

**CITY OF SOUTH TUCSON, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FISCAL YEAR ENDED JUNE 30, 2010**

CITY OF SOUTH TUCSON, ARIZONA

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**CITY OF SOUTH TUCSON, ARIZONA
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of South Tucson, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2011, on our consideration of the City of South Tucson, Arizona 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 and budgetary comparison information on pages 50 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

March 10, 2011

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

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**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

As management of the City of South Tucson, 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, 2010.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2009-10 as follows.

- The City's total net assets of governmental activities increased \$1.5 million to \$25.9 million representing a 6 percent increase over the prior year.
- General revenues from governmental activities accounted for \$3.3 million in revenue, or 33 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6.7 million or 67 percent of total governmental activities revenues.
- The City had \$8.4 million in expenses related to governmental activities, a decrease of 9 percent from the prior fiscal year.
- Among major funds, the General Fund had \$4.1 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues. The total expenditures of the General Fund were \$4.2 million. The General Fund's fund balance decreased from a deficit of \$28,012 to a deficit of \$546,064 primarily due to a decrease in city sales tax and intergovernmental revenues.
- The Housing Fund had \$2.0 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were \$1.8 million. The Housing Fund reported a fund balance increase of \$66,595.
- The Regional Transportation Authority Fund had \$515,579 in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Regional Transportation Authority Fund were \$836,951. The Regional Transportation Fund's fund balance decrease from a deficit of \$10,558 to a deficit of \$331,930 was primarily due to payments to the City of Tucson for transit services.
- To address the fund deficits of the General Fund and the Regional Transportation Fund the City plans to implement the following solutions:
 - Across-the-board departmental expenditure cuts of 10%
 - Fee schedule adjustments in business license fees, building permit fees and special services fees
 - Outsourcing garbage services
 - Sale of City equipment and assets
 - Continued negotiations with Pima County on jail services

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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).

The government-wide financial statements outline functions of the City that are principally supported by sales taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, highways and streets, culture and recreation, redevelopment and housing, and economic development.

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 two categories: governmental funds and fiduciary funds.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

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 use the modified accrual basis of accounting and 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.

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, Housing, Local Transportation Assistance, and Regional Transportation Authority 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 schedules.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. 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 fiduciary funds financial statements are reported on the accrual basis of accounting, but due to their custodial nature, the fiduciary funds do not have a measurement focus.

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

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

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$25.9 million at the current fiscal year end.

The largest portion of the City's net assets (95 percent) reflects its investment in capital assets (e.g., land, land improvements; buildings and improvements; infrastructure; machinery, equipment, and vehicles; and construction in progress), less any related debt used to acquire those assets that is still outstanding. 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 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.

The following table presents a summary of the City's net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 3,586,517	\$ 4,965,221
Capital assets, net	31,878,919	30,581,700
Total assets, net	<u>35,465,436</u>	<u>35,546,921</u>
Current liabilities	1,355,334	1,346,097
Long-term liabilities	8,175,341	9,809,088
Total liabilities	<u>9,530,675</u>	<u>11,155,185</u>
Invested in capital assets, net of related debt	24,743,237	22,321,628
Restricted	1,246,225	653,594
Unrestricted	(54,701)	1,416,514
Total net assets	<u>\$ 25,934,761</u>	<u>\$ 24,391,736</u>

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition of capital assets, and the depreciation of capital assets. The addition of \$2.4 million in governmental activities capital assets is a significant current year transaction that had an impact on the Statement of Net Assets.

The City also retired \$1.3 million of long-term liabilities, the most significant portion of which was a payment for other commitments for transportation activities. The decrease in other commitments was primarily due to the City of Tucson adjustment of \$894,792 of the commitment.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The City's total revenues for the current fiscal year were \$9.9 million. The total cost of all programs and services was \$8.4 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

	<u>Fiscal Year Ended June 30, 2010</u>	<u>Fiscal Year Ended June 30, 2009</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,627,767	\$ 1,339,499
Operating grants and contributions	3,437,942	3,914,564
Capital grants and contributions	1,619,250	3,181,790
General revenues:		
Property taxes	46,922	45,890
City sales tax	1,741,531	2,007,709
State shared revenues	1,359,798	1,547,428
Investment income	80,498	96,006
Miscellaneous	28,569	178,245
Total revenues	<u>9,942,277</u>	<u>12,311,131</u>
Expenses:		
General government	2,080,172	1,790,898
Public safety	2,584,847	2,702,122
Highways and streets	789,289	1,854,255
Culture and recreation	114,064	98,480
Redevelopment and housing	2,186,777	2,148,012
Economic development	101,146	61,084
Interest on long-term debt	542,957	536,212
Total expenses	<u>8,399,252</u>	<u>9,191,063</u>
Change in net assets	<u>\$ 1,543,025</u>	<u>\$ 3,120,068</u>

- Total governmental activities revenues decreased \$2.4 million, or 19 percent, primarily as a result of a decrease in capital grant funding in the Revitalization Projects Fund, and decreases in city sales tax collections and state shared revenues.
- Total governmental activities expenses decreased \$791,811, or 9 percent, primarily as a result of a decrease in expenses for street maintenance projects.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

Governmental activities. The following table presents the cost of the City's functional activities. The table also shows each function's net cost (total cost less changes 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.

	2010		2009	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 2,080,172	\$(1,593,902)	\$ 1,790,898	\$ (1,492,118)
Public safety	2,584,847	(1,429,821)	2,702,122	(2,021,068)
Highways and streets	789,289	1,680,758	1,854,255	2,919,266
Culture and recreation	114,064	97,725	98,480	195,578
Redevelopment and housing	2,186,777	55,138	2,148,012	180,744
Economic development	101,146	18,766	61,084	(1,400)
Interest on long-term debt	542,957	(542,957)	536,212	(536,212)
Total	<u>\$ 8,399,252</u>	<u>\$ (1,714,293)</u>	<u>\$ 9,191,063</u>	<u>(755,210)</u>

- Federal and State governments and charges for services subsidized certain governmental programs with revenues of \$6.7 million.
- Net cost of governmental activities of \$1.7 million was financed by general revenues, which are made up of primarily City sales tax and state shared revenues of \$3.1 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$1.0 million, a decrease of \$410,348 or 29 percent from the prior year.

