/liability. Certain changes in the net pension and OPEB assets/liability are recognized as pension and OPEB expense over a period of time rather than the year of occurrence. For the year ended June 30, 2018, the City recognized pension and OPEB expense as follows:

	Expense
Pension	\$ 57,837
Health Insurance Premium	1,986
Long-Term Disability	1,193

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

Deferred Outflows of Resources			
	Pension	Health Insurance Premium	Long-Term Disability
Differences between expected and actual experience	\$	\$	\$
Changes of assumptions or other inputs	41,611		
Net difference between projected and actual earnings on pension investments	6,878		
Changes in proportion and differences between contributions and proportionate share of contributions	30,984		
Contributions subsequent to the measurement date	63,835	2,577	937
Total	<u>\$ 143,308</u>	<u>\$ 2,577</u>	<u>\$ 937</u>

  

Deferred Inflows of Resources			
	Pension	Health Insurance Premium	Long-Term Disability
Differences between expected and actual experience	\$ 28,728	\$	\$
Changes of assumptions or other inputs	28,647		
Net difference between projected and actual earnings on pension investments		3,825	335
Changes in proportion and differences between contributions and proportionate share of contributions	33,619	4	
Total	<u>\$ 90,994</u>	<u>\$ 3,829</u>	<u>\$ 335</u>

**CITY OF TOMBSTONE, ARIZONA**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension and OPEB assets/liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension and OPEB expense as follows:

Year Ending June 30:	Pension	Health Insurance Premium	Long-Term Disability
2019	\$ (27,228)	\$ (958)	\$ (84)
2020	29,060	(958)	(84)
2021	8,686	(956)	(84)
2022	(22,038)	(956)	(84)

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

	Pension	OPEB
Actuarial valuation date	June 30, 2016	June 30, 2016
Actuarial roll forward date	June 30, 2017	June 30, 2017
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	8.0%	8.0%
Projected salary increases	3.0-6.75%	Not applicable
Inflation	3.0%	3.0%
Permanent base increases	Included	Not applicable
Mortality rates	1994 GAM Scale BB	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable	Not applicable

The actuarial assumptions used in the June 30, 2016 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.

**CITY OF TOMBSTONE, ARIZONA**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The long-term expected rate of return on ASRS plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	6.73%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.84
Total	<u>100%</u>	

**Discount Rate.** The discount rate used to measure the ASRS total pension and OPEB liability was 8.0 percent, which is less than the long-term expected rate of return of 8.70 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 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 investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

	Proportionate share of the net (assets) liability		
	1% Decrease	Current Discount Rate	1% Increase
Rate	7.0%	8.0%	9.0%
Pension	\$ 1,229,674	\$ 958,050	\$ 731,085
Health Insurance Premium	5,642	(3,397)	(11,078)
Long-Term Disability	2,674	2,236	1,865

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

**B. Public Safety Personnel Retirement System**

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

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

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Benefits Provided.** The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement, disability, and survivor 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:	
	Tier 1	Tier 2
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Normal retirement	50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5 % to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Survivor benefit: Retired members	80% to 100% 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	

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents.

**Employees Covered by Benefit Terms.** At June 30, 2018, the following employees were covered by the agent plan's benefit terms:

	PSPRS - Police	
	Pension	Health Insurance
Retirees and beneficiaries	\$	\$
Inactive, non-retired members	4	
Active members	6	6
Total	<u>\$ 10</u>	<u>\$ 6</u>

**Contributions.** State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS - Police
Active members – pension	7.65%
City	
Pension	9.30%
Health insurance	0.00%

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

	<u>Contributions</u>
	<u>PSPRS - Police</u>
Pension	\$ 21,036
Health insurance	0

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

**Pension and OPEB Assets/Liability.** At June 30, 2018, the City reported the following assets and liabilities.

	<u>Net (Assets) Liability</u>
	<u>PSPRS - Police</u>
Pension	\$ (676,274)
Health insurance	(54,434)

The net pension and OPEB assets/liability were measured as of June 30, 2017. The total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liability as of June 30, 2017, reflects changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4.0 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

