

CITY OF SOUTH TUCSON, ARIZONA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

CITY OF SOUTH TUCSON, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Reports on the Financial Statements

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 (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2, the City restated the beginning balances of its financial statements for the year ended June 30, 2013, to correct misstatements in its previously issued financial statements. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 13, the Budgetary Comparison Schedules on pages 46 through 53, and the Schedule of Agent Retirement Plans' Funding Progress on page 54 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.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to use highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes, Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

Prior Period Financial Statements

As part of our audit of the City's financial statements for the year ended June 30, 2013, we also audited the adjustments described in Note 2 that were applied to restate the financial statements for the year ended June 30, 2012. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the City's financial statements for the year ended June 30, 2012, other than with respect to these adjustments and, accordingly, we do not express an opinion or provide any other form of assurance on the City's financial statements for the year ended June 30, 2012. The City's financial statements for the period ended June 30, 2012, were audited by other auditors that issued unmodified audit opinions on those financial statements in their report dated March 26, 2013. The City's fiscal year 2012 financial statements were not reissued for these adjustments.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of an audit.

Foster & Chapman P.C.

July 25, 2014



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



CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

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, 2013.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2012-13 as follows.

- The City's total net position of governmental activities decreased by \$1.5 million to \$20.3 million primarily due to depreciation expense.
- General revenues from governmental activities accounted for \$3.8 million in revenue, or 49 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4 million or 51 percent of total governmental activities revenues.
- The City had \$9.4 million in expenses related to governmental activities, an increase of \$109,996, or 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 \$4.7 million. The General Fund's fund balance increased from \$264,691 to \$942,709.
- The Housing Fund had \$1.9 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were \$2 million.
- The Housing Fund reported a fund balance decrease of \$146,601.
- The total expenditures of the Flood Control Fund were \$92,302. The Flood Control Fund reported a fund balance decrease of \$92,302.
- The total expenditures of the Youth Center Operations Fund were \$134,310. The Youth Operations Center Fund reported a fund balance decrease of \$21,010.
- The RICO Fund had \$283,859 in revenues which consisted of intergovernmental revenues. The total expenditures of the RICO Fund were \$230,022. The RICO Fund reported a fund balance increase of \$53,837.
- The Grants Fund had \$396,187 in revenues which consisted of intergovernmental revenues. The total expenditures of the Grants Fund were \$503,370. The Grants Fund reported a fund balance decrease of \$46,271.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

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.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Housing, Flood Control, Youth Operations Center, RICO, and Grants Fund, 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.

CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

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.

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 \$20.3 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 position for the fiscal years ended June 30, 2013 and June 30, 2012.

	Governmental Activities	
	2013	2012 (as restated)
Current and other assets	\$ 2,356,870	\$ 2,216,840
Capital assets, net	<u>28,046,344</u>	<u>29,098,704</u>
Total assets, net	<u>30,403,214</u>	<u>31,315,544</u>
Current liabilities	1,317,019	605,470
Long-term liabilities	<u>8,745,808</u>	<u>8,817,837</u>
Total liabilities	<u>10,062,827</u>	<u>9,423,307</u>
Net investment in capital assets	21,046,172	22,015,230
Restricted	1,498,493	2,663,504
Unrestricted	<u>(2,204,278)</u>	<u>(2,786,497)</u>
Total net position	<u>\$ 20,340,387</u>	<u>\$ 21,892,237</u>

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

CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

- The increase of current liabilities in the amount of \$711,549 primarily due to growth in accounts payable.
- The reduction of \$1.1 million in capital assets is due to depreciation expense.

Changes in net assets. The City's total revenues for the current fiscal year were \$7.8 million. The total cost of all programs and services was \$9.4 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2013 and June 30, 2012.