The General Fund is the principal operating fund of the City. The fund balance decreased \$518,052 in the General Fund to a deficit of \$546,064 as of fiscal year end. General Fund revenues decreased \$590,953 as a result of a decrease in city sales tax and intergovernmental revenues. To address the fund deficit of the General Fund the City plans to implement the following solutions:

- Across-the-board departmental expenditure cuts of 10%
- Fee schedule adjustments in business license fees, building permit fees and special services fees
- Outsourcing garbage services
- Sale of City equipment and assets

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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. The significant variances are summarized as follows:

- The unfavorable variance of \$193,705 in city sales taxes was a result of projections under estimating the impact of newly established businesses outside City limits and a slower than normal 2009 holiday season.
- The unfavorable variance of \$278,912 in charges for services was a result of a proposal that would have increased the sanitation service fee but was not approved by the City Council.
- The unfavorable variance of \$237,221 in general governmental expenditures was a result of an unforeseen increase in sanitation costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of year end, the City had invested \$31.9 million in capital assets, net of accumulated depreciation. This amount represents a net increase prior to depreciation of \$2.4 million from the prior fiscal year, primarily due to construction projects for flood control and transportation. Total depreciation expense for the current fiscal year was \$1.1 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2010 and June 30, 2009.

	Governmental Activities	
	2010	2009
Land	\$ 321,673	\$ 321,673
Land improvements	1,706,993	1,706,993
Buildings and improvements	11,694,973	11,471,409
Infrastructure	20,621,338	19,888,396
Furniture, equipment, and vehicles	4,109,349	3,939,068
Construction in progress	8,885,220	7,597,441
Accumulated depreciation	(15,460,627)	(14,343,280)
Total capital assets, net	\$ 31,878,919	\$ 30,581,700

The estimated cost to complete current construction projects is \$286,113.

Additional information on the City's capital assets can be found in Note 5.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)

Debt Administration. At year end, the City had \$7.9 million in long-term debt outstanding. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2010 and June 30, 2009.

	As of <u>June 30, 2010</u>	As of <u>June 30, 2009</u>
Revenue bonds payable	\$ 7,033,316	\$ 7,001,031
Obligations under capital leases	102,366	153,621
Other commitments	<u>773,219</u>	<u>1,481,460</u>
Total	<u>\$ 7,908,901</u>	<u>\$ 8,636,112</u>

Additional information on the City's long-term debt can be found in Notes 6 through 9.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

City management considered many factors in the process of developing the operating budget for the fiscal year 2010-11. The most significant factors affecting the subsequent year's budget are:

- Sanitation service fees to home owner occupied property

General Fund

The budget for the General Fund decreased from \$4.7 million to \$4.3 million. The main reason for this decrease is the result of a cost cutting measure to return the General Fund to a positive fund balance.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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 Finance Department, 1601 South 6th Avenue, South Tucson, Arizona 85713.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 1,147,998
Accounts receivable	428,487
Interest receivable	29,231
Due from governmental entities	1,228,789
Loans receivable	119,198
Inventory	11,390
Prepaid items	17,450
Total current assets	2,982,543
Noncurrent assets:	
Cash and investments - restricted	603,974
Capital assets, non-depreciable	9,206,893
Capital assets, depreciable (net)	22,672,026
Total noncurrent assets	32,482,893
Total assets	35,465,436
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	1,187,851
Accrued payroll and employee benefits	136,226
Compensated absences payable	135,635
Customer deposits	31,257
Capital leases payable	45,471
Other commitments	773,219
Total current liabilities	2,309,659
Noncurrent liabilities:	
Compensated absences	130,805
Capital leases payable	56,895
Revenue bonds payable	7,033,316
Total non-current liabilities	7,221,016
Total liabilities	9,530,675
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	24,743,237
Restricted for:	
Highways and streets	523,053
Other purposes	723,172
Unrestricted	(54,701)
Total net assets	\$ 25,934,761

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

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
General government	\$ 2,080,172	\$ 226,385	\$ 152,090	\$ 107,795	\$ (1,593,902)	
Public safety	2,584,847	290,707	271,008	593,311	(1,429,821)	
Highways and streets	789,289	419,779	1,409,710	640,558	1,680,758	
Culture and recreation	114,064	98,789	113,000		97,725	
Redevelopment and housing	2,186,777	592,107	1,372,222	277,586	55,138	
Economic development	101,146		119,912		18,766	
Interest on long-term debt	542,957				(542,957)	
Total governmental activities	\$ 8,399,252	\$ 1,627,767	\$ 3,437,942	\$ 1,619,250	(1,714,293)	
General revenues:						
Taxes:						
Property taxes, levied for general purposes						46,922
City sales taxes						1,741,531
Unrestricted state shared revenues						1,359,798
Investment income						80,498
Miscellaneous						28,569
Total general revenues						3,257,318
Changes in net assets						1,543,025
Net assets, beginning of year						24,391,736
Net assets, end of year						\$ 25,934,761

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

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FUND FINANCIAL STATEMENTS

**CITY OF SOUTH TUCSON, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General</u>	<u>Housing</u>	<u>LTAf</u>
<u>ASSETS</u>			
Cash and investments	\$	\$ 59,158	\$ 523,053
Cash and investments - restricted	603,974		
Accounts receivable	417,322	11,165	
Interest receivable	29,231		
Due from governmental entities	199,154		
Loans receivable			
Due from other funds		835,382	
Inventory		11,390	
Prepaid items	17,450		
Total assets	<u>\$ 1,267,131</u>	<u>\$ 917,095</u>	<u>\$ 523,053</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 1,170,458	\$	\$
Accrued payroll and employee benefits	136,226		
Due to other funds	391,624		
Customer deposits		31,257	
Deferred revenue	114,887		
Other commitments			
Total liabilities	<u>1,813,195</u>	<u>31,257</u>	
Fund balances (deficits):			
Reserved for inventory		11,390	
Reserved for prepaids	17,450		
Reserved for other purposes			
Unreserved:			
Undesignated	(563,514)	874,448	523,053
Unreserved reported in:			
Special revenue funds			
Capital projects funds			
Total fund balances	<u>(546,064)</u>	<u>885,838</u>	<u>523,053</u>
Total liabilities and fund balances	<u>\$ 1,267,131</u>	<u>\$ 917,095</u>	<u>\$ 523,053</u>

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

Regional Transportation Authority	Non-Major Governmental Funds	Total Governmental Funds
\$ 85,471	\$ 480,316	\$ 1,147,998
		603,974
		428,487
		29,231
417,401	612,234	1,228,789
	119,198	119,198
		835,382
		11,390
		17,450
<u>\$ 502,872</u>	<u>\$ 1,211,748</u>	<u>\$ 4,421,899</u>

\$	\$ 17,393	\$ 1,187,851
		136,226
	443,758	835,382
		31,257
417,401	274,198	806,486
<u>417,401</u>		<u>417,401</u>
<u>834,802</u>	<u>735,349</u>	<u>3,414,603</u>

		11,390
		17,450
	119,198	119,198
(331,930)		502,057
	363,001	363,001
	(5,800)	(5,800)
<u>(331,930)</u>	<u>476,399</u>	<u>1,007,296</u>
<u>\$ 502,872</u>	<u>\$ 1,211,748</u>	<u>\$ 4,421,899</u>