	Pension	OPEB
Actuarial valuation date	June 30, 2017	June 30, 2017
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.4%	7.4%
Projected salary increases	3.5%	Not applicable
Inflation	2.5%	Not applicable
Permanent benefit increase	Included	Not applicable
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.40 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short-term investments	2%	0.25%
Absolute return	2	3.75
Risk parity	4	5.00
Fixed income	5	1.25
Real assets	9	4.52
GTAA	10	3.96
Private credit	12	6.75
Real estate	10	3.75
Credit opportunities	16	5.83
Non-U.S. equity	14	8.70
U.S. equity	16	7.60
Total	<u>100%</u>	

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

	Pension			Health Insurance		
	Increase (Decrease)			Increase (Decrease)		
	Total (Assets) Liability	Plan Fiduciary Net Position	Net (Assets) Liability	Total (Assets) Liability	Plan Fiduciary Net Position	Net (Assets) Liability
<b>PSPRS - Police</b>						
Balances at June 30, 2017	\$ 240,687	\$ 838,262	\$ (597,575)	\$ 1,057	\$ 52,446	\$ (51,389)
Changes for the year:						
Service cost	49,315		49,315	964		964
Interest on the total liability	19,211		19,211	115		115
Changes of benefit terms	1,075		1,075	1,088		1,088
Differences between expected and actual experience in the measurement of the liability	5,194		5,194	1,241		1,241
Changes of assumptions or other inputs	(1,990)		(1,990)	(329)		(329)
Contributions – employer		13,386	(13,386)			
Contributions – employee		31,190	(31,190)			
Net investment income		100,201	(100,201)		6,178	(6,178)
Benefit payments, including refunds of employee contributions	(18,395)	(18,395)				
Administrative expense		(1,287)	1,287		(54)	54
Other changes		8,014	(8,014)			
Net changes	54,410	133,109	(78,699)	3,079	6,124	(3,045)
Balances at June 30, 2018	<u>\$ 295,097</u>	<u>\$ 971,371</u>	<u>\$ (676,274)</u>	<u>\$ 4,136</u>	<u>\$ 58,570</u>	<u>\$ (54,434)</u>

**Discount Rate.** At June 30, 2017, the discount rate used to measure the total pension and OPEB liability was 7.4 percent, which was a decrease of 0.1 percent from the discount rate used as of June 30, 2016.

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 rate and the member rate. Based on those assumptions, the 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 plan investments was applied to all periods of projected benefit payments for these plans to determine the total pension and OPEB liability.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<b>PSPRS - Police:</b>			
Rate	6.40%	7.40%	8.40%
Net pension (assets) liability	\$ (646,754)	\$ (676,274)	\$ (698,348)
Net OPEB (assets) liability	(53,532)	(54,434)	(55,171)

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

**Expense.** For the year ended June 30, 2018, the City recognized the following as pension and OPEB expense:

	<u>Expense</u>
	<u>PSPRS - Police</u>
Pension	\$ (108,354)
Health insurance	(2,096)

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Deferred Outflows/Inflows of Resources.** At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>PSPRS - Police:</b>				
Differences between expected and actual experience	\$ 4,427	\$ 43,593	\$ 1,156	\$
Changes of assumptions or other inputs	985	1,696		307
Net difference between projected and actual earnings on plan investments	13,176			1,798
Contributions subsequent to the measurement date	21,036			
Total	<u>\$ 39,624</u>	<u>\$ 45,289</u>	<u>\$ 1,156</u>	<u>\$ 2,105</u>

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension and OPEB assets/liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension and OPEB expense as follows:

Year Ending June 30:	PSPRS - Police	
	Pension	Health Insurance
2019	(37,804)	(386)
2020	11,532	(386)
2021	5,480	(386)
2022	(6,748)	(388)
2023	473	63
Thereafter	366	534