Statement of Activities - Governmental Activities

	Year Ended June 30,	
	2013	2012 (as restated)
Revenues:		
Program revenues:		
Charges for services	\$ 1,101,938	\$ 1,043,543
Operating grants and contributions	2,845,707	2,703,700
Capital grants and contributions	65,768	548,995
General revenues:		
Property taxes	647,567	568,903
City sales tax	1,833,283	1,689,509
State shared revenues	1,265,807	1,095,186
Investment income	1,799	14,857
Miscellaneous	<u>58,048</u>	<u>23,406</u>
Total revenues	<u>7,819,917</u>	<u>7,688,099</u>
Expenses:		
General government	1,447,345	1,913,781
Public safety	3,304,284	2,838,984
Highways and streets	1,339,786	1,307,533
Culture and recreation	134,310	185,212
Redevelopment and housing	2,567,484	2,417,257
Economic developments	99,518	80,435
Interest on long-term debt	<u>479,040</u>	<u>518,569</u>
Total expenses	<u>9,371,767</u>	<u>9,261,771</u>
Change in net position	(1,551,850)	(1,573,672)
Net position, beginning	<u>21,892,237</u>	<u>23,465,909</u>
Net position, ending	<u>\$ 20,340,387</u>	<u>\$ 21,892,237</u>

- Total governmental activities revenues increased \$131,818, or 1.7 percent.
- Capital grants and contributions revenues decreased \$483,227 primarily due to a reduction in revenues from Pima County for improvements within the City of South Tucson boundaries.
- General government expenses decreased primarily due to the phase out of the American Reinvestment and Recovery Act (ARRA) program.

CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

- Property tax revenues increased \$78,644 primarily due to increased property valuations.

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 City's taxpayers by each of these functions.

Governmental Activities	2013		2012 (as restated)	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
General government	\$ 1,447,345	\$ (1,163,869)	\$ 1,913,781	\$ (1,684,654)
Public safety	3,304,284	(2,188,081)	2,838,984	(1,555,585)
Highways and streets	1,339,786	(857,111)	1,307,533	(910,333)
Culture and recreation	134,310	77,479	185,212	(55,813)
Redevelopment and housing	2,567,484	(694,293)	2,417,257	(218,282)
Economic development	99,518	(53,439)	80,435	(22,297)
Interest on long-term debt	<u>479,040</u>	<u>(479,040)</u>	<u>518,569</u>	<u>(518,569)</u>
Total	<u>\$ 9,371,767</u>	<u>\$ (5,358,354)</u>	<u>\$ 9,261,771</u>	<u>\$ (4,965,533)</u>

- Federal and State governments and charges for services subsidized certain governmental programs with revenues of \$4 million.
- Net cost of governmental activities of \$5.4 million was financed by general revenues, which are made up of primarily City sales tax and state shared revenues of \$3.1 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 \$1.4 million, a decrease of \$429,518 or 23.2 percent.

The General Fund is the principal operating fund of the City. The increase in fund balance of \$264,691 to \$942,709 as of fiscal year end was a result of transfer in from other governmental funds.

General Fund expenditures increased \$925,442 as a result of debt services expenditures of \$626,913 and service fees and interest charges for housing prisoners of \$176,711 to the Pima County.

The fund balance decreased \$141,601 in the Housing Fund to \$409,892 as of fiscal year end. Housing Fund expenditures increased \$98,494 primarily as a result of increased reimbursements to housing program participants.

CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

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 \$244,259 in city sales tax revenues was a result of a conservative budget estimate and increased revenues amongst most industry sectors.
- The unfavorable variance of \$460,798 in public safety was a result of an increase in personnel costs, primarily in the police department.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets As of year end, the City had invested \$28.0 million in capital assets, net of accumulated depreciation. This amount represents a net increase prior to depreciation of \$331,689. Total depreciation expense for the current fiscal year was \$1.4 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2013 and June 30, 2012.

	Governmental Activities	
	2013	2012 (as restated)
Capital assets - non-depreciable	\$ 315,962	\$ 315,962
Capital assets - depreciable, net	27,730,382	28,782,742
Total capital assets, net	\$ 28,046,344	\$ 29,098,704

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

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, 2013 and June 30, 2012.

	Governmental Activities	
	2013	2012
Revenue bonds payable	\$ 7,000,171	\$ 7,097,886
Obligations under capital leases	-	17,873
Other commitments	1,940,715	1,763,944
Total	\$ 8,940,886	\$ 8,879,703

Additional information on the City's long-term debt can be found in Notes 6 through 7.

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 2013-14. The most significant factors affecting the subsequent year's budget are:

CITY OF SOUTH TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

- City sales tax growth trends
- Increased costs for public safety

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.