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**CITY OF SOUTH TUCSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total governmental fund balances		\$ 1,007,296
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:</p>		
Governmental capital assets	\$ 47,339,546	
Less accumulated depreciation	<u>(15,460,627)</u>	31,878,919
<p>Some revenues will not be available to pay for current period expenditures and therefore are deferred in the funds.</p>		
Court fines	114,887	
Intergovernmental	572,401	
Loan receivable	<u>119,198</u>	806,486
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:</p>		
Compensated absences	(266,440)	
Capital lease	(102,366)	
Revenue bonds payable	(7,033,316)	
Other commitments	<u>(355,818)</u>	<u>(7,757,940)</u>
Net assets of governmental activities		<u><u>\$ 25,934,761</u></u>

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

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Housing	LTAF
Revenues:			
Property taxes	\$ 46,922	\$	\$
City sales taxes	1,741,531		
Licenses and permits	244,471		
Intergovernmental	1,359,798	1,649,808	22,055
Charges for services	293,282		2,378
Fines and forfeits	275,458		
Investment income	79,890	353	
Rents		330,512	
Miscellaneous	46,565	16,874	
Total revenues	4,087,917	1,997,547	24,433
Expenditures:			
Current -			
General government	1,613,463		
Public safety	2,037,628		
Highways and streets	399,541		35,776
Culture and recreation			
Redevelopment and housing		1,553,128	
Economic development			
Capital outlay	10,560	277,586	
Debt service -			
Principal retirement	51,255		
Interest and fiscal charges	39,822		
Total expenditures	4,152,269	1,830,714	35,776
Excess (deficiency) of revenues over expenditures	(64,352)	166,833	(11,343)
Other financing sources (uses):			
Transfer in			
Transfer out	(470,850)	(12,445)	
Total other financing sources (uses)	(470,850)	(12,445)	
Changes in fund balances	(535,202)	154,388	(11,343)
Fund balances (deficits), beginning of year	(28,012)	819,243	534,396
Increase\((decrease) in reserve for prepaid items	17,150	(87,793)	
Fund balances (deficits), end of year	\$ (546,064)	\$ 885,838	\$ 523,053

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

Regional Transportation Authority	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$
		46,922
		1,741,531
		244,471
515,579	3,111,425	6,658,665
		295,660
		275,458
	255	80,498
		330,512
	14,146	77,585
<u>515,579</u>	<u>3,125,826</u>	<u>9,751,302</u>
	181,271	1,794,734
	376,525	2,414,153
420,327	506,316	1,361,960
	114,064	114,064
	348,019	1,901,147
	101,146	101,146
416,624	1,137,106	1,841,876
		51,255
	470,850	510,672
<u>836,951</u>	<u>3,235,297</u>	<u>10,091,007</u>
<u>(321,372)</u>	<u>(109,471)</u>	<u>(339,705)</u>
	483,295	483,295
		(483,295)
	<u>483,295</u>	
<u>(321,372)</u>	<u>373,824</u>	<u>(339,705)</u>
(10,558)	102,575	1,417,644
		(70,643)
<u>\$ (331,930)</u>	<u>\$ 476,399</u>	<u>\$ 1,007,296</u>

CITY OF SOUTH TUCSON, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Net changes in fund balances - total governmental funds **\$ (410,348)**

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	\$ 2,414,566	
Less current year depreciation	<u>(1,117,347)</u>	1,297,219

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Court fines	15,249	
Intergovernmental	<u>175,726</u>	190,975

Repayment of obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Capital leases	51,255	
Other commitments	<u>443,642</u>	494,897

Some revenues and expenses reported in the Statement of Activities do not provide or require the use of current financial resources and therefore are not reported in governmental funds.

Amortization of bond items	(32,285)	
Compensated absences	<u>2,567</u>	<u>(29,718)</u>

Change in net assets in governmental activities **\$ 1,543,025**

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

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF FIDUCIARY FUND NET ASSETS
JUNE 30, 2010**

	<u>Pension Trust</u>
<u>ASSETS</u>	
Cash and investments	\$ 202,795
Total assets	<u>202,795</u>
<u>NET ASSETS</u>	
Held in trust	<u>\$ 202,795</u>

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

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2010**

	<u>Pension Trust</u>
Additions:	
State insurance contributions	\$ 19,337
Total additions	19,337
 Deductions:	
Benefits	8,800
Total deductions	8,800
Changes in net assets	10,537
Net assets, beginning of year	192,258
Net assets, end of year	\$ 202,795

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City is a municipal entity governed by an elected mayor and council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the City, the primary government.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, component units combined with the City for financial statement presentation purposes, and the City, are 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.

South Tucson Municipal Property Corporation. The City of South Tucson, Arizona, Arizona Municipal Property Corporation's (MPC) Board of Directors are appointed by the City of South Tucson, Arizona's City Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. The MPC debt service is reported within the Debt Service Fund and within the governmental activities in the government-wide statements. Separate financial statements are not prepared on a stand-alone basis.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the City. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City did not have any business-type activities during the year.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. City sales taxes, unrestricted state shared 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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund 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 SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property taxes, City sales taxes, licenses and permits, charges for services, fines and forfeits, 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. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred 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 deferred revenue on the governmental fund financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

The City reports the following major governmental funds.

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

The Housing Fund – This fund accounts for the operations of the City's public housing program.

The Local Transportation Assistance Fund (LTAF) – This fund accounts for state funds received for local transportation.

Regional Transportation Authority Fund – This fund accounts for transportation projects funded by the Regional Transportation Authority.

Additionally, the City reports the following fund type:

Fiduciary Fund – The Fiduciary Fund is a Pension Trust Fund which accounts for the activities of the Firefighters' Relief and Pension Trust Fund (Trust Fund). The Trust Fund accumulates funds for the defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Cash and Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Investment Income

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

F. Receivables and Payables

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

All trade and property tax receivables, are shown net of an allowance for uncollectibles.

The property tax levy, as described in the Arizona State Statutes, is divided into two levies, a primary levy and a secondary levy. Secondary taxes are levied strictly for the retirement and redemption of bonded indebtedness, while the primary levy may be used for any legal operating purpose. The primary property tax levy is limited to a 2% annual increase over the prior year’s maximum allowable levy plus an adjustment for properties that were not taxed in the previous year.

Property taxes are levied by the City and collected by the County Treasurer. Real property taxes are levied on or before the third Monday in August, which 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. The billings are considered past due after these dates, at which time the applicable property is subject to penalties and interest.

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

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed on the government-wide financial statements and as expenditures when purchased on the fund financial statements.

H. Prepaid Items

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

I. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, machinery, equipment, and vehicles; construction in progress; and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure capital assets include only those assets acquired or constructed since July 1, 2003.

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 governmental 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>
Land improvements	15 - 50
Buildings and improvements	20 - 50
Infrastructure	20 - 75
Machinery, equipment, and vehicles	10

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. Compensated Absences

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Vacation benefits and compensation time vest 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 compensation time are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

K. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Debt premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the debt using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt 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.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose

M. Interfund Activity

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

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

N. 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 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Individual Deficit Fund Balances – At year end, the following individual major and non-major governmental funds reported deficits in fund balance.