**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

**Defined Contribution Plan.** The Volunteer Firefighters' Relief and Pension Fund (VFRPF) is a defined contribution plan to provide pensions to volunteer firefighters only. State statute requires that both the employee and the City make contributions equal to five percent of the employees' compensation. Some monies are also received from the state. After a volunteer firefighter has 25 years of service, he or she is entitled to a monthly pension, the amount of which is determined by the board of trustees of the VFRPF, not to exceed \$400. Voluntary and involuntary separation from employment entitles the employee (or beneficiary) to all previous deductions from his or her salary plus interest at a rate determined by the Board of Trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service. The payroll for employees covered by VFRPF for the year ended June 30, 2018, was \$52,656. Contributions made for the year ended June 30, 2018, were \$5,266, which consisted of \$2,633 from employees and \$2,633 from the City.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL**  
**YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Non-GAAP Actual	Variance with Final Budget Positive (Negative)
	Original & Final			
<b>Revenues:</b>				
Property taxes	\$ 126,100	\$	123,238	\$ (2,862)
City sales taxes	996,000		1,201,993	205,993
Franchise taxes	57,000		54,598	(2,402)
Licenses and permits	54,000		50,836	(3,164)
Intergovernmental	389,767		383,184	(6,583)
Charges for services	81,200		85,714	4,514
Fines and forfeits	32,000		40,442	8,442
Investment income	2,750		10,008	7,258
Contributions and donations	5,000		136,893	131,893
Miscellaneous	32,500		113,723	81,223
<b>Total revenues</b>	<u>1,776,317</u>		<u>2,200,629</u>	<u>424,312</u>
<b>Expenditures:</b>				
Current -				
General government	688,518		692,215	(3,697)
Public safety	819,031		829,884	(10,853)
Culture and recreation	191,354		173,712	17,642
Health and welfare	101,764		70,475	31,289
Capital outlay	11,500		153,658	(142,158)
Debt service -				
Principal retirement	58,900		59,833	(933)
Interest and fiscal charges	7,250		5,662	1,588
<b>Total expenditures</b>	<u>1,878,317</u>		<u>1,985,439</u>	<u>(107,122)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(102,000)</u>		<u>215,190</u>	<u>317,190</u>
<b>Other financing sources (uses):</b>				
Transfer in	102,000		62,000	(40,000)
Transfer out			(12,923)	(12,923)
<b>Total other financing sources (uses)</b>	<u>102,000</u>		<u>49,077</u>	<u>(52,923)</u>
<b>Changes in fund balances</b>			<u>264,267</u>	<u>264,267</u>
<b>Fund balances, beginning of year</b>			1,333,359	1,333,359
<b>Fund balances, end of year</b>	<u>\$</u>		<u>\$ 1,597,626</u>	<u>\$ 1,597,626</u>

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**HIGHWAY USER REVENUE FUND**  
**YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original &amp; Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>			
Intergovernmental	\$ 106,769	\$ 123,227	\$ 16,458
<b>Total revenues</b>	<u>106,769</u>	<u>123,227</u>	<u>16,458</u>
<b>Expenditures:</b>			
Current -			
Highway and streets	105,869	138,406	(32,537)
Capital outlay	10,000		10,000
Debt service -			
Principal retirement	18,600	21,056	(2,456)
Interest and fiscal charges	2,300	1,992	308
<b>Total expenditures</b>	<u>136,769</u>	<u>161,454</u>	<u>(24,685)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(30,000)</u>	<u>(38,227)</u>	<u>(8,227)</u>
<b>Other financing sources (uses):</b>			
Transfer in	30,000	35,000	5,000
<b>Total other financing sources (uses)</b>	<u>30,000</u>	<u>35,000</u>	<u>5,000</u>
<b>Changes in fund balances</b>	<u></u>	<u>(3,227)</u>	<u>(3,227)</u>
<b>Fund balances (deficits), beginning of year, as restated</b>		(178,250)	(178,250)
<b>Fund balances (deficits), end of year</b>	<u><u>\$</u></u>	<u><u>\$ (181,477)</u></u>	<u><u>\$ (181,477)</u></u>

See accompanying notes to this schedule.

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

	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
City's proportion of the net pension (assets) liability	0.01%	0.01%	0.01%	0.01%
City's proportionate share of the net pension (assets) liability	\$ 958,048	\$ 1,041,095	\$ 936,903	\$ 831,166
City's covered payroll	\$ 592,375	\$ 593,548	\$ 563,214	\$ 754,551
City's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	161.73%	175.40%	166.35%	110.15%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%

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

**See accompanying notes to this schedule.**

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

	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
<b>Arizona State Retirement System:</b>				
Actuarially determined contribution	\$ 63,835	\$ 63,858	\$ 64,400	\$ 61,344
Contributions in relation to the actuarially determined contribution	<u>63,835</u>	<u>63,858</u>	<u>64,400</u>	<u>61,344</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 585,642	\$ 592,375	\$ 593,548	\$ 563,214
Contributions as a percentage of covered payroll	10.90%	10.78%	10.85%	10.89%
 <b>Public Safety Personnel Retirement System - Police:</b>				
Actuarially determined contribution	\$ 21,036	\$ 13,365	\$ 16,328	\$ 10,675
Contributions in relation to the actuarially determined contribution	<u>21,036</u>	<u>13,365</u>	<u>16,328</u>	<u>10,675</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's covered payroll	\$ 226,194	\$ 267,300	\$ 226,150	\$ 121,307
Contributions as a percentage of covered payroll	9.30%	5.00%	7.22%	8.80%

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

See accompanying notes to this schedule.