BASIC FINANCIAL STATEMENTS

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 887,462
Accounts receivable	12,175
Due from governmental entities	553,115
Inventory	8,644
Prepaid items	<u>53,360</u>
Total current assets	<u>1,514,756</u>
Noncurrent assets:	
Restricted investments	603,974
Restricted cash held by other governments	238,140
Capital assets, non-depreciable	315,962
Capital assets, depreciable (net)	<u>27,730,382</u>
Total noncurrent assets	<u>28,888,458</u>
Total assets	<u>30,403,214</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	735,398
Accrued payroll and employee benefits	153,692
Customer deposits	43,007
Compensated absences payable - current	94,922
Other commitments - current	150,000
General obligation bonds payable - current	<u>140,000</u>
Total current liabilities	<u>1,317,019</u>
Noncurrent liabilities:	
Compensated absences payable	94,922
Other commitments	1,790,715
General obligation bonds payable	<u>6,860,171</u>
Total noncurrent liabilities	<u>8,745,808</u>
Total liabilities	<u>10,062,827</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	21,046,173
Restricted for:	
Public safety	64,482
Highways and streets	420,145
Redevelopment housing	409,892
Debt service	603,974
Unrestricted	<u>(2,204,279)</u>
Total net position	<u>\$ 20,340,387</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 1,447,345	\$ 272,557	\$ 10,919		\$ (1,163,869)
Public safety	3,304,284	287,968	762,467	\$ 65,768	(2,188,081)
Highways and streets	1,339,786	19,301	463,374		(857,111)
Culture and recreation	134,310	98,789	113,000		77,479
Redevelopment and housing	2,567,484	423,323	1,449,868		(694,293)
Economic development	99,518		46,079		(53,439)
Interest on long-term debt	479,040				(479,040)
Total governmental activities	<u>\$ 9,371,767</u>	<u>\$ 1,101,938</u>	<u>\$ 2,845,707</u>	<u>\$ 65,768</u>	<u>(5,358,354)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					647,567
City sales taxes					1,833,283
State shared sales tax					459,854
State shared vehicle license tax					206,944
Urban revenue sharing					599,009
Investment income					1,799
Miscellaneous					<u>58,048</u>
Total general revenues					<u>3,806,504</u>
Change in net position					<u>(1,551,850)</u>
Net position, July 1, 2012 (as restated)					<u>21,892,237</u>
Net position, June 30, 2013					<u>\$ 20,340,387</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Flood Control Fund</u>
<u>ASSETS</u>			
Cash and investments	\$ 228,061	\$ 614,299	\$ 45,102
Investments - restricted	603,974		
Cash held by other governments			
Accounts receivable	12,175		
Due from governmental entities	210,320		
Due from other funds	301,684		254,115
Inventory		8,644	
Prepaid items		<u>53,360</u>	
Total assets	<u>\$ 1,356,214</u>	<u>\$ 676,303</u>	<u>\$ 299,217</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 293,459	\$ 211,525	\$ 1,117
Accrued payroll and employee benefits	120,046	11,879	2,959
Due to other funds			
Customer deposits		<u>43,007</u>	
Total liabilities	<u>413,505</u>	<u>266,411</u>	<u>4,076</u>
Fund balances (deficits):			
Nonspendable		62,004	
Restricted	603,974	347,888	295,141
Unassigned	<u>338,735</u>		
Total fund balances (deficits)	<u>942,709</u>	<u>409,892</u>	<u>295,141</u>
Total liabilities and fund balances	<u>\$ 1,356,214</u>	<u>\$ 676,303</u>	<u>\$ 299,217</u>

See accompanying notes to financial statements.