	Deficit
Major Funds:	
General	\$ 546,064
Regional Transportation Authority	331,930
Non-Major Governmental Funds:	
RICO	122,347
JCEF	18,697
Revitalization Projects	4,572
Neighborhood reinvestment	4,228

The deficits arose because of operations during the year and prior years. The City is in the process of implementing a corrective plan to improve the health of the funds listed above. The Regional Transportation Authority fund deficit is primarily due to the timing of revenue reimbursements. Additional future revenues are expected to eliminate the deficit. With respect to the General Fund, this plan includes elements of City-wide expenditure reductions, fee schedule adjustments, service outsourcing, and asset sales. The plan is expected to eliminate the deficits in the next two to five fiscal years.

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

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 – CASH AND INVESTMENTS

A.R.S. authorize the City to invest public monies 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.

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. At year end, the carrying amount of the City’s deposits was \$1,016,398 and the bank balance was \$1,764,948. At year end, \$595,517 of the City’s deposits were covered by Federal depository insurance and \$1,169,431 were guaranteed under the transaction account guarantee component of the Temporary Liquidity Guarantee Program.

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments.

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

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Treasuries	Less than one year	\$ 675,799
State Treasurer’s investment pool 5	22 days average	<u>262,570</u>
Total		<u><u>\$ 938,369</u></u>

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. Investments in the State Treasurer’s investment pool 5 carried a weighted average rating at year end of AAA.

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

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 – RECEIVABLES

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

	<u>General Fund</u>	<u>Regional Transportation Authority Fund</u>	<u>Non-Major Governmental Funds</u>
Due from other governmental entities:			
Due from Federal government	\$	\$	\$ 235,036
Due from State government	199,154		34,944
Due from County government			150,000
Due from other governments		417,401	192,254
Net due from governmental entities	<u>\$ 199,154</u>	<u>\$ 417,401</u>	<u>\$ 612,234</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows.

	<u>Unavailable</u>
Delinquent court fines receivable (General Fund)	\$ 114,887
Measurable but unavailable revenues (Regional Transportation Authority Fund)	417,401
Measurable but unavailable revenues (Non-Major Governmental Funds)	274,198
Total deferred revenue for governmental funds	<u>\$ 806,486</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 – CAPITAL ASSETS

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

<u>Governmental Activities</u>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 321,673	\$	\$	\$ 321,673
Construction in progress	<u>7,597,441</u>	<u>2,244,285</u>	<u>956,506</u>	<u>8,885,220</u>
Total capital assets, not being depreciated	<u>7,919,114</u>	<u>2,244,285</u>	<u>956,506</u>	<u>9,206,893</u>
Capital assets, being depreciated:				
Land improvements	1,706,993			1,706,993
Buildings and improvements	11,471,409	223,564		11,694,973
Infrastructure	19,888,396	732,942		20,621,338
Machinery, equipment and vehicles	<u>3,939,068</u>	<u>170,281</u>		<u>4,109,349</u>
Total capital assets being depreciated	<u>37,005,866</u>	<u>1,152,734</u>		<u>38,132,653</u>
Less accumulated depreciation for:				
Land improvements	(745,489)	(68,462)		(813,951)
Buildings and improvements	(4,396,859)	(234,489)		(4,631,348)
Infrastructure	(6,278,906)	(527,625)		(6,806,531)
Machinery, equipment and vehicles	<u>(2,922,026)</u>	<u>(286,771)</u>		<u>(3,208,797)</u>
Total accumulated depreciation	<u>(14,343,280)</u>	<u>(1,117,347)</u>		<u>(15,460,627)</u>
Total capital assets, being depreciated, net	<u>22,662,586</u>	<u>35,387</u>		<u>22,672,026</u>
Governmental activities capital assets, net	<u>\$ 30,581,700</u>	<u>\$ 2,279,672</u>	<u>\$ 956,506</u>	<u>\$ 31,878,919</u>

General government	\$ 307,223
Public safety	167,690
Highways and streets	444,379
Redevelopment and housing	<u>198,055</u>
Total depreciation expense – governmental activities	<u>\$ 1,117,347</u>

Construction Commitments – At year end, the City had contractual commitments related to various capital projects for the construction of roadway improvements. At year end the City had spent \$8.8 million on the projects and had estimated remaining contractual commitments of \$286,113. These projects are being funded with intergovernmental revenues.

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 – REVENUE BONDS PAYABLE

Revenue bonds currently outstanding are as follows.

	Original Amount Issued	Interest Rate	Maturity	Outstanding Principal June 30, 2010
<u>Governmental activities:</u>				
Excise Tax Revenue Bond, Series 2007A and 2007B	\$ 7,905,000	4.10-5.95%	7/1/2013-37	\$ 7,905,000
Total				<u>\$ 7,905,000</u>

Pledged revenues – governmental activities. The City has pledged future excise taxes and state shared revenues to repay outstanding revenue bonds of \$7.9 million as of June 30, 2010. Proceeds from the original bond issuances provided financing for (1) the refund of certain excise tax revenue bonds issued by South Tucson Municipal Property Corporation on behalf of the City of South Tucson, Arizona, (2) to finance public works and other City vehicles and equipment, (3) to fund a debt service reserve requirement for the Series 2007 Obligations, and (4) pay costs of execution and delivery of the Series 2007 Obligations. The bonds are paid solely from the City’s excise taxes and state shared revenues and are payable through 2037. The total principal and interest to be paid on the bonds is \$16.6 million. The current total excise taxes and state shared revenues were \$3.1 million and the total principal and interest paid on the bonds was \$470,850, or 15% of gross revenues.

Principal and interest payments on the governmental activities revenue bonds payable at year end are summarized as follows.

Year ending June 30:	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$	\$ 470,850
2012		470,850
2013	130,000	470,850
2014	140,000	462,888
2015	145,000	454,312
2016-20	880,000	2,126,094
2021-25	1,185,000	1,820,763
2026-30	1,605,000	1,409,775
2031-35	2,155,000	855,156
2036-37	1,665,000	146,150
Total	<u>\$ 7,905,000</u>	<u>\$ 8,687,688</u>

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 – OBLIGATIONS UNDER LEASES

Capital Leases – The City has acquired vehicles under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

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

	Governmental Activities
Asset:	
Vehicles, furniture and equipment	\$ 307,436
Less: Accumulated depreciation	125,721
Total	\$ 181,715

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

	Governmental Activities
Year Ending June 30:	
2011	\$ 50,525
2012	41,488
2013	18,194
Total minimum lease payments	110,207
Less: amount representing interest	7,841
Present value of minimum lease payments	\$ 102,366
Due within one year	\$ 45,471

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 – OBLIGATIONS UNDER LEASES (Concl'd)

Operating Leases – The City leases office equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases totaled \$13,481 for the current fiscal year. The future minimum rental payments required under the operating leases at year end were as follows.