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

	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total pension liability</b>				
Service cost	\$ 49,315	\$ 37,106	\$ 19,439	\$ 30,962
Interest	19,211	23,001	25,324	31,998
Changes of benefit terms	1,075	4,697		(367)
Differences between expected and actual experience	5,194	(101,482)	(83,185)	(114,176)
Changes of assumptions or other inputs	(1,990)	2,913		3,736
Benefit payments, including refunds of employee contributions	(18,395)			(62,834)
<b>Net change in total pension liability</b>	54,410	(33,765)	(38,422)	(110,681)
<b>Total pension liability—beginning</b>	240,687	274,452	312,874	423,555
<b>Total pension liability—ending</b>	<u>\$ 295,097</u>	<u>\$ 240,687</u>	<u>\$ 274,452</u>	<u>\$ 312,874</u>
<b>Plan fiduciary net position</b>				
Contributions—employer	\$ 13,386	\$ 16,328	\$ 10,686	\$ 13,826
Contributions—employee	31,190	26,346	13,419	15,048
Net investment income	100,201	4,722	29,457	98,582
Benefit payments, including refunds of employee contributions	(18,395)			(62,834)
Administrative expense	(1,287)	(1,079)	(1,095)	(794)
Other	8,014	(52,074)	(662)	
<b>Net change in plan fiduciary net position</b>	133,109	(5,757)	51,805	63,828
<b>Plan fiduciary net position—beginning</b>	838,262	844,019	792,214	728,386
<b>Plan fiduciary net position—ending</b>	<u>\$ 971,371</u>	<u>\$ 838,262</u>	<u>\$ 844,019</u>	<u>\$ 792,214</u>
<b>Net pension (assets) liability—ending</b>	<u>\$ (676,274)</u>	<u>\$ (597,575)</u>	<u>\$ (569,567)</u>	<u>\$ (479,340)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	329.17%	348.28%	307.53%	253.21%
<b>Covered payroll</b>	\$ 267,300	\$ 226,150	\$ 121,307	\$ 209,144
<b>Net pension (assets) liability as a percentage of covered payroll</b>	-253.00%	-264.24%	-469.53%	-229.19%

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

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**ARIZONA STATE RETIREMENT SYSTEM - HEALTH INSURANCE PREMIUM**  
**JUNE 30, 2018**

**2018**

Measurement date	June 30, 2017
City's proportion of the net OPEB (assets) liability	0.01%
City's proportionate share of the net OPEB (assets) liability	\$ (3,397)
City's covered payroll	\$ 592,375
City's proportionate share of the net OPEB (assets) liability as a percentage of its covered payroll	-0.57%
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%

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

See accompanying notes to this schedule.



**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**ARIZONA STATE RETIREMENT SYSTEM - LONG-TERM DISABILITY**  
**JUNE 30, 2018**

**2018**

Measurement date	June 30, 2017
City's proportion of the net OPEB (assets) liability	0.01%
City's proportionate share of the net OPEB (assets) liability	\$ 2,236
City's covered payroll	\$ 592,375
City's proportionate share of the net OPEB (assets) liability as a percentage of its covered payroll	0.38%
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%

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

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF OPEB CONTRIBUTIONS  
ALL OPEB PLANS  
JUNE 30, 2018**

**2018**

**Arizona State Retirement System - Health Insurance Premium:**

Actuarially determined contribution	\$ 2,577
Contributions in relation to the actuarially determined contribution	<u>2,577</u>
Contribution deficiency (excess)	<u>\$</u>
City's covered payroll	\$ 585,642
Contributions as a percentage of covered payroll	0.44%

**Arizona State Retirement System - Long-Term Disability:**

Actuarially determined contribution	\$ 937
Contributions in relation to the actuarially determined contribution	<u>937</u>
Contribution deficiency (excess)	<u>\$</u>
City's covered payroll	\$ 585,642
Contributions as a percentage of covered payroll	0.16%

**Public Safety Personnel Retirement System - Police - Health Insurance Premium:**

Actuarially determined contribution	\$
Contributions in relation to the actuarially determined contribution	<u></u>
Contribution deficiency (excess)	<u>\$</u>
City's covered payroll	\$ 226,194
Contributions as a percentage of covered payroll	0.00%

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

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**  
**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - POLICE - HEALTH INSURANCE PREMIUM**  
**JUNE 30, 2018**

**2018**

Measurement date June 30, 2017

**Total OPEB liability**

Service cost	\$ 964
Interest	115
Changes of benefit terms	1,088
Differences between expected and actual experience	1,241
Changes of assumptions or other inputs	(329)
Benefit payments	<u>3,079</u>
<b>Net change in total OPEB liability</b>	<u>1,057</u>
<b>Total OPEB liability—beginning</b>	<u>4,136</u>
<b>Total OPEB liability—ending</b>	<u><u>\$ 4,136</u></u>

**Plan fiduciary net position**

Contributions—employer	\$
Contributions—employee	
Net investment income	6,178
Benefit payments	
Administrative expense	(54)
Other	
<b>Net change in plan fiduciary net position</b>	<u>6,124</u>
<b>Plan fiduciary net position—beginning</b>	<u>52,446</u>
<b>Plan fiduciary net position—ending</b>	<u><u>\$ 58,570</u></u>

**Net OPEB (assets) liability—ending** \$ (54,434)

**Plan fiduciary net position as a percentage of the total OPEB liability** 1416.10%

**Covered payroll** \$ 267,300

**Net OPEB (assets) liability as a percentage of covered payroll** -20.36%

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

See accompanying notes to this schedule.

**CITY OF TOMBSTONE, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

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

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

	<u>Total Expenditures</u>	<u>Fund Balances End of Year</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 2,161,717	\$ 1,815,020
Activity budgeted as special revenue funds	<u>(176,278)</u>	<u>(217,394)</u>
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	<u>\$ 1,985,439</u>	<u>\$ 1,597,626</u>

**NOTE 2 – PENSION AND OPEB 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, 2016, 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, 2017, valuation for PSPRS were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. 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, 2017, reflects changes of benefit terms and actuarial assumptions for funding permanent benefit increases.

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## **SUPPLEMENTARY INFORMATION**

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## **GOVERNMENTAL FUNDS**



**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	Fire Truck Fund		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$	\$	\$
Charges for services	30,000	17,115	(12,885)
Contributions and donations			
<b>Total revenues</b>	<u>30,000</u>	<u>17,115</u>	<u>(12,885)</u>
<b>Expenditures:</b>			
Current -			
General government	5,000		5,000
Culture and recreation			
Redevelopment and housing			
Capital outlay	25,000	4,160	20,840
<b>Total expenditures</b>	<u>30,000</u>	<u>4,160</u>	<u>25,840</u>
<b>Excess (deficiency) of revenues over expenditures</b>		<u>12,955</u>	<u>12,955</u>
<b>Other financing sources (uses):</b>			
Transfer in			
Transfer out			
<b>Total other financing sources (uses)</b>			
<b>Changes in fund balances</b>		<u>12,955</u>	<u>12,955</u>
<b>Fund balances (deficits), beginning of year</b>		72,587	72,587
<b>Fund balances (deficits), end of year</b>	<u>\$</u>	<u>\$ 85,542</u>	<u>\$ 85,542</u>

Community Development Block Grant			Grant Opportunity Fund		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 250,000	\$ 21,311	\$ (228,689)	\$ 1,000,000	\$ 15,327	\$ (984,673)
<u>250,000</u>	<u>21,311</u>	<u>(228,689)</u>	<u>1,000,000</u>	<u>15,327</u>	<u>(984,673)</u>
				3,752	(3,752)
250,000	8,628	241,372	1,000,000	34,038	965,962
<u>250,000</u>	<u>8,628</u>	<u>241,372</u>	<u>1,000,000</u>	<u>37,790</u>	<u>962,210</u>
	<u>12,683</u>	<u>12,683</u>		<u>(22,463)</u>	<u>(22,463)</u>
	12,923	12,923			
	<u>12,923</u>	<u>12,923</u>			
	25,606	25,606		(22,463)	(22,463)
	(25,211)	(25,211)		23,711	23,711
<u>\$</u>	<u>\$ 395</u>	<u>\$ 395</u>	<u>\$</u>	<u>\$ 1,248</u>	<u>\$ 1,248</u>

(Continued)

**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	Boothill Sales		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$	\$	\$
Charges for services			
Contributions and donations			
<b>Total revenues</b>			
<b>Expenditures:</b>			
Current -			
General government			
Culture and recreation			
Redevelopment and housing			
Capital outlay			
<b>Total expenditures</b>			
<b>Excess (deficiency) of revenues over expenditures</b>			
<b>Other financing sources (uses):</b>			
Transfer in			
Transfer out			
<b>Total other financing sources (uses)</b>			
<b>Changes in fund balances</b>			
<b>Fund balances (deficits), beginning of year</b>		(97,073)	(97,073)
<b>Fund balances (deficits), end of year</b>	\$	\$ (97,073)	\$ (97,073)

Boothill Donations			Archives		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
220,000	272,592	52,592			
220,000	272,592	52,592			
128,000	172,118	(44,118)			
128,000	172,118	(44,118)			
92,000	100,474	8,474			
(92,000)	(97,000)	(5,000)			
(92,000)	(97,000)	(5,000)			
	3,474	3,474			
	320,780	320,780		(95,329)	(95,329)
\$	\$ 324,254	\$ 324,254	\$	\$ (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, 2018**

	Totals		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$ 1,250,000	\$ 36,638	\$ (1,213,362)
Charges for services	30,000	17,115	(12,885)
Contributions and donations	220,000	272,592	52,592
<b>Total revenues</b>	<u>1,500,000</u>	<u>326,345</u>	<u>(1,173,655)</u>
<b>Expenditures:</b>			
Current -			
General government	5,000	3,752	1,248
Culture and recreation	128,000	172,118	(44,118)
Redevelopment and housing	250,000	8,628	241,372
Capital outlay	1,025,000	38,198	986,802
<b>Total expenditures</b>	<u>1,408,000</u>	<u>222,696</u>	<u>1,185,304</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>92,000</u>	<u>103,649</u>	<u>11,649</u>
<b>Other financing sources (uses):</b>			
Transfer in		12,923	12,923
Transfer out	(92,000)	(97,000)	(5,000)
<b>Total other financing sources (uses)</b>	<u>(92,000)</u>	<u>(84,077)</u>	<u>7,923</u>
<b>Changes in fund balances</b>		<u>19,572</u>	<u>19,572</u>
<b>Fund balances (deficits), beginning of year</b>		199,465	199,465
<b>Fund balances (deficits), end of year</b>	<u>\$</u>	<u>\$ 219,037</u>	<u>\$ 219,037</u>

**CITY OF TOMBSTONE, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**NON-MAJOR DEBT SERVICE FUND**  
**YEAR ENDED JUNE 30, 2018**

	Debt Service		
	Budget	Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Property taxes	\$ (119,120)	\$ 118,909	\$ 238,029
<b>Total revenues</b>	<u>(119,120)</u>	<u>118,909</u>	<u>238,029</u>
<b>Expenditures:</b>			
Debt service -			
Principal retirement	100,000	100,000	
Interest and fiscal charges	19,120	16,729	2,391
<b>Total expenditures</b>	<u>119,120</u>	<u>116,729</u>	<u>2,391</u>
<b>Changes in fund balances</b>	<u>(238,240)</u>	<u>2,180</u>	<u>240,420</u>
<b>Fund balances, beginning of year</b>		11,535	11,535
<b>Fund balances (deficits), end of year</b>	<u>\$ (238,240)</u>	<u>\$ 13,715</u>	<u>\$ 251,955</u>

**CITY OF TOMBSTONE, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**ALL CAPITAL PROJECTS FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	Building Renovation		
	Budget	Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Intergovernmental	\$ 300,000	\$ 113,127	\$ (186,873)
Contributions and donations	50,000		(50,000)
<b>Total revenues</b>	<u>350,000</u>	<u>113,127</u>	<u>(236,873)</u>
<b>Expenditures:</b>			
Capital outlay	350,000	248,258	101,742
<b>Total expenditures</b>	<u>350,000</u>	<u>248,258</u>	<u>101,742</u>
<b>Changes in fund balances</b>		(135,131)	(135,131)
<b>Fund balances, beginning of year</b>		7,465	7,465
<b>Fund balances (deficits), end of year</b>	<u>\$</u>	<u>\$ (127,666)</u>	<u>\$ (127,666)</u>

Capital Projects			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 300,000	\$ 113,127	\$ (186,873)
			50,000		(50,000)
			350,000	113,127	(236,873)
850,000		850,000	1,200,000	248,258	951,742
850,000		850,000	1,200,000	248,258	951,742
(850,000)		850,000	(850,000)	(135,131)	714,869
				7,465	7,465
\$ (850,000)	\$	\$ 850,000	\$ (850,000)	\$ (127,666)	\$ 722,334



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**REPORT ON INTERNAL CONTROL  
AND ON COMPLIANCE**

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Tombstone, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Tombstone, Arizona's basic financial statements, and have issued our report thereon dated April 22, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 75.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item FS-2018-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item FS-2018-002, to be a significant deficiency.

#### Compliance and Other Matters

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

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

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

#### Purpose of this Report

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

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

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
April 22, 2019

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2018**

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

**Finding Number:** FS-2018-001

**Repeat Finding:** Yes, FS-2017-001

**Type of Finding:** Material Weakness

**Description:** Internal Controls Over Capital Assets

**CRITERIA**

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

**CONDITION**

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

**CAUSE**

Limited staff size and resources.

**EFFECT**

The City's internal controls over capital assets were not adequate to ensure that a misstatement in capital assets would be prevented and/or detected. Additionally, auditors noted several errors in the initial capital asset schedules that required management corrections, including the omission of capital equipment items valued at approximately \$407,000.

**CONTEXT**

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

**RECOMMENDATION**

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

- The creation of an asset listing by category that specifies the required asset details that must be entered into the asset tracking system.
- The periodic maintenance of the asset schedules through timely updates for additions, deletions, impairments, and transfers.
- Procedures for the identification/communication of assets donated to the City, or purchased with direct-to-vendor payments, to ensure the asset schedules are complete.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2018**

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

**Finding Number:** FS-2018-001

**RECOMMENDATION**

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

**VIEWS OF RESPONSIBLE OFFICIALS**

Procedures will be implemented in fiscal year 2019 that will involve other City staff in capturing, recording, and identifying capital assets.

**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2018**

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

**Finding Number:** FS-2018-002

**Repeat Finding:** Yes, FS-2017-002

**Type of Finding:** Significant Deficiency

**Description:** Internal Controls Over Purchasing

**CRITERIA**

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

**CONDITION**

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

**CAUSE**

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

**EFFECT**

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

**CONTEXT**

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

- For three of 40 disbursements reviewed, no purchase order was prepared.
- For 15 of 40 disbursements reviewed, it could not be determined if the purchase order was prepared and approved before purchase and receipt of goods or services as there were no dates or approval signatures.
- For 17 of 40 disbursements reviewed, the expenditure exceeded the authorized amount on the purchase order, or the purchase order did not include an authorized amount.
- For eight of 40 disbursements reviewed, unable to agree description and quantity on receiving report to an approved purchase order, as either no purchase order existed or the receiving report description did not agree with the purchase order description.
- For two of 40 disbursements reviewed, an invoice was not provided to support the purchase.



**CITY OF TOMBSTONE, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2018**

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

**Finding Number:** FS-2018-002

**CONTEXT**

- For one of 40 disbursements reviewed, coding assigned to the purchase was not appropriate based on the City's chart of accounts.
- For three of six credit card transactions reviewed, the employee making the purchase was either not clearly identified by evidence of a control log or on an attached receipt/statement, or no receipt was on file for the credit card purchase.
- For five of six credit card disbursements reviewed that required purchase orders, the purchase order either did not include an authorized dollar amount, or the purchase order date or limit was exceeded by the purchase.
- The City does not consistently adhere to its procurement policy which requires quotes and formal bids at specified spending levels.

**RECOMMENDATION**

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

**VIEWS OF RESPONSIBLE OFFICIALS**

Changes in personnel, assigned responsibilities, and implementation of a new purchase order system will remedy these findings.