Youth Operations Center Fund	RICO Fund	Grants Fund	Non-Major Governmental Funds	Total Governmental Funds
				\$ 887,462
				603,974
	\$ 238,140			238,140
				12,175
	71,092	\$ 61,107	\$ 210,596	553,115
				555,799
				8,644
				<u>53,360</u>
	<u>\$ 309,232</u>	<u>\$ 61,107</u>	<u>\$ 210,596</u>	<u>\$ 2,912,669</u>
\$ 6,892	\$ 64,546	\$ 95,175	\$ 62,684	\$ 735,398
		4,316	14,492	153,692
176,807	180,204	77,308	121,480	555,799
				<u>43,007</u>
<u>183,699</u>	<u>244,750</u>	<u>176,799</u>	<u>198,656</u>	<u>1,487,896</u>
				62,004
	64,482		125,004	1,436,489
<u>(183,699)</u>		<u>(115,692)</u>	<u>(113,064)</u>	<u>(73,720)</u>
<u>(183,699)</u>	<u>64,482</u>	<u>(115,692)</u>	<u>11,940</u>	<u>1,424,773</u>
<u>\$</u>	<u>\$ 309,232</u>	<u>\$ 61,107</u>	<u>\$ 210,596</u>	<u>\$ 2,912,669</u>



CITY OF SOUTH TUCSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Fund balances - total governmental funds \$ 1,424,773

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

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

Governmental capital assets	\$ 47,967,152	
Less accumulated depreciation	<u>(19,920,808)</u>	28,046,344

Some liabilities, including bonds and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.

Compensated absences	\$ 189,844	
Revenue bonds payable	7,000,171	
Other commitments	<u>1,940,715</u>	<u>(9,130,730)</u>

Net position of governmental activities \$ 20,340,387

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Flood Control Fund</u>
REVENUES			
City sales taxes	\$ 1,833,283		
Property taxes	647,567		
Licenses and permits	272,557		
Intergovernmental	1,265,807	\$ 1,449,868	
Charges for services	107,471		
Fines and forfeits	287,249		
Investment income	1,868	30	
Rents		400,778	
Miscellaneous	<u>56,511</u>	<u>13,863</u>	<u> </u>
Total revenues	4,472,313	1,864,539	
EXPENDITURES			
Current:			
General government	1,117,758		
Public safety	2,763,141		
Highways and streets	140,462		\$ 92,302
Culture and recreation			
Redevelopment and housing		2,011,140	
Economic development	20,652		
Capital outlay	16,844		
Debt service:			
Principal retirement	147,873		
Interest and fiscal charges	<u>479,040</u>	<u> </u>	<u> </u>
Total expenditures	<u>4,685,770</u>	<u>2,011,140</u>	<u>92,302</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(213,457)</u>	<u>(146,601)</u>	<u>(92,302)</u>
OTHER FINANCING SOURCES (USES)			
Other financing sources	176,771		
Transfers in	508,733		
Transfers out	<u>(207,356)</u>	<u> </u>	<u> </u>
Total other financing sources (uses)	<u>478,148</u>	<u> </u>	<u> </u>
Net change in fund balances	264,691	(146,601)	(92,302)
Fund balances, July 1, 2012 (as restated)	<u>678,018</u>	<u>556,493</u>	<u>387,443</u>
Fund balances, June 30, 2013	<u>\$ 942,709</u>	<u>\$ 409,892</u>	<u>\$ 295,141</u>

See accompanying notes to financial statements.

Youth Operations Center Fund	RICO Fund	Grants Fund	Non-major Governmental Funds	Total Governmental Funds
				\$ 1,833,283
				647,567
				272,557
\$ 113,000	\$ 283,859	\$ 396,187	\$ 668,561	4,177,282
			19,301	126,772
			719	287,968
				1,898
				400,778
<u>300</u>			<u>1,138</u>	<u>71,812</u>
113,300	283,859	396,187	689,719	7,819,917
			2,570	1,120,328
	193,488	216,820		3,173,449
134,310			462,216	694,980
				134,310
			304,506	2,315,646
		78,866		99,518
	36,534	207,684		261,062
				147,873
				<u>479,040</u>
<u>134,310</u>	<u>230,022</u>	<u>503,370</u>	<u>769,292</u>	<u>8,426,206</u>
<u>(21,010)</u>	<u>53,837</u>	<u>(107,183)</u>	<u>(79,573)</u>	<u>(606,289)</u>
				176,771
		88,876	118,480	716,089
		<u>(135,147)</u>	<u>(373,586)</u>	<u>(716,089)</u>
		<u>(46,271)</u>	<u>(255,106)</u>	<u>176,771</u>
(21,010)	53,837	(153,454)	(334,679)	(429,518)
<u>(162,689)</u>	<u>10,645</u>	<u>37,762</u>	<u>346,619</u>	<u>1,854,291</u>
<u>\$ (183,699)</u>	<u>\$ 64,482</u>	<u>\$ (115,692)</u>	<u>\$ 11,940</u>	<u>\$ 1,424,773</u>

CITY OF SOUTH TUCSON, ARIZONA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds \$ (429,518)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 332,781	
Depreciation expense	<u>(1,385,141)</u>	(1,052,360)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal of long-term debt consumes the current financial resources of governmental funds. However, these payments have no effect on net position. This amount is the effect of difference in the treatment of repayments of long-term debt and related items.