Year Ending June 30:		
	2011	\$ 9,645
	2012	5,425
	2013	5,425
	2014	2,420
	Total minimum payments required	<u>\$ 22,915</u>

NOTE 8 – OTHER COMMITMENTS

The City has a long-term intergovernmental agreement with the City of Tucson, Arizona for transportation services. According to the agreement, the City of Tucson, Arizona will provide transportation to citizens of the City of South Tucson, Arizona at a predetermined rate. The City of Tucson, Arizona has determined the cost of those charges and is billing the City of South Tucson, Arizona for the related services since the inception of the agreement. The total determined amount of billings to the City outstanding at fiscal year end is \$773,219.

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Revenue bonds payable	\$ 7,905,000	\$	\$	\$ 7,905,000	\$
Deferred bond discount	(903,969)		32,285	(871,684)	
Net bonds payable	7,001,031			7,033,316	
Obligations under capital leases	153,621		51,255	102,366	45,471
Compensated absences payable	269,007	138,551	141,118	266,440	135,635
Other commitments	1,481,460	417,401	1,125,642	773,219	773,219
Governmental activity long-term liabilities	<u>\$ 8,905,119</u>	<u>\$ 588,237</u>	<u>\$ 1,318,015</u>	<u>\$ 8,175,341</u>	<u>\$ 954,325</u>

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows.

	Due from		
Due to	General	Non-Major Governmental	Total
	Fund	Funds	
Housing	\$ 391,624	\$ 443,758	\$ 835,382
Total	\$ 391,624	\$ 443,758	\$ 835,382

At year end, several funds had negative cash balances in the pooled cash accounts. Negative cash on deposit was reduced by interfund borrowing with other funds. The balances will be paid back over the next two to five years as the City implements the deficit reduction measures discussed in Note 2.

Interfund transfers – An Interfund transfer of \$483,295 was made by the City to move resources generated by City sales taxes to the Debt Service Fund for payment of bond interest and to close out the Fill in the Gap Fund.

NOTE 11 – CONTINGENT LIABILITIES

Lawsuits – The City is a defendant in a number of lawsuits as of June 30, 2010. It is the opinion of management and City counsel that the amount of losses resulting from these litigations at June 30, 2010, would not be material to the financial position of the City.

NOTE 12 – 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 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 \$2.0 million per occurrence on a follow form, claims made basis. 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.

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 13 – RETIREMENT PLAN

Plan Descriptions – The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing multiple employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* administers agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
Phoenix, AZ 85012-0250
(602) 240-2200 or (800) 621-3778

PSPRS

3010 E. Camelback Road Suite 200
Phoenix, AZ 85016
(602) 255-5575

Funding policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

Cost-sharing plan – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.40 percent (9.00 percent for retirement and 0.40 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 9.40 percent (8.34 percent for retirement and 0.66 percent for health insurance premiums, and 0.40 percent for long-term disability) of the members' annual covered payroll.

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 13 – RETIREMENT PLAN (Cont’d)

The City’s contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows.

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,			
2010	\$ 98,557	\$ 7,799	\$ 4,756
2009	121,494	14,598	7,592
2008	126,321	16,481	7,849

Agent plan – For the current fiscal year, active PSPRS members were required by statute to contribute 7.65 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rates of 32.17 percent and 18.67 percent for police and fire, respectively. Additional information related to both the police and fire PSPRS agent plans follows.

Actuarial methods and assumptions – The contribution requirements for the current fiscal year were established by the June 30, 2008 actuarial valuations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The required schedule of funding programs which follows provides multi-year trend information that shows whether the actuarial value of the plans’ assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected Unit Credit
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50%
Includes inflation at	5.50%
Amortization method	Level percent-of-pay closed
Remaining amortization	26 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 13 – RETIREMENT PLAN (Cont'd)

Trend Information – Information for the agent plans as of most recent actuarial valuations follows.

Police (Retirement):

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2010	\$184,698	100%	-0-
2009	214,122	100%	-0-
2008	263,204	100%	-0-

Fire (Retirement):

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2010	\$ 75,417	100%	-0-
2009	81,900	100%	-0-
2008	69,843	100%	-0-

Police (Healthcare):

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2010	\$14,360	100%	-0-
2009	12,190	100%	-0-
2008	12,841	100%	-0-

Fire (Healthcare):

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2010	\$10,248	100%	-0-
2009	10,023	100%	-0-
2008	8,442	100%	-0-

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 13 – RETIREMENT PLAN (Concl'd)

Funding Progress – An analysis of funding progress for each of the agent plans as of June 30, 2010 follows.

Police (Retirement):

Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Overfunded (Underfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
June 30,	(a)	(b)	(a-b)	(a/b)	(c)	([a-b]/c)
2010	\$ 940,687	\$5,647,619	\$(4,706,932)	16.7%	\$583,794	(806.3)%
2009	785,105	5,284,880	(4,499,775)	14.9%	592,026	(760.1)%
2008	1,087,819	5,239,117	(4,151,298)	20.8%	958,261	(433.2)%

Fire (Retirement):

Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Overfunded (Underfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
June 30,	(a)	(b)	(a-b)	(a/b)	(c)	([a-b]/c)
2010	\$1,802,114	\$2,441,338	\$(639,224)	73.8%	\$359,650	(177.7)%
2009	1,734,370	2,402,274	(667,904)	72.2%	461,783	(144.6)%
2008	1,630,547	2,433,396	(802,849)	67.0%	611,721	(131.2)%

Police (Healthcare):

Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Overfunded (Underfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
June 30,	(a)	(b)	(a-b)	(a/b)	(c)	([a-b]/c)
2010	- 0 -	\$142,763	\$(142,763)	0.0%	\$583,794	(24.45)%
2009	- 0 -	125,373	(125,373)	0.0%	592,026	(21.18)%
2008	- 0 -	134,626	(134,626)	0.0%	958,261	(14.05)%

Fire (Healthcare):

Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Overfunded (Underfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
June 30,	(a)	(b)	(a-b)	(a/b)	(c)	([a-b]/c)
2010	- 0 -	\$105,574	\$(105,574)	0.0%	\$359,650	(29.35)%
2009	- 0 -	97,690	(97,690)	0.0%	461,783	(21.15)%
2008	- 0 -	92,803	(92,803)	0.0%	611,721	(15.17)%

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(REQUIRED SUPPLEMENTARY INFORMATION)**

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 48,833	\$ 48,833	\$ 46,922	\$ (1,911)
City sales taxes	1,935,236	1,935,236	1,741,531	(193,705)
Licenses and permits	265,600	265,600	244,471	(21,129)
Intergovernmental	1,419,984	1,419,984	1,359,798	(60,186)
Charges for services	572,194	572,194	293,282	(278,912)
Fines and forfeits	194,000	194,000	275,458	81,458
Investment income	25,000	25,000	79,890	54,890
Miscellaneous	124,000	124,000	46,565	(77,435)
Total revenues	<u>4,584,847</u>	<u>4,584,847</u>	<u>4,087,917</u>	<u>(496,930)</u>
Expenditures:				
Current -				
General government	1,206,242	1,376,242	1,613,463	(237,221)
Public safety	2,190,960	2,190,960	2,037,628	153,332
Highways and streets	424,140	424,140	399,541	24,599
Capital outlay	184,872	184,872	10,560	174,312
Debt service -				
Principal retirement	53,883	53,883	51,255	2,628
Interest and fiscal charges	16,812	16,812	39,822	(23,010)
Total expenditures	<u>4,076,909</u>	<u>4,246,909</u>	<u>4,152,269</u>	<u>94,640</u>
Excess (deficiency) of revenues over expenditures	<u>507,938</u>	<u>337,938</u>	<u>(64,352)</u>	<u>(402,290)</u>
Other financing sources (uses):				
Transfer out	(470,850)	(470,850)	(470,850)	
Total other financing sources (uses)	<u>(470,850)</u>	<u>(470,850)</u>	<u>(470,850)</u>	
Change in fund balances	<u>37,088</u>	<u>(132,912)</u>	<u>(535,202)</u>	<u>(402,290)</u>
Fund balances (deficits), July 1, 2009	(28,012)	(28,012)	(28,012)	
Increase\in reserve for prepaid items			17,150	17,150
Fund balances (deficits), June 30, 2010	<u>\$ 9,076</u>	<u>\$ (160,924)</u>	<u>\$ (546,064)</u>	<u>\$ (385,140)</u>

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

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - HOUSING
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 2,232,304	\$ 1,649,808	\$ (582,496)
Investment income		353	353
Rents	264,581	330,512	65,931
Miscellaneous	13,050	16,874	3,824
Total revenues	<u>2,509,935</u>	<u>1,997,547</u>	<u>(512,388)</u>
Expenditures:			
Current -			
Redevelopment and housing	1,682,802	1,553,128	129,674
Capital outlay	827,133	277,586	549,547
Total expenditures	<u>2,509,935</u>	<u>1,830,714</u>	<u>679,221</u>
Excess (deficiency) of revenues over expenditures		<u>166,833</u>	<u>166,833</u>
Other financing sources (uses):			
Transfer out		(12,445)	(12,445)
Total other financing sources (uses)		<u>(12,445)</u>	<u>(12,445)</u>
Change in fund balances		<u>154,388</u>	<u>154,388</u>
Fund balances, July 1, 2009	819,243	819,243	
Increase\(\decrease) in reserve for prepaid items		(87,793)	(87,793)
Fund balances, June 30, 2010	<u>\$ 819,243</u>	<u>\$ 885,838</u>	<u>\$ 66,595</u>

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

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LTAF
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 35,300	\$ 22,055	\$ (13,245)
Charges for services	1,500	2,378	878
Total revenues	<u>36,800</u>	<u>24,433</u>	<u>(12,367)</u>
Expenditures:			
Current -			
Highways and streets	36,800	35,776	1,024
Total expenditures	<u>36,800</u>	<u>35,776</u>	<u>1,024</u>
Change in fund balances		<u>(11,343)</u>	<u>(11,343)</u>
Fund balances, July 1, 2009	534,396	534,396	
Fund balances, June 30, 2010	<u>\$ 534,396</u>	<u>\$ 523,053</u>	<u>\$ (11,343)</u>

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

CITY OF SOUTH TUCSON, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the City is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

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SUPPLEMENTARY INFORMATION

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**OTHER MAJOR GOVERNMENTAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - REGIONAL TRANSPORTATION AUTHORITY
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 1,370,000	\$ 515,579	\$ (854,421)
Total revenues	<u>1,370,000</u>	<u>515,579</u>	<u>(854,421)</u>
Expenditures:			
Current -			
Highways and streets	373,369	420,327	(46,958)
Capital outlay	996,631	416,624	580,007
Total expenditures	<u>1,370,000</u>	<u>836,951</u>	<u>533,049</u>
Change in fund balances		<u>(321,372)</u>	<u>(321,372)</u>
Fund balances (deficits), July 1, 2009	(10,558)	(10,558)	
Fund balances (deficits), June 30, 2010	<u>\$ (10,558)</u>	<u>\$ (331,930)</u>	<u>\$ (321,372)</u>

NON-MAJOR GOVERNMENTAL FUNDS

**CITY OF SOUTH TUCSON, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2010**

	Economic Loan Development Program		
	Budget*	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Miscellaneous			
Total revenues			
Expenditures:			
Current -			
General government			
Public safety			
Highways and streets			
Culture and recreation			
Redevelopment and housing			
Economic development			
Capital outlay			
Total expenditures			
Excess (deficiency) of revenues over expenditures			
Other financing sources (uses):			
Transfer in			
Total other financing sources (uses)			
Change in fund balances			
Fund balances (deficits), July 1, 2009		228,388	228,388
Fund balances (deficits), June 30, 2010	\$	\$ 228,388	\$ 228,388

*The Economic Loan Development Program Fund was included in the City's budget, however, the budget was -0-.

HURF			Flood Control		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 379,543	\$ 381,680	\$ 2,137	\$ 757,931	\$ 587,676	\$ (170,255)
<u>379,543</u>	<u>381,680</u>	<u>2,137</u>	<u>757,931</u>	<u>587,676</u>	<u>(170,255)</u>
379,543	386,390	(6,847)	322,775	119,926	202,849
	2,155	(2,155)	435,156	435,156	
<u>379,543</u>	<u>388,545</u>	<u>(9,002)</u>	<u>757,931</u>	<u>555,082</u>	<u>202,849</u>
	(6,865)	(6,865)		32,594	32,594
	(6,865)	(6,865)		32,594	32,594
26,403	26,403		122,684	122,684	
<u>\$ 26,403</u>	<u>\$ 19,538</u>	<u>\$ (6,865)</u>	<u>\$ 122,684</u>	<u>\$ 155,278</u>	<u>\$ 32,594</u>

(Continued)

CITY OF SOUTH TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2010
(Continued)

	Youth Operations Center		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 113,000	\$ 113,000	\$
Miscellaneous			
Total revenues	113,000	113,000	
Expenditures:			
Current -			
General government			
Public safety			
Highways and streets			
Culture and recreation	113,000	114,064	(1,064)
Redevelopment and housing			
Economic development			
Capital outlay			
Total expenditures	113,000	114,064	(1,064)
Excess (deficiency) of revenues over expenditures		(1,064)	(1,064)
Other financing sources (uses):			
Transfer in			
Total other financing sources (uses)			
Change in fund balances		(1,064)	(1,064)
Fund balances (deficits), July 1, 2009	14,520	14,520	
Fund balances (deficits), June 30, 2010	\$ 14,520	\$ 13,456	\$ (1,064)

RICO			JCEF		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 370,897	\$ 121,749	\$ (249,148)	\$ 33,000	\$	\$ (33,000)
<u>370,897</u>	<u>121,749</u>	<u>(249,148)</u>	<u>33,000</u>		<u>(33,000)</u>
276,016	230,173	45,843	33,000	11,044	21,956
94,881	63,516	31,365			
<u>370,897</u>	<u>293,689</u>	<u>77,208</u>	<u>33,000</u>	<u>11,044</u>	<u>21,956</u>
	(171,940)	(171,940)		(11,044)	(11,044)
	(171,940)	(171,940)		(11,044)	(11,044)
49,593	49,593		(7,653)	(7,653)	
<u>\$ 49,593</u>	<u>\$ (122,347)</u>	<u>\$ (171,940)</u>	<u>\$ (7,653)</u>	<u>\$ (18,697)</u>	<u>\$ (11,044)</u>

(Continued)

CITY OF SOUTH TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2010
(Continued)

	Fill in the Gap		
	Budget*	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Miscellaneous			
Total revenues			
Expenditures:			
Current -			
General government			
Public safety			
Highways and streets			
Culture and recreation			
Redevelopment and housing			
Economic development			
Capital outlay			
Total expenditures			
Excess (deficiency) of revenues over expenditures			
Other financing sources (uses):			
Transfer in		12,445	12,445
Total other financing sources (uses)		12,445	12,445
Change in fund balances		12,445	12,445
Fund balances (deficits), July 1, 2009		(12,445)	(12,445)
Fund balances (deficits), June 30, 2010	\$	\$	\$

*The Fill in the Gap Fund was included in the City's budget, however, the budget was -0-.

Grants			CDBG		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 2,161,064	\$ 685,056	\$ (1,476,008)	\$ 566,367	\$ 333,350	\$ (233,017)
<u>2,161,064</u>	<u>685,056</u>	<u>(1,476,008)</u>	<u>566,367</u>	<u>333,350</u>	<u>(233,017)</u>
400,000	153,596	246,404			
777,330	138,456	638,874	8,878	7,896	982
			557,489	348,019	209,470
80,000	101,146	(21,146)			
903,734	170,670	733,064	<u>566,367</u>	<u>355,915</u>	<u>210,452</u>
<u>2,161,064</u>	<u>563,868</u>	<u>1,597,196</u>			
	121,188	121,188		(22,565)	(22,565)
	121,188	121,188		(22,565)	(22,565)
71,762	71,762		27,379	27,379	
<u>\$ 71,762</u>	<u>\$ 192,950</u>	<u>\$ 121,188</u>	<u>\$ 27,379</u>	<u>\$ 4,814</u>	<u>\$ (22,565)</u>

(Continued)

CITY OF SOUTH TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2010
(Concluded)

	Explorer Program		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Miscellaneous	15,000	14,146	(854)
Total revenues	<u>15,000</u>	<u>14,146</u>	<u>(854)</u>
Expenditures:			
Current -			
General government	15,000	16,631	(1,631)
Public safety			
Highways and streets			
Culture and recreation			
Redevelopment and housing			
Economic development			
Capital outlay			
Total expenditures	<u>15,000</u>	<u>16,631</u>	<u>(1,631)</u>
Excess (deficiency) of revenues over expenditures		<u>(2,485)</u>	<u>(2,485)</u>
Other financing sources (uses):			
Transfer in			
Total other financing sources (uses)			
Change in fund balances		<u>(2,485)</u>	<u>(2,485)</u>
Fund balances (deficits), July 1, 2009	11,304	11,304	
Fund balances (deficits), June 30, 2010	<u>\$ 11,304</u>	<u>\$ 8,819</u>	<u>\$ (2,485)</u>

Totals		
Budget	Actual	Variance - Positive (Negative)
\$ 4,381,802	\$ 2,222,511	\$ (2,159,291)
15,000	14,146	(854)
<u>4,396,802</u>	<u>2,236,657</u>	<u>(2,160,145)</u>
448,000	181,271	266,729
1,062,224	376,525	685,699
702,318	506,316	196,002
113,000	114,064	(1,064)
557,489	348,019	209,470
80,000	101,146	(21,146)
<u>1,433,771</u>	<u>671,497</u>	<u>762,274</u>
<u>4,396,802</u>	<u>2,298,838</u>	<u>2,097,964</u>
	<u>(62,181)</u>	<u>(62,181)</u>
	12,445	12,445
	<u>12,445</u>	<u>12,445</u>
	<u>(49,736)</u>	<u>(49,736)</u>
315,992	531,935	215,943
<u>\$ 315,992</u>	<u>\$ 482,199</u>	<u>\$ 166,207</u>

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**CITY OF SOUTH TUCSON, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2010**

	Debt Service		
	Budget*	Actual	Variance - Positive (Negative)
Expenditures:			
Debt service -	\$	\$	\$
Interest and fiscal charges		470,850	(470,850)
Total expenditures		470,850	(470,850)
 Excess (deficiency) of revenues over expenditures		(470,850)	(470,850)
 Other financing sources (uses):			
Transfer in		470,850	470,850
Total other financing sources (uses)		470,850	470,850
 Change in fund balances			
 Fund balances, July 1, 2009			
 Fund balances, June 30, 2010	\$	\$	\$

*The Debt Service Fund was included in the City's budget, however, the budget was -0-.

**CITY OF SOUTH TUCSON, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2010**

	Revitalization Projects		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 1,462,000	\$ 888,914	\$ (573,086)
Investment income		255	255
Total revenues	1,462,000	889,169	(572,831)
Expenditures:			
Current -			
Highways and streets	300,000		300,000
Capital outlay	1,162,000	465,609	696,391
Total expenditures	1,462,000	465,609	996,391
Change in fund balances		423,560	423,560
Fund balances (deficits), July 1, 2009	(428,132)	(428,132)	
Fund balances (deficits), June 30, 2010	\$ (428,132)	\$ (4,572)	\$ 423,560

*The Youth Art Project Fund was included in the City's budget, however, the budget was -0-.

CITY OF SOUTH TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2010
(Concluded)

	Totals		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 1,492,000	\$ 888,914	\$ (603,086)
Investment income		255	255
Total revenues	1,492,000	889,169	(602,831)
Expenditures:			
Current -			
Highways and streets	300,000		300,000
Capital outlay	1,192,000	465,609	726,391
Total expenditures	1,492,000	465,609	1,026,391
Change in fund balances		423,560	423,560
Fund balances (deficits), July 1, 2009	(432,360)	(429,360)	3,000
Fund balances (deficits), June 30, 2010	\$ (432,360)	\$ (5,800)	\$ 426,560

SINGLE AUDIT SECTION

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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**

Honorable Mayor and Members of the City Council
City of South Tucson, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of South Tucson, Arizona as of and for the year ended June 30, 2010, which collectively comprise City of South Tucson, Arizona's basic financial statements and have issued our report thereon dated March 10, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of South Tucson, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of South Tucson, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of South Tucson, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-3 to be material weaknesses.

A significant deficiency is a deficiency or 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 questioned costs as item 2010-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of South Tucson, Arizona's financial statements are free of 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 South Tucson, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of South Tucson, Arizona's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

March 10, 2011



HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditors' Report

Honorable Mayor and Members of the City Council
City of South Tucson, Arizona

Compliance

We have audited City of South Tucson, Arizona's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of South Tucson, Arizona's major federal programs for the year ended June 30, 2010. City of South Tucson, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of South Tucson, Arizona's management. Our responsibility is to express an opinion on City of South Tucson, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of South Tucson, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of South Tucson, Arizona's compliance with those requirements.

In our opinion, City of South Tucson, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of City of South Tucson, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of South Tucson, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of South Tucson, Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of South Tucson, Arizona as of and for the year ended June 30, 2010, and have issued our report thereon dated March 10, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of South Tucson, Arizona's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

March 10, 2011

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grantor's Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Direct programs -			
Section 8 Housing Choice Vouchers	14.871	N/A	\$ 682,092
Public and Indian Housing	14.850	N/A	838,001
Comprehensive Improvement Assistance Program	14.852	N/A	55,552
Public Housing Capital Fund Stimulus (Formula) - Recovery Act Funded	14.885	N/A	248,385
Passed through Pima County -			
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-137787-0406	28,019
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-140050-1007	7,896
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-141607-1008	138,239
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-142544-1009	174,481
Subtotal CFDA Number 14.218			<u>348,635</u>
Total U.S. Department of Housing and Urban Development			<u>2,172,665</u>
<u>U.S. Department of Health and Human Services</u>			
Direct programs -			
Drug-Free Communities Support Program Grants	93.276	N/A	76,870
Public Health Emergency Preparedness	93.069	01-01-S-139695-0707	20,964
Total U.S. Department of Health and Human Services			<u>97,834</u>
<u>U.S. Department of Homeland Security</u>			
Passed through Arizona Department of Homeland Security -			
Homeland Security Grant Program	97.067	444418-01	37,138
Homeland Security Grant Program	97.067	SWAZT0398 (2009)	99,764
Homeland Security Grant Program	97.067	SWAZT0479 (2010)	2,000
Homeland Security Grant Program	97.067	SWAZT0398 (2010)	6,033
Total U.S. Department of Homeland Security			<u>144,935</u>
<u>U.S. Department of Commerce</u>			
Direct program:			
Economic Development - Support for Planning Organizations	11.302	07-8705151	120,873
<u>U.S. Department of Justice</u>			
Direct program:			
Public Safety Partnership and Community Policing Grants - Recovery Act Funded	16.710	2009RKWX0079	11,373
<u>U.S. Environmental Protection Agency</u>			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements - Recovery Act Funded	66.818	2B-00T18701-0	152,090
Total Expenditures of Federal Awards			<u><u>\$ 2,699,770</u></u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of South Tucson, Arizona and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2010 *Catalog of Federal Domestic Assistance*.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.850	Public and Indian Housing
14.871	Section 8 Housing Choice Vouchers
14.885	Public Housing Capital Fund Stimulus (Formula) – Recovery Act Funded
14.218	Community Development Block Grants/Entitlement Grants
66.818	Brownfield Assessment and Cleanup Cooperative Agreements – Recovery Act Funded
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

2010-1 CRITERIA

The City is responsible for establishing and maintaining a system of internal controls that include controls for the generally accepted accounting principles (GAAP) basis financial statements issued by the City, as well as the SEFA.

CONDITION/CONTEXT

The following conditions were noted:

- General ledger closing procedures are not well defined and formally documented resulting in numerous audit adjustments.
- As noted and adjusted for in the prior year, expenditures amounting to \$618,274 from fiscal year 2009 were incorrectly recorded in fiscal year 2010.
- The City did not have adequate internal control procedures in place over the Schedule of Expenditures of Federal Awards (SEFA).

EFFECT

The lack of effective accounting controls could result in a material misstatement of the financial statements and the SEFA.

CAUSE

Limited staff size and limited available resources.

RECOMMENDATION

In order to ensure timely and accurate external financial reporting consistent with GAAP the City should strengthen controls over financial reporting process.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The City's accounting manual will be updated to include a section dedicated specifically to year end closing procedures.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

**SECTION II - FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)**

2010-2 CRITERIA

A properly designed internal control structure requires that specific procedures and policies with respect to creating estimates to reflect the collectible balance of accounts receivable be implemented to meet the financial reporting and operational objectives of the City.

CONDITION/CONTEXT

The City has accrued significant receivable for which collectability may be in question. An estimation for doubtful accounts has not been made because the City does not have a process in place to make the estimation.

EFFECT

The lack of a process to evaluate collectability of the loans receivable account could potentially result in an overstatement of receivables account.

CAUSE

There is no formal policy to evaluate the collectability of the loans receivable account; therefore, the subsidiary customer accounts have not been monitored or adjusted to properly report collectible balances.

RECOMMENDATION

The City should implement a formal policy to evaluate the collectability of the loans receivable account which is consistent with (GAAP).

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

A policy has been drafted and will be presented to the Mayor and Council for approval.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION II - FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Concl'd)

2010-3 CRITERIA

The application of commonly accepted fiscal management policies requires the City to balance funds with sufficient revenues and adequately maintain fund balance reserves, particularly in the General Fund.

CONDITION/CONTEXT

A deficit fund balance of \$546,064 existed at year end in the General Fund.

EFFECT

The City is at risk of compromising services provided in future years to eliminate deficit fund balances.

CAUSE

Insufficient revenue sources and/or expenditures in excess of sustainable levels.

RECOMMENDATION

The City should implement procedures to identify additional revenue sources or modify budgeted expenditures accordingly to eliminate deficit fund balances and build sufficient reserves in the General Fund.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The City has a multiple step plan to reduce the deficit in the coming fiscal year as follows:

- Across-the-board departmental expenditure cuts of 10%
- Fee schedule adjustments in business license fees, building permit fees and special services fees
- Outsourcing garbage services
- Sale of City equipment and assets
- Continued negotiations with Pima County on jail services

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.

**CITY OF SOUTH TUCSON, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010**

Status of Federal Award Findings and Questioned Costs

CFDA Nos. 14.850, 14.871

Program Names: Public and Indian Housing, Section 8 Housing Choice Vouchers

Finding No. 09-4

Status: Corrected.

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