

**CITY OF SOUTH TUCSON, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FISCAL YEAR ENDED JUNE 30, 2012**

CITY OF SOUTH TUCSON, ARIZONA

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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, 2012**

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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, 2012, 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, 2012, and the respective changes in financial position and, where applicable, cash flows, 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 26, 2013, 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 52 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.
CPAs and Business Consultants

March 26, 2013

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, 2012**

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, 2012.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2011-12 as follows.

- The City's total net assets of governmental activities decreased \$1.3 million to \$23.3 million primarily due to unfunded depreciation expense.
- General revenues from governmental activities accounted for \$3.4 million in revenue, or 44 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.3 million or 56 percent of total governmental activities revenues.
- The City had \$9.0 million in expenses related to governmental activities, an increase of \$49,121, or less than one percent from the prior fiscal year.
- Among major funds, the General Fund had \$4.5 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues. The total expenditures of the General Fund were \$3.8 million. The General Fund's fund balance increased from \$340,520 to \$463,333.
- The Housing Fund had \$1.6 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were \$1.9 million. The Housing Fund reported a fund balance decrease of \$297,550.
- The Flood Control Fund had \$3,270 in revenues which consisted of intergovernmental revenues. The total expenditures of the Flood Control Fund were \$83,781. The Flood Control Fund reported a fund balance decrease of \$80,511.
- The total expenditures of the Youth Center Operations Fund were \$123,992. The Youth Operations Center Fund reported a fund balance decrease of \$123,992.
- The RICO Fund had \$81,827 in revenues which consisted of intergovernmental revenues. The total expenditures of the RICO Fund were \$172,581. The RICO Fund reported a fund balance decrease of \$90,754.
- The Community Development Block Grant (CDBG) Fund had \$265, 679 in revenues which consisted of intergovernmental revenues. The total expenditures of the CDBG Fund were \$275,841. The CDBG Fund reported a fund balance decrease of \$10,162.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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, 2012**

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, Flood Control, Local Transportation Assistance, Youth Operations Center, RICO, and Community Development Block Grant (CDBG) 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, 2012**

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 \$23.3 million at the current fiscal year end.

The largest portion of the City's net assets 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, 2012 and June 30, 2011.

	Governmental Activities	
	2012	2011
Current and other assets	\$ 2,447,320	\$ 3,085,475
Capital assets, net	30,245,666	31,228,013
Total assets, net	32,692,986	34,313,488
Current liabilities	363,512	153,291
Long-term liabilities	9,059,795	9,628,050
Total liabilities	9,423,307	9,781,341
Invested in capital assets, net of related debt	23,162,192	24,105,516
Restricted	2,425,364	2,920,662
Unrestricted	(2,317,877)	(2,494,031)
Total net assets	\$ 23,269,679	\$ 24,532,147

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 following are significant current year transactions that had an impact on the Statement of Net Assets.

- The reduction of long-term liabilities in the amount of \$568,255, primarily in other commitments.
- The reduction of \$1.0 million in capital assets through accumulated depreciation expense.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The City's total revenues for the current fiscal year were \$7.7 million. The total cost of all programs and services was \$9.0 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

	Fiscal Year Ended <u>June 30, 2012</u>	Fiscal Year Ended <u>June 30, 2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,043,543	\$ 1,135,153
Operating grants and contributions	2,703,700	3,488,367
Capital grants and contributions	548,995	83,256
General revenues:		
Property taxes	568,903	59,539
City sales tax	1,689,509	1,664,576
State shared revenues	1,095,186	1,184,810
Investment income	14,857	22,088
Miscellaneous	23,406	33,027
Total revenues	<u>7,688,099</u>	<u>7,670,816</u>
Expenses:		
General government	1,912,107	1,640,122
Public safety	2,791,854	2,953,825
Highways and streets	1,069,971	1,293,597
Culture and recreation	185,212	125,172
Redevelopment and housing	2,392,419	2,298,546
Economic development	80,435	69,403
Interest on long-term debt	518,569	520,781
Total expenses	<u>8,950,567</u>	<u>8,901,446</u>
Change in net assets	<u>(1,262,468)</u>	<u>(1,230,630)</u>
Net assets, beginning	<u>24,532,147</u>	<u>25,762,777</u>
Net assets, ending	<u>\$ 23,269,679</u>	<u>\$ 24,532,147</u>

- Total governmental activities revenues increased \$17,283, or less than one percent.
- Operating grants and contributions revenues decreased \$784,667 primarily due to reduced funding for flood control projects as well as reduced federal housing grant revenues based on specific housing tenant reporting.
- Capital grants and contributions revenues increased \$466,739 primarily due to revenues received from Pima County for improvements within the City of South Tucson boundaries.
- General government expenses increased primarily due to fiscal year 2011 being the final year for significant Recovery Act program expenditures.
- Property tax revenues increased \$509,364 primarily due to the City's implementation of the secondary tax levy during the fiscal year.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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.

	2012		2011	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 1,912,107	\$ (1,682,980)	\$ 1,640,122	\$ (1,223,854)
Public safety	2,791,854	(1,508,455)	2,953,825	(2,086,808)
Highways and streets	1,069,971	(672,771)	1,293,597	(98,538)
Culture and recreation	185,212	(55,813)	125,172	44,815
Redevelopment and housing	2,392,419	(193,444)	2,298,546	(283,481)
Economic development	80,435	(22,297)	69,403	(26,023)
Interest on long-term debt	518,569	(518,569)	520,781	(520,781)
Total	<u>\$ 8,950,567</u>	<u>\$ (4,654,329)</u>	<u>\$ 8,901,446</u>	<u>\$ (4,194,670)</u>

- Federal and State governments and charges for services subsidized certain governmental programs with revenues of \$4.3 million.
- Net cost of governmental activities of \$4.7 million was financed by general revenues, which are made up of primarily City sales tax and state shared revenues of \$2.8 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, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$1.9 million, a decrease of \$12,147 or less than one percent.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The General Fund is the principal operating fund of the City. The increase in fund balance of \$122,813 to \$463,333 as of fiscal year end was a result of an increase in property tax and intergovernmental revenue.