Capital leases	17,873	
Revenue bond payable	130,000	
Other commitments	<u>(176,771)</u>	(28,898)

Under the modified accrual basis accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

Amortization of bond discount	(32,285)	
Compensated absences	<u>(8,789)</u>	<u>(41,074)</u>

Change in net position of governmental activities \$ (1,551,850)

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	Pension Trust	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 94,613	\$ 110,737
Receivable	32,430	
Total assets	127,043	110,737
LIABILITIES		
Deposits held for others		110,737
Total liabilities		110,737
NET POSITION		
Held in trust	\$ 127,043	\$ 110,737

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013

	<u>Pension Trust</u>
ADDITIONS:	
Contributions	\$ <u>32,430</u>
Total additions	<u>32,430</u>
DEDUCTIONS:	
Benefits	<u>13,819</u>
Total deductions	<u>13,819</u>
Change in net position	18,611
Net position, July 1, 2012, as restated	<u>108,432</u>
Net position, June 30, 2013	\$ <u><u>127,043</u></u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A summary of the City's more significant accounting policies follows.

For the year ended June 30, 2013, the City implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

A. Financial Reporting Entity

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

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, component units combined with the City for financial statement presentation purposes, and the City, are not included in any other governmental reporting entity. Consequently, the City's financial statements include the funds of those organizational entities for which its elected governing body is financially accountable.

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

B. Government-Wide and Fund Financial Statements

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

Grants Fund - This fund accounts for various grants program 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 Volunteer 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.

Agency Fund - This fund accounts for assets the City hold as an agent for Economic Development Loan Program (EDLP).

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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding I. 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.

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

\$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure capital assets include only those assets acquired or constructed since July 1, 2003.

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

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

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

<u>Assets</u>	<u>Years</u>
Land improvements	15 - 50
Buildings and improvements	20 - 50
Infrastructure	20 - 75
Machinery, equipment, and vehicles	3 - 15

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.

M. Interfund Activity

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - FUND BALANCE CLASSIFICATIONS (CONTIUED)

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>Youth Operations Fund</u>
Fund Balances:				
Nonspendable:				
Inventory	-	\$ 8,644	-	-
Prepaid items	-	53,360	-	-
Restricted:				
Public safety	-	-	-	-
Highways and streets	-	-	\$ 295,141	-
Redevelopment and housing	-	347,888	-	-
Debt services	\$ 603,974	-	-	-
Unassigned	<u>338,735</u>	<u>-</u>	<u>-</u>	<u>\$ (183,699)</u>
Total fund balances	<u>\$ 942,709</u>	<u>\$ 409,892</u>	<u>\$ 295,141</u>	<u>\$ (183,699)</u>

	<u>RICO Fund</u>	<u>Grants Fund</u>	<u>Non-Major Governmental Funds</u>
Fund Balances:			
Nonspendable:			
Inventory	-	-	-
Prepaid items	-	-	-
Restricted:			
Public safety	\$ 64,482	-	-
Highways and streets	-	-	\$ 125,004
Redevelopment and housing	-	-	-
Debt services	-	-	-
Unassigned	<u>-</u>	<u>\$ (115,692)</u>	<u>(113,064)</u>
Total fund balances	<u>\$ 64,482</u>	<u>\$ (115,692)</u>	<u>\$ 11,940</u>