General Fund revenues increased \$646,917 as a result of increased property tax collections due to the implementation of a secondary tax levy and increased intergovernmental revenues. General Fund expenditures increased \$132,184 as a result of Neighborhood Reinvestment capital expenditures.

The fund balance decreased \$297,550 in the Housing Fund to \$556,493 as of fiscal year end. Housing Fund expenditures increased \$132,769 primarily as a result of increased reimbursements to housing program participants.

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 favorable variance of \$218,669 in property tax revenues was a result of the City's estimated budget based on the implementation of the secondary tax levy.
- The favorable variance of \$163,457 in general government was a result of a decrease in personnel costs in conjunction with the City's cost reduction measures.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of year end, the City had invested \$30.2 million in capital assets, net of accumulated depreciation. This amount represents a net decrease prior to depreciation of \$982,347. Total depreciation expense for the current fiscal year was \$1.0 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2012 and June 30, 2011.

	Governmental Activities	
	2012	2011
Capital assets – non-depreciable	\$ 315,962	\$ 9,191,996
Capital assets – depreciable, net	29,929,704	22,036,017
Total capital assets, net	\$ 30,245,666	\$ 31,228,013

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

Debt Administration. At year end, the City had \$8.9 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, 2012 and June 30, 2011.

	As of June 30, 2012	As of June 30, 2011
Revenue bonds payable	\$ 7,097,884	\$ 7,065,601
Obligations under capital leases	17,874	56,896
Other commitments	1,763,944	2,294,673
Total	\$ 8,879,702	\$ 9,417,170

Additional information on the City's long-term debt can be found in Notes 7 through 9.

**CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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 2012-13. The most significant factors affecting the subsequent year's budget are:

- Sanitation service fees to home owner occupied property
- Decreased state shared revenue and local sales tax
- Housing Authority projects

General Fund

The budget for the General Fund increased from \$3.9 million to \$4.3 million. The main reason for this increase is a rise in public safety costs and increased debt service obligations.

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, 2012

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 798,416
Accounts receivable	436,639
Due from governmental entities	413,093
Loans receivable	119,198
Inventory	8,348
Prepaid items	67,652
Total current assets	1,843,346
Noncurrent assets:	
Cash and investments - restricted	603,974
Capital assets, non-depreciable	315,962
Capital assets, depreciable (net)	29,929,704
Total noncurrent assets	30,849,640
Total assets	32,692,986
 <u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	214,224
Accrued payroll and employee benefits	111,748
Compensated absences payable	95,048
Customer deposits	36,577
Capital leases payable	17,873
General obligation bonds payable	130,000
Total current liabilities	605,470
Noncurrent liabilities:	
Compensated absences payable	86,007
Other commitments	1,763,944
General obligation bonds payable	6,967,886
Total noncurrent liabilities	8,817,837
Total liabilities	9,423,307
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt	23,162,192
Restricted for:	
Highways and streets	1,044,090
Grants	545,912
Debt service	603,974
Capital projects	3,000
Economic development	228,388
Unrestricted	(2,317,877)
Total net assets	\$ 23,269,679

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

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

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	\$ 1,912,107	\$ 61,819	\$ 167,308		\$ (1,682,980)
Public safety	2,791,854	348,440	934,959		(1,508,455)
Highways and streets	1,069,971	17,521	228,667	151,012	(672,771)
Culture and recreation	185,212	98,789	30,610		(55,813)
Redevelopment and housing	2,392,419	516,974	1,284,018	397,983	(193,444)
Economic development	80,435		58,138		(22,297)
Interest on long-term debt	518,569				(518,569)
Total governmental activities	<u>\$ 8,950,567</u>	<u>\$ 1,043,543</u>	<u>\$ 2,703,700</u>	<u>\$ 548,995</u>	<u>(4,654,329)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	568,903
City sales taxes	1,689,509
Unrestricted state shared revenues	1,095,186
Investment income	14,857
Miscellaneous	23,406
Total general revenues	<u>3,391,861</u>

Changes in net assets (1,262,468)

Net assets, beginning of year 24,532,147

Net assets, end of year \$ 23,269,679

The notes to the basic 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, 2012

	<u>General</u>	<u>Housing</u>	<u>Flood Control</u>
<u>ASSETS</u>			
Cash and investments	\$	\$ 46,656	\$ 200,640
Cash and investments - restricted	603,974		
Accounts receivable	403,132		
Due from governmental entities	187,008		
Loans receivable			
Due from other funds		510,570	189,056
Inventory		8,348	
Prepaid items	14,292	53,360	
Total assets	<u>\$ 1,208,406</u>	<u>\$ 618,934</u>	<u>\$ 389,696</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 115,051	\$ 16,451	\$ 76
Accrued payroll and employee benefits	80,030	9,413	2,177
Due to other funds	510,570		
Customer deposits		36,577	
Deferred revenue	39,422		
Total liabilities	<u>745,073</u>	<u>62,441</u>	<u>2,253</u>
Fund balances (deficits):			
Nonspendable	14,292	61,708	
Restricted		494,785	387,443
Unassigned	449,041		
Total fund balances	<u>463,333</u>	<u>556,493</u>	<u>387,443</u>
 Total liabilities and fund balances	 <u>\$ 1,208,406</u>	 <u>\$ 618,934</u>	 <u>\$ 389,696</u>

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

LTAf	Youth Operations Center	RICO	CDBG	Non-Major Governmental Funds	Total Governmental Funds
\$ 100,121	\$	\$	\$	\$ 450,999	\$ 798,416
					603,974
				33,507	436,639
		10,585	204,070	11,430	413,093
423,447				119,198	119,198
					1,123,073
					8,348
					67,652
<u>\$ 523,568</u>	<u>\$</u>	<u>\$ 10,585</u>	<u>\$ 204,070</u>	<u>\$ 615,134</u>	<u>\$ 3,570,393</u>
\$	\$	\$ 6,378	\$	\$ 76,268	\$ 214,224
			5,644	14,484	111,748
	162,689	234,657	188,016	27,141	1,123,073
					36,577
				119,198	158,620
	<u>162,689</u>	<u>241,035</u>	<u>193,660</u>	<u>237,091</u>	<u>1,644,242</u>
523,568			10,410	405,184	76,000
	(162,689)	(230,450)		(27,141)	1,821,390
<u>523,568</u>	<u>(162,689)</u>	<u>(230,450)</u>	<u>10,410</u>	<u>378,043</u>	<u>28,761</u>
<u>\$ 523,568</u>	<u>\$</u>	<u>\$ 10,585</u>	<u>\$ 204,070</u>	<u>\$ 615,134</u>	<u>\$ 3,570,393</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, 2012**

Total governmental fund balances		\$ 1,926,151
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	\$ 47,635,463	
Less accumulated depreciation	<u>(17,389,797)</u>	30,245,666
Some revenues will not be available to pay for current period expenditures and therefore are deferred in the funds.		
Court fines	39,422	
Loan receivable	<u>119,198</u>	158,620
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(181,055)	
Capital lease	(17,873)	
Revenue bonds payable	(7,097,886)	
Other commitments	<u>(1,763,944)</u>	<u>(9,060,758)</u>
Net assets of governmental activities		<u>\$ 23,269,679</u>

The notes to the basic 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, 2012

	<u>General</u>	<u>Housing</u>	<u>Flood Control</u>
Revenues:			
Property taxes	\$ 568,903	\$	\$
City sales taxes	1,689,509		
Licenses and permits	239,403		
Intergovernmental	1,493,169	1,284,018	3,270
Charges for services	146,120		
Fines and forfeits	348,904		
Investment income	14,710	147	
Rents		276,449	
Miscellaneous	37,894	1,122	
Total revenues	<u>4,538,612</u>	<u>1,561,736</u>	<u>3,270</u>
Expenditures:			
Current -			
General government	1,163,509		
Public safety	1,975,930		
Highways and streets	164,450		83,781
Culture and recreation			
Redevelopment and housing		1,912,646	
Economic development			
Capital outlay	401,982		
Debt service -			
Principal retirement	39,023		
Interest and fiscal charges	15,434		
Total expenditures	<u>3,760,328</u>	<u>1,912,646</u>	<u>83,781</u>
Excess (deficiency) of revenues over expenditures	<u>778,284</u>	<u>(350,910)</u>	<u>(80,511)</u>
Other financing sources (uses):			
Transfers in			
Transfers out	(653,450)		
Total other financing sources (uses):	<u>(653,450)</u>		
Changes in fund balances	<u>124,834</u>	<u>(350,910)</u>	<u>(80,511)</u>
Fund balances (deficits), beginning of year	340,520	854,043	467,954
Increase\(\decrease) in reserve for prepaid items	(2,021)	53,360	
Fund balances (deficits), end of year	<u>\$ 463,333</u>	<u>\$ 556,493</u>	<u>\$ 387,443</u>

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

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, 2012

Net changes in fund balances - total governmental funds **\$ (12,147)**

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	\$ 83,745	
Less current year depreciation	<u>(1,038,397)</u>	(954,652)

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

Court fines	(464)	
Intergovernmental	<u>(417,401)</u>	(417,865)

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	39,023	
Other commitments	<u>113,328</u>	152,351

Some 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.

Loss on disposal of capital assets	(27,695)	
Amortization of bond items	(32,285)	
Compensated absences	<u>29,825</u>	<u>(30,155)</u>

Change in net assets in governmental activities **\$ (1,262,468)**

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

**CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF FIDUCIARY FUND NET ASSETS
JUNE 30, 2012**

	<u>Pension Trust</u>
<u>ASSETS</u>	
Cash and investments	\$ 219,199
Total assets	<u>219,199</u>
<u>NET ASSETS</u>	
Held in trust	<u>\$ 219,199</u>

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

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2012

	Pension Trust
Additions:	
State insurance contributions	\$ 25,304
Total additions	25,304
Deductions:	
Benefits	10,118
Total deductions	10,118
Changes in net assets	15,186
Net assets, beginning of year	204,013
Net assets, end of year	\$ 219,199

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

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.

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.

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

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

Property taxes, 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.

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.

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

Flood Control – This fund accounts for the operations of the City in response to drainage and flood control.

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

Youth Operations Center Fund – This fund accounts for activities of the City for the John A. Valenzuela Youth Center to guide and empower community youth through recreational and educational programs.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

RICO Fund – This fund accounts for activities of the City in relation to the Racketeer Influenced and Corrupt Organizations Act.

Community Development Block Grant (CDBG) Fund – This fund accounts for a series of entitlements received from the U.S. Department of Housing and Urban Development (HUD) and used for affordable housing and redevelopment activities.

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.

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.

G. Property Tax Calendar

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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

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.

H. 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.

I. Prepaid Items

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

J. 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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

K. 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.

L. 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.

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

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.

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 – FUND BALANCE CLASSIFICATIONS

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

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

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

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those accounts.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – FUND BALANCE CLASSIFICATIONS (Cont'd)

Assigned. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a management official delegated that authority by the formal City Council action.

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

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

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

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Flood Control Fund</u>	<u>LTA Fund</u>	<u>Youth Operations Fund</u>
Fund Balances:					
Nonspendable:					
Inventory	\$	\$ 8,348	\$	\$	\$
Prepaid items	14,292	53,360			
Restricted:					
Grants		494,785			
Capital projects					
Economic development					
Highways and streets			387,443	523,568	
Unassigned	449,041				(162,689)
Total fund balances	<u>\$ 463,333</u>	<u>\$ 556,493</u>	<u>\$ 387,443</u>	<u>\$ 523,568</u>	<u>\$ (162,689)</u>

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – FUND BALANCE CLASSIFICATIONS (Concl'd)

	RICO Fund	Community Development Block Grant Fund	Non-Major Governmental Funds
Fund Balances:			
Nonspendable:			
Inventory	\$	\$	\$
Prepaid items			
Restricted:			
Grants		10,410	40,717
Capital projects			12,327
Economic development			228,388
Highways and streets			123,752
Unassigned	(230,450)		(27,141)
Total fund balances	\$ (230,450)	\$ 10,410	\$ 378,043

NOTE 3 – 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:	
Youth Operations Center	\$ 162,689
RICO	230,450
Non-Major Governmental Funds:	
JCEF	26,101
Revitalization Projects	1,040

The deficits arose because of operations during the year and prior years. Deficit balances are a result of accumulated expenditures that are expected to be reimbursed at their completion by the corresponding funding source.

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, 2012**

NOTE 4 – 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 \$794,644 and the bank balance was \$2,090,641.

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	\$ 663,692
State Treasurer’s investment pool 5	26 days average	<u>163,253</u>
Total		<u>\$ 826,945</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. The State Treasurer’s investment pool 5 was rated AA AF/S1+ by Standard and Poor’s at year end.

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

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – RECEIVABLES

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

	General Fund	RICO Fund	Community Development Block Grant Fund	Non-Major Governmental Funds
Due from other governmental entities:				
Due from Federal government	\$	\$	\$ 204,070	\$ 11,430
Due from State government	45,408			
Due from other governments	141,600	10,585		
Net due from governmental entities	\$ 187,008	\$ 10,585	\$ 204,070	\$ 11,430

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.

Delinquent court fines receivable (General Fund)	\$ 39,422
Measurable but unavailable revenues (Non-Major Governmental Funds)	119,198
Total deferred revenue for governmental funds	\$ 158,620

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 315,962	\$	\$	\$ 315,962
Construction in progress	8,876,034		8,876,034	
Total capital assets, not being depreciated	<u>9,191,996</u>		<u>8,876,034</u>	<u>315,962</u>
Capital assets, being depreciated:				
Land improvements	2,970,748			2,970,748
Buildings and improvements	11,471,409			11,471,409
Infrastructure	19,888,396	8,876,034		28,764,430
Machinery, equipment and vehicles	4,230,763	83,745	201,594	4,112,914
Total capital assets being depreciated	<u>38,561,316</u>	<u>8,959,779</u>	<u>201,594</u>	<u>47,319,501</u>
Less accumulated depreciation for:				
Land improvements	(905,266)	(101,922)		(1,007,188)
Buildings and improvements	(4,865,837)	(234,490)		(5,100,327)
Infrastructure	(7,334,156)	(527,623)		(7,861,779)
Machinery, equipment and vehicles	(3,420,040)	(174,362)	(173,899)	(3,420,503)
Total accumulated depreciation	<u>(16,525,299)</u>	<u>(1,038,397)</u>	<u>(173,899)</u>	<u>(17,389,797)</u>
Total capital assets, being depreciated, net	<u>22,036,017</u>	<u>7,921,382</u>	<u>27,695</u>	<u>29,929,704</u>
Governmental activities capital assets, net	<u>\$31,228,013</u>	<u>\$ 7,921,382</u>	<u>\$ 8,903,729</u>	<u>\$ 30,245,666</u>
General government			\$ 335,656	
Public safety			84,470	
Highways and streets			416,844	
Redevelopment and housing			201,427	
Total depreciation expense – governmental activities			<u>\$ 1,038,397</u>	

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 – REVENUE BONDS PAYABLE

Revenue bonds currently outstanding are as follows.

	<u>Original Amount Issued</u>	<u>Interest Rate</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2012</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
Excise Tax Revenue Bond, Series 2007A and 2007B	\$ 7,905,000	4.10-5.95%	7/1/13-37	\$ 7,905,000	\$ 130,000
Total				<u>\$ 7,905,000</u>	<u>\$ 130,000</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, 2012. 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 \$15.7 million. The current total excise taxes and state shared revenues were \$2.9 million and the total principal and interest paid on the bonds was \$470,850, or 16% 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>
2013	\$ 130,000	\$ 470,850
2014	140,000	462,888
2015	145,000	454,312
2016	155,000	445,431
2017	165,000	435,938
2018-22	995,000	2,014,925
2023-27	1,335,000	1,671,006
2028-32	1,805,000	1,207,344
2033-37	3,035,000	583,294
Total	<u>\$ 7,905,000</u>	<u>\$ 7,745,988</u>

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – 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	163,576
Total	\$ 143,860

As of June 30, 2012, the future minimum lease obligation was \$18,430, less the amount representing interest of \$557, resulting in a net present value of \$17,873 to be paid during the fiscal year ended June 30, 2013.

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 \$10,484 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:	
2013	\$ 10,484
2014	10,484
2015	6,649
2016	375
Total minimum payments required	\$ 27,992

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Revenue bonds payable	\$ 7,905,000	\$	\$	\$ 7,905,000	\$ 130,000
Deferred bond discount	(839,399)		32,285	(807,114)	
Net bonds payable	7,065,601		32,285	7,097,886	130,000
Obligations under capital leases	56,896		39,023	17,873	17,873
Compensated absences payable	210,880	124,454	154,279	181,055	95,048
Other commitments	2,294,673	242,013	772,742	1,763,944	
Governmental activity long-term liabilities	<u>\$ 9,628,050</u>	<u>\$ 366,467</u>	<u>\$ 998,329</u>	<u>\$ 9,060,758</u>	<u>\$ 242,921</u>

Other commitments are composed of a long-term agreement with the Pima County Sheriff's department for inmate housing.

NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows.

Due to/from other funds:

Due to	Due from			Total
	Housing Fund	Flood Control Fund	LTAF Fund	
General Fund	\$ 510,570	\$	\$	\$ 510,570
Youth Operations Center Fund			162,689	162,689
RICO Fund			234,657	234,657
CDBG Fund		188,016		188,016
Non-Major Governmental Funds		1,040	26,101	27,141
Total	<u>\$ 510,570</u>	<u>\$ 189,056</u>	<u>\$ 423,447</u>	<u>\$ 1,123,073</u>

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.

Interfund transfers – An interfund transfer of \$470,850 was made by the City to move resources generated by City sales taxes to the Debt Service Fund for payment of bond interest. A transfer of \$182,600 was made to properly state interfund payables and receivables between the Revitalization Projects Fund and the General Fund.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12 – CONTINGENT LIABILITIES

Lawsuits – The City is a defendant in a number of lawsuits as of June 30, 2012. It is the opinion of management and City counsel that the amount of losses resulting from these litigations at June 30, 2012, would not be material to the financial position of the City.

NOTE 13 – RISK MANAGEMENT

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

The City's 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.

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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 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.

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

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. The reports are also available on their websites at www.azasrs.gov and www.psprs.com.

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 10.74 percent (10.50 percent for retirement and 0.24 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 10.74 percent (9.87 percent for retirement and 0.63 percent for health insurance premiums, and 0.24 percent for long-term disability) of the members’ annual covered payroll.

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,			
2012	\$ 88,958	\$ 5,678	\$ 2,163
2011	102,247	6,695	2,837
2010	98,557	7,799	4,756

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

Agent plan – For the current fiscal year, active PSPRS members were required by statute to contribute 8.65 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rates of 54.00 percent and 23.66 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, 2010 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	8.5%
Projected salary increases	5.5%-8.5%
Includes inflation at	5.5%
Amortization method	Level percent-of-pay closed
Remaining amortization	26 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market

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>
2012	\$336,520	100%	-0-
2011	318,993	100%	-0-
2010	184,698	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>
2012	\$84,463	100%	-0-
2011	98,581	100%	-0-
2010	75,417	100%	-0-

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

Police (Healthcare):

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$14,360	100%	-0-
2011	12,190	100%	-0-
2010	12,841	100%	-0-

Fire (Healthcare):

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$10,248	100%	-0-
2011	10,023	100%	-0-
2010	8,442	100%	-0-

Funding Progress – An analysis of funding progress for each of the agent plans as of June 30, 2012 follows.

Police (Retirement):

Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Overfunded (Underfunded) Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2012	\$ 543,003	\$ 6,658,855	\$ (6,115,852)	8.2%	\$613,205	(997.4)%
2011	760,097	6,385,381	(5,625,284)	11.9%	602,907	(933.0)%
2010	940,687	5,647,619	(4,706,932)	16.7%	583,794	(806.3)%

Fire (Retirement):

Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Overfunded (Underfunded) Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2012	\$ 1,738,168	\$ 2,863,905	\$ (1,125,737)	60.7%	\$399,654	(281.7)%
2011	1,889,998	2,671,759	(781,761)	70.7%	358,674	(218.0)%
2010	1,802,114	2,441,338	(639,224)	73.8%	359,650	(177.7)%

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Concl'd)

Police (Healthcare):

Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Overfunded (Underfunded) Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2012	- 0 -	\$189,087	\$(189,087)	0.0%	\$613,205	(30.84)%
2011	- 0 -	182,387	(182,387)	0.0%	602,907	(30.25)%
2010	- 0 -	142,763	(142,763)	0.0%	583,794	(24.45)%

Fire (Healthcare):

Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Overfunded (Underfunded) Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2012	- 0 -	\$109,778	\$(109,778)	0.0%	\$399,654	(27.47)%
2011	- 0 -	121,684	(121,684)	0.0%	358,674	(33.93)%
2010	- 0 -	105,574	(105,574)	0.0%	359,650	(29.35)%

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

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2012

	Budgeted Amounts	Non-GAAP	Variance with Final Budget
	Original & Final	Actual	Positive (Negative)
Revenues:			
Property taxes	\$ 350,234	\$ 568,903	\$ 218,669
City sales taxes	1,602,456	1,689,509	87,053
Licenses and permits	299,323	239,403	(59,920)
Intergovernmental	1,128,342	1,095,186	(33,156)
Charges for services	163,789	146,120	(17,669)
Fines and forfeits	296,450	348,904	52,454
Investment income	23,500	14,710	(8,790)
Miscellaneous	35,000	31,686	(3,314)
Total revenues	<u>3,899,094</u>	<u>4,134,421</u>	<u>235,327</u>
Expenditures:			
Current -			
General government	1,319,693	1,156,236	163,457
Public safety	1,869,821	1,975,930	(106,109)
Highways and streets	101,628	164,450	(62,822)
Debt service -			
Principal retirement	53,883	39,023	14,860
Interest and fiscal charges	21,812	15,434	6,378
Total expenditures	<u>3,366,837</u>	<u>3,351,073</u>	<u>15,764</u>
Excess (deficiency) of revenues over expenditures	<u>532,257</u>	<u>783,348</u>	<u>251,091</u>
Other financing sources (uses):			
Transfers out	(470,850)	(653,450)	(182,600)
Total other financing sources (uses):	<u>(470,850)</u>	<u>(653,450)</u>	<u>(182,600)</u>
Changes in fund balances	<u>61,407</u>	<u>129,898</u>	<u>68,491</u>
Fund balances, beginning of year		357,632	357,632
Increase\decrease) in reserve for prepaid items		(2,021)	(2,021)
Fund balances, end of year	<u>\$ 61,407</u>	<u>\$ 485,509</u>	<u>\$ 424,102</u>

See accompanying notes to this schedule.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HOUSING
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 1,623,439	\$ 1,284,018	\$ (339,421)
Investment income		147	147
Rents	230,000	276,449	46,449
Miscellaneous		1,122	1,122
Total revenues	<u>1,853,439</u>	<u>1,561,736</u>	<u>(291,703)</u>
Expenditures:			
Current -			
Redevelopment and housing	<u>1,735,490</u>	<u>1,912,646</u>	<u>(177,156)</u>
Total expenditures	<u>1,735,490</u>	<u>1,912,646</u>	<u>(177,156)</u>
Changes in fund balances	<u>117,949</u>	<u>(350,910)</u>	<u>(468,859)</u>
Fund balances, beginning of year		854,043	854,043
Increase\decrease) in reserve for prepaid items		53,360	53,360
Fund balances, end of year	<u>\$ 117,949</u>	<u>\$ 556,493</u>	<u>\$ 438,544</u>

See accompanying notes to this schedule.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FLOOD CONTROL
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$	3,270	\$ 3,270
Total revenues		<u>3,270</u>	<u>3,270</u>
Expenditures:			
Current -			
Highways and streets	207,719	83,781	123,938
Total expenditures	<u>207,719</u>	<u>83,781</u>	<u>123,938</u>
Changes in fund balances	<u>(207,719)</u>	<u>(80,511)</u>	<u>127,208</u>
Fund balances, beginning of year		467,954	467,954
Fund balances (deficits), end of year	<u>\$ (207,719)</u>	<u>\$ 387,443</u>	<u>\$ 595,162</u>

See accompanying notes to this schedule.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LTAF
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Charges for services	\$ 7,000	\$ 17,521	\$ 10,521
Total revenues	<u>7,000</u>	<u>17,521</u>	<u>10,521</u>
Expenditures:			
Current -			
Highways and streets	7,000	19,983	(12,983)
Total expenditures	<u>7,000</u>	<u>19,983</u>	<u>(12,983)</u>
Changes in fund balances		<u>(2,462)</u>	<u>(2,462)</u>
Fund balances, beginning of year		526,030	526,030
Fund balances, end of year	<u>\$</u>	<u>\$ 523,568</u>	<u>\$ 523,568</u>

See accompanying notes to this schedule.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YOUTH OPERATIONS CENTER
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	<u>(Negative)</u>
Expenditures:			
Current -			
Culture and recreation	\$ 113,000	\$ 123,992	\$ (10,992)
Total expenditures	<u>113,000</u>	<u>123,992</u>	<u>(10,992)</u>
Changes in fund balances	<u>(113,000)</u>	<u>(123,992)</u>	<u>(10,992)</u>
Fund balances (deficits), beginning of year		(38,697)	(38,697)
Fund balances (deficits), end of year	<u>\$ (113,000)</u>	<u>\$ (162,689)</u>	<u>\$ (49,689)</u>

See accompanying notes to this schedule.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
RICO
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 332,620	\$ 81,827	\$ (250,793)
Total revenues	<u>332,620</u>	<u>81,827</u>	<u>(250,793)</u>
Expenditures:			
Current -			
Public safety	270,730	123,255	147,475
Capital outlay	50,890	49,326	1,564
Total expenditures	<u>321,620</u>	<u>172,581</u>	<u>149,039</u>
Changes in fund balances	<u>11,000</u>	<u>(90,754)</u>	<u>(101,754)</u>
Fund balances (deficits), beginning of year		(139,696)	(139,696)
Fund balances (deficits), end of year	<u>\$ 11,000</u>	<u>\$ (230,450)</u>	<u>\$ (241,450)</u>

See accompanying notes to this schedule.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CDBG
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 543,900	\$ 265,679	\$ (278,221)
Total revenues	<u>543,900</u>	<u>265,679</u>	<u>(278,221)</u>
Expenditures:			
Current -			
Redevelopment and housing	320,945	275,841	45,104
Total expenditures	<u>320,945</u>	<u>275,841</u>	<u>45,104</u>
Changes in fund balances	<u>222,955</u>	<u>(10,162)</u>	<u>(233,117)</u>
Fund balances, beginning of year		20,572	20,572
Fund balances, end of year	<u>\$ 222,955</u>	<u>\$ 10,410</u>	<u>\$ (212,545)</u>

See accompanying notes to this schedule.

**CITY OF SOUTH TUCSON, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the City is prepared on a basis consistent with accounting principles generally accepted in the United States of America with the following exception. A portion of the General Fund activity is budgeted for separately as special revenue and capital projects funds. Consequently, the following adjustments were necessary to present actual expenditures, fund balance at July 1, 2011, and fund balance at June 30, 2012 on a budgetary basis in order to provide a meaningful comparison.

	<u>Total Expenditures</u>	<u>Fund Balance, June 30, 2012</u>	<u>Fund Balance, July 1, 2011</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 3,760,328	\$ 463,333	\$ 340,520
Fiscal year 2011-12 activity budgeted as special revenue and capital projects funds	<u>(409,255)</u>	<u>22,176</u>	<u>17,112</u>
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	<u>\$ 3,351,073</u>	<u>\$ 485,509</u>	<u>\$ 357,632</u>

NOTE 2 – EXCESS EXPENDITURES OVER BUDGET

At year end, the City had expenditures in the Housing, LTAF, and Youth Operations Funds that exceeded the budgets, however, this does not constitute a violation of any legal provisions.

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SUPPLEMENTARY INFORMATION

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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, 2012

	Economic Loan Development Program		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Miscellaneous	_____	_____	_____
Total revenues	_____	_____	_____
Expenditures:			
Current -			
General government			
Public safety			
Highways and streets			
Economic development			
Capital outlay	_____	_____	_____
Total expenditures	_____	_____	_____
Changes in fund balances	_____	_____	_____
Fund balances (deficits), beginning of year		228,388	228,388
Fund balances (deficits), end of year	\$ _____	\$ 228,388	\$ 228,388

HURF			JCEF		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 358,745	\$ 333,787	\$ (24,958)	\$	\$	\$
<u>358,745</u>	<u>333,787</u>	<u>(24,958)</u>			
355,745	331,800	23,945		3,418	(3,418)
<u>355,745</u>	<u>331,800</u>	<u>23,945</u>		<u>3,418</u>	<u>(3,418)</u>
3,000	1,987	(1,013)		(3,418)	(3,418)
	121,765	121,765		(22,683)	(22,683)
<u>\$ 3,000</u>	<u>\$ 123,752</u>	<u>\$ 120,752</u>	<u>\$</u>	<u>\$ (26,101)</u>	<u>\$ (26,101)</u>

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, 2012

	Grants		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Intergovernmental	\$ 1,058,273	\$ 500,014	\$ (558,259)
Miscellaneous			
Total revenues	<u>1,058,273</u>	<u>500,014</u>	<u>(558,259)</u>
Expenditures:			
Current -			
General government			
Public safety	688,066	333,997	354,069
Highways and streets			
Economic development	60,840	80,435	(19,595)
Capital outlay	200,000	139,801	60,199
Total expenditures	<u>948,906</u>	<u>554,233</u>	<u>394,673</u>
Changes in fund balances	<u>109,367</u>	<u>(54,219)</u>	<u>(163,586)</u>
Fund balances (deficits), beginning of year		94,936	94,936
Fund balances (deficits), end of year	<u>\$ 109,367</u>	<u>\$ 40,717</u>	<u>\$ (68,650)</u>

Explorer Program			Totals		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$ 13,000	\$ 6,208	\$ (6,792)	\$ 1,417,018	\$ 833,801	\$ (583,217)
<u>13,000</u>	<u>6,208</u>	<u>(6,792)</u>	<u>13,000</u>	<u>6,208</u>	<u>(6,792)</u>
<u>13,000</u>	<u>6,208</u>	<u>(6,792)</u>	<u>1,430,018</u>	<u>840,009</u>	<u>(590,009)</u>
12,500	7,273	5,227	12,500	10,691	1,809
			688,066	333,997	354,069
			355,745	331,800	23,945
			60,840	80,435	(19,595)
			<u>200,000</u>	<u>139,801</u>	<u>60,199</u>
<u>12,500</u>	<u>7,273</u>	<u>5,227</u>	<u>1,317,151</u>	<u>896,724</u>	<u>420,427</u>
500	(1,065)	(1,565)	112,867	(56,715)	(169,582)
	(4,776)	(4,776)		417,630	417,630
<u>\$ 500</u>	<u>\$ (5,841)</u>	<u>\$ (6,341)</u>	<u>\$ 112,867</u>	<u>\$ 360,915</u>	<u>\$ 248,048</u>

**CITY OF SOUTH TUCSON, ARIZONA
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 DEBT SERVICE
 YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
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):			
Transfers in		470,850	470,850
Total other financing sources (uses):		470,850	470,850
Changes in fund balances			
Fund balances, beginning of year			
Fund balances, end of year	\$	\$	\$

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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, 2012

	Regional Transportation Authority		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 400,000	\$ 772,908	\$ 372,908
Total revenues	400,000	772,908	372,908
Expenditures:			
Current -			
Highways and streets	400,704	429,387	(28,683)
Culture and recreation			
Capital outlay			
Total expenditures	400,704	429,387	(28,683)
Excess (deficiency) of revenues over expenditures	(704)	343,521	344,225
Other financing sources (uses):			
Transfers in			
Total other financing sources (uses):			
Changes in fund balances	(704)	343,521	344,225
Fund balances (deficits), beginning of year		(334,194)	(334,194)
Fund balances (deficits), end of year	\$ (704)	\$ 9,327	\$ 10,031

Revitalization Projects

Neighborhood Reinvestment

Revitalization Projects			Neighborhood Reinvestment		
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 425,000	\$ 397,983	\$ (27,017)
			425,000	397,983	(27,017)
			425,000	401,982	23,018
			425,000	401,982	23,018
				(3,999)	(3,999)
	182,600	182,600			
	182,600	182,600			
	182,600	182,600		(3,999)	(3,999)
	(183,640)	(183,640)		(12,336)	(12,336)
\$	\$ (1,040)	\$ (1,040)	\$	\$ (16,335)	\$ (16,335)

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, 2012

	Youth Art Project		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Intergovernmental	\$ 50,000	\$ 30,610	\$ (19,390)
Total revenues	<u>50,000</u>	<u>30,610</u>	<u>(19,390)</u>
Expenditures:			
Current -			
Highways and streets			
Culture and recreation	50,000	30,610	19,390
Capital outlay			
Total expenditures	<u>50,000</u>	<u>30,610</u>	<u>19,390</u>
Excess (deficiency) of revenues over expenditures			
Other financing sources (uses):			
Transfers in			
Total other financing sources (uses):			
Changes in fund balances			
Fund balances (deficits), beginning of year		3,000	3,000
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>

Totals

<u>Budget</u>	<u>Non-GAAP Actual</u>	<u>Variance - Positive (Negative)</u>
\$ 875,000	\$ 1,201,501	\$ 326,501
<u>875,000</u>	<u>1,201,501</u>	<u>326,501</u>
400,704	429,387	(28,683)
50,000	30,610	19,390
425,000	401,982	23,018
<u>875,704</u>	<u>861,979</u>	<u>13,725</u>
<u>(704)</u>	<u>339,522</u>	<u>340,226</u>
	182,600	182,600
	<u>182,600</u>	<u>182,600</u>
<u>(704)</u>	<u>522,122</u>	<u>522,826</u>
	(527,170)	(527,170)
<u>\$ (704)</u>	<u>\$ (5,048)</u>	<u>\$ (4,344)</u>

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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, 2012, which collectively comprise City of South Tucson, Arizona's basic financial statements and have issued our report thereon dated March 26, 2013. 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

Management of City of South Tucson, Arizona is responsible for establishing and maintaining effective 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 City of South Tucson, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of South Tucson, Arizona's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of South Tucson, Arizona's response and, accordingly, we express no opinion on the response.

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.
CPAs and Business Consultants

March 26, 2013



**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 *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, 2012. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, 2012.

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 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, 2012, and have issued our report thereon dated March 26, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. 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 schedule of expenditures of federal awards 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.
CPAs and Business Consultants

March 26, 2013

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

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	\$ 1,014,265
Public and Indian Housing	14.850	N/A	780,258
Comprehensive Improvement Assistance Program	14.852	N/A	91,965
Passed through Pima County:			
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-141607-1008	492
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-143547-1010	196,739
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-143073-0710	57,027
Subtotal CFDA Number 14.218			254,258
Total U.S. Department of Housing and Urban Development			2,140,746
<u>U.S. Department of Homeland Security</u>			
Passed through Arizona Department of Homeland Security:			
Homeland Security Grant Program	97.067	555424-04	1,260
Homeland Security Grant Program	97.067	777433-03	8,285
Homeland Security Grant Program	97.067	888414-01	8,285
Homeland Security Grant Program	97.067	888414-02	74,589
Homeland Security Grant Program	97.067	SWAZT0398 (2011)	1,721
Homeland Security Grant Program	97.067	SWAZT0521 (2012)	18,635
Total U.S. Department of Homeland Security			112,775
<u>U.S. Department of Commerce</u>			
Direct program:			
Economic Development - Support for Planning Organizations	11.302	07-87-06792	77,198
<u>U.S. Department of Justice</u>			
Direct program:			
Public Safety Partnership and Community Policing Grants, Recovery Act	16.710	2009RKWX0079	48,730
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-1137	5,944
Passed through the City of Tucson:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-1239, 2009-DJ-BX-3414	16,688
Recovery Act- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments	16.804	2009-SB-B9-2988	19,917
Total U.S. Department of Justice			91,279
<u>U.S. Environmental Protection Agency</u>			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Act	66.818	2B-00T18701-0	28,974
Brownfields Job Training Cooperative Agreements	66.815	00T64901	156,065
Total U.S. Environmental Protection Agency			185,039
Total Expenditures of Federal Awards			\$ 2,607,037

**CITY OF SOUTH TUCSON, ARIZONA
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2012**

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 2012 *Catalog of Federal Domestic Assistance*.

NOTE 3 – CLUSTERS OF PROGRAMS

OMB Circular A-133 defines clusters of programs for the completion of a single audit. The following programs reported on the schedule of expenditures of federal awards represents a cluster as defined by Circular A-133:

JAG Program Cluster:		
Edward Byrne Memorial Justice Assistance Program	16.738	\$ 22,632
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments	16.804	<u>19,917</u>
Total JAG Program Cluster		<u>\$ 42,549</u>

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? 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? 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

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, 2012**

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

Reference Number: 2012-1

Type of Finding: Significant deficiency

Description: Internal Controls over Financial Reporting

CRITERIA

The City is responsible for establishing and maintaining a system of administrative procedures and internal controls to ensure accurate external financial reporting on a basis consistent with generally accepted accounting principles (GAAP).

CONDITION/CONTEXT

The City does not have a sufficient control process or defined policy to review and approve adjusting journal entries posted to the general ledger for year-end closing.

EFFECT

The insufficient oversight procedures could result in a misstatement of the financial statements.

CAUSE

Limited staff size and available resources.

RECOMMENDATION

In order to ensure accurate external financial reporting the City should strengthen policies and procedures over the review of adjusting journal entries and year-end closing procedures.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management will seek approval for the implementation of new procedures that will include additional members of management in the review and approval of accounting transactions.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

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

Reference Number: 2012-2

Type of Finding: Significant deficiency

Description: Internal Controls Over Receivables/Liabilities

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 receivables 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 that estimation.

EFFECT

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

CAUSE

There is no formal policy to evaluate the collectability of the loans receivable account or refuse fees receivables; 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 and refuse fees receivables which is consistent with GAAP.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management will seek Mayor and Council approval of policies and procedures to address aging receivables.

**CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

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, 2012**

Status of Federal Award Findings and Questioned Costs

The City had no findings or questioned costs related to federal awards noted in prior audits that require a status.