The beginning net position in the government-wide Statement of Activities was restated by \$1,377,442. In addition, prior period adjustments were made that restated the General Fund, RICO Fund, LTAF Fund and Non-Major Governmental Funds' beginning fund balances. A decrease of \$1,146,962 to the government-wide beginning net position and an increase to accumulated depreciation was made to record depreciation for infrastructure which had been previously placed into service, but not properly depreciated. A decrease of \$158,620 to the government-wide beginning net position and reduction of receivables was made to correct amounts previously reported as loans receivable and court fines. A decrease of \$310,000 to the General Fund's prior year fund balance and an increase in the allowance for doubtful accounts was made to reflect uncollectible refuse fees. An increase of \$241,095 to the RICO Fund's prior year fund balance and restricted cash held by other governments was made to record the RICO Fund distributions previously made to the City. A decrease of \$524,685 to the LTAF Fund's prior year fund balance and an increase in the General Fund's prior year fund balance was made to properly reflect LTAF Fund expenditures previously recorded in the General Fund. In addition, Grant Funds has been reclassified as a major fund and CDBG has been reclassified as a Non-Major Governmental Fund for the fiscal year ended June 30, 2013.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - FUND BALANCE CLASSIFICATIONS (CONTIUED)

	Governmental Activities
Net position, July 1, 2012, as previously reported	\$ 23,269,679
Prior period correction	(1,377,442)
Net position, July 1, 2012, as restated	\$ 21,892,237

	General Fund	RICO Fund	LTAF Fund	Grants Fund
Fund Balance, July 1, 2012, as previously reported	\$ 463,333	\$ (230,450)	\$ 524,685	\$ 40,717
Prior period corrections	214,685	241,095	(524,685)	(2,955)
Fund Balance, July 1, 2012, as restated	\$ 678,018	\$ 10,645	\$ -	\$ 37,762

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

	Deficit
Major Funds:	
Grants	\$ 115,692
Youth Operations Center Fund	183,699
Non-Major Governmental Funds:	
CDBG	79,859
Revitalization Projects	33,205

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, 2013

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. In the case of deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned. As of June 30, 2013, the carrying amount of deposits was \$1,092,842 and the bank balance was \$1,030,976. The Federal Deposit Insurance Corporation protects the City against loss on the first \$250,000 of deposits with each separate financial institution. The remaining bank balance was covered by collateral held by the pledging financial institution's trust department in the City's name.

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

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

Investment Type	Maturities	Fair Value
U.S. Treasuries	Less than one year	\$ 603,974
State Treasurer's investment pool 5		<u>168,181</u>
Total		<u><u>\$ 772,155</u></u>

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

Credit Risk - The City has no investment policy that would further limit its investment choices. The State Treasurer's investment pool 5 was rated AAAF/SI+ 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, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows.

Governmental activities:	July 1, 2012 (as restated)	Increases	Decreases	June 30, 2013
Capital assets not being depreciated:				
Land	\$ 315,962			\$ 315,962
Total capital assets not being depreciated	<u>315,962</u>			<u>315,962</u>
Capital assets being depreciated:				
Land improvements	2,970,748			2,970,748
Buildings and improvements	11,719,794	\$ 202,236		11,922,030
Infrastructure	28,458,731	103,181	\$ (2,753)	28,559,159
Machinery, equipment and vehicles	<u>4,170,228</u>	<u>29,025</u>		<u>4,199,253</u>
Total capital assets being depreciated	<u>47,319,501</u>	<u>334,442</u>	<u>(2,753)</u>	<u>47,651,190</u>
Less accumulated depreciation for:				
Land improvements	(1,007,188)	(100,381)		(1,107,569)
Buildings and improvements	(5,150,004)	(281,169)		(5,431,173)
Infrastructure	(8,959,064)	(817,315)	1,092	(9,775,287)
Machinery, equipment and vehicles	<u>(3,420,503)</u>	<u>(186,276)</u>		<u>(3,606,779)</u>
Total accumulated depreciation	<u>(18,536,759)</u>	<u>(1,385,141)</u>	<u>1,092</u>	<u>(19,920,808)</u>
Total capital assets being depreciated, net	<u>28,782,742</u>	<u>(1,050,699)</u>	<u>(1,661)</u>	<u>27,730,382</u>
Governmental activities capital assets, net	<u>\$ 29,098,704</u>	<u>\$ (1,050,699)</u>	<u>\$ (1,661)</u>	<u>\$ 28,046,344</u>

Depreciation expense was charged to governmental activities' functions as follows:

Governmental activities:	
General government	\$ 362,420
Public safety	122,896
Highways and streets	647,883
Redevelopment and housing	<u>251,942</u>
Total depreciation expense - governmental activities	<u>\$ 1,385,141</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2013:

<u>Governmental activities:</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Due Within 1 Year</u>
Revenue bonds payable	\$ 7,905,000		\$ (130,000)	\$ 7,775,000	\$ 140,000
Deferred bond discount	<u>(807,114)</u>		<u>32,285</u>	<u>(774,829)</u>	
Net bonds payable	7,097,886		(97,715)	7,000,171	140,000
Capital leases payable	17,873		(17,873)		
Compensated absences payable	181,055	\$ 135,593	(126,804)	189,844	94,922
Other commitments	<u>1,763,944</u>	<u>176,771</u>		<u>1,940,715</u>	<u>150,000</u>
Governmental activities long-term liabilities	<u>\$ 9,060,758</u>	<u>\$ 312,364</u>	<u>\$ (242,392)</u>	<u>\$ 9,130,730</u>	<u>\$ 384,922</u>

Revenue bonds currently outstanding are as follows.

	<u>Original Amount Issued</u>	<u>Interest Rate</u>	<u>Remaining Maturities</u>	<u>Outstanding Principle June 30, 2013</u>	<u>Due Within One Year</u>
Governmental activities: Excise Tax Revenue Bond, Series 2007A and 2007B	\$ 7,905,000	4.10-4.95%	7/1/13-37	<u>\$ 7,775,000</u>	<u>\$ 140,000</u>
Total				<u>\$ 7,775,000</u>	<u>\$ 140,000</u>

The City has pledged future excise taxes and state shared revenues to repay outstanding revenue bonds of \$7.8 million as of June 30, 2013. 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 payable through 2037. The total principal and interest to be paid on the bonds is \$15.1 million. The current total excise taxes and state shared revenues were \$3.1 million and the total principal and interest paid on the bonds was \$470,850, or 15% of gross revenues.

Other commitments are composed of a long-term agreement with the Pima County Sheriff's department for service fees and interest charges for housing prisoners, which subsequently settled with the Pima County as discussed in Note 12.

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Year ending June 30:	Governmental Activities			
	Bond Payable		Other Commitment	
	Principal	Interest	Principal	Interest
2014	\$ 140,000	\$ 462,887	\$ 150,000	\$ -
2015	145,000	454,312	91,992	14,768
2016	155,000	445,431	93,372	13,389
2017	165,000	435,937	94,773	11,988
2018	175,000	425,831	96,194	10,566
2019-23	1,055,000	1,953,981	503,052	30,750
2024-28	1,420,000	1,589,237	911,332	1,579
2029-33	1,915,000	1,096,787	-	-
2034-37	<u>2,605,000</u>	<u>410,735</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,775,000</u>	<u>\$ 7,275,138</u>	<u>\$ 1,940,715</u>	<u>\$ 83,040</u>

NOTE 7 - OBLIGATIONS UNDER LEASES

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:	
2014	\$ 9,274
2015	6,649
2016	<u>450</u>
Total minimum payments required	<u>\$ 16,373</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 - INTERFUND BALANCES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013, is listed below.

Due to	Due from				Total
	Youth Operations Center Fund	RICO Fund	Grants Fund	Non-Major Governmental Fund	
General Fund	\$	\$ 180,204	\$	\$ 121,480	\$ 301,684
Flood Control Fund	176,807		77,308		254,115
Total	<u>\$ 176,807</u>	<u>\$ 180,204</u>	<u>\$ 77,308</u>	<u>\$ 121,480</u>	<u>\$ 555,799</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 - Interfund transfers for the year ended June 30, 2013, were as follows:

Transfer out	Transfer in			Total
	General Fund	Grants Fund	Non-Major Governmental Funds	
General Fund	\$	\$ 135,147	\$ 373,586	\$ 508,733
Grants Fund	88,876			88,876
Non-Major Governmental Funds	118,480			118,480
Total	<u>\$ 207,356</u>	<u>\$ 135,147</u>	<u>\$ 373,586</u>	<u>\$ 716,089</u>

NOTE 9 - CONTINGENT LIABILITIES

During the fiscal years ending June 30, 2012 through 2014, the City levied and collected approximately \$1.8 million of secondary property taxes without obtaining the required voter approval. The City may need to reduce its primary tax levy in future or issue refunds as a remedy for excessive property tax collected.

Lawsuits - The City is a defendant in a number of lawsuits and claims as of June 30, 2013. It is the opinion of management and the City's legal counsel that the amount of losses resulting from these suits and claims at June 30, 2013, is either not determinable or immaterial to the financial position of the City.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 - 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 11 - RETIREMENT PLANS

Plan Descriptions – The City contributes to the two plans described below. The plans are component units of the State of Arizona and benefits are established by state statute, and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including debt and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retiree's average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. The health insurance premium benefit is paid as a fixed dollar amount per month toward the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

The *Public Safety Personnel Retirement System (PSPRS)* administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a seven-member board, known as The Board of Trustees, 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 is available on their Web site or may be obtained by writing or calling the applicable plan.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 - RETIREMENT PLANS (CONTINUED)

ASRS	PSPRS
3300 North Central Ave.	3010 East Camelback Road,
P.O. Box 33910	Suite 200
Phoenix, AZ 85067-3910	Phoenix, AZ 85016-4416
(602) 240-2000 or (800) 621-3778	(602) 255-5575
www.azars.gov	www.psprs.com

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates for ASRS and PSPRS.

Cost-sharing plans - For the year ended June 30, 2013, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 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 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium benefit, 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

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2013	\$ 113,749	\$ 7,216	\$ 2,663
2012	88,958	5,678	2,163
2011	102,247	6,695	2,837

Agent plans - For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rates of 62.24 percent and 23.1 percent for police and fire, respectively. The health insurance premium benefit portion of the contribution rate was actuarially set at 2.36 percent and 2.32 percent of covered payroll for police and fire, respectively.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2013, were established by the June 30, 2011, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information provides multiyear 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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 - RETIREMENT PLANS (CONTINUED)

Projections of benefits are based on 1) the plans as understood by the City and the plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2013 contribution requirements, are as follows:

	<u>PSPRS</u>
Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	25 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases includes inflation at	5%-8% 5%

Annual Pension/OPEB Cost - The City's pension/OPEB cost for the agent plans for the year ended June 30, 2013, and related information follows:

	<u>PSPRS - Police</u>		<u>PSPRS - Fire</u>	
	<u>Pension</u>	Health Insurance	<u>Pension</u>	Health Insurance
		Premium Benefit		Premium Benefit
Annual pension/OPEB cost	\$ 413,712	\$ 15,687	\$ 91,346	\$ 9,174
Contributions made	\$ 413,712	\$ 15,687	\$ 91,346	\$ 9,174

Trend Information - Annual pension and OPEB cost information for the current and two preceding years follows;

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 - RETIREMENT PLANS (CONTINUED)

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS - Police:				
Pension	2013	\$ 413,712	100 %	\$ 0
Health Insurance Premium				
Benefit	2013	15,687	100 %	0
Pension	2012	336,520	100 %	0
Health Insurance Premium				
Benefit	2012	14,360	100 %	0
Pension	2011	318,993	100 %	0
Health Insurance Premium				
Benefit	2011	12,190	100 %	0
PSPRS - Fire:				
Pension	2013	91,346	100 %	0
Health Insurance Premium				
Benefit	2013	9,174	100 %	0
Pension	2012	84,463	100 %	0
Health Insurance Premium				
Benefit	2012	10,248	100 %	0
Pension	2011	98,581	100 %	0
Health Insurance Premium				
Benefit	2011	10,023	100 %	0

Funded Status - The funded status of the plans as of the most recent valuation date, June 30, 2013, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS - Police		PSPRS - Fire	
	Pension	Health Insurance Premium Benefit	Pension	Health Insurance Premium Benefit
Actuarial accrued liability (a)	\$ 6,678,757	\$ 175,644	\$ 2,789,563	\$ 73,493
Actuarial value of assets (b)	342,794	-	1,669,691	-
Unfunded actuarial accrued liability (funding excess) (a) – (b)	6,335,963	175,644	1,119,872	73,493
Funded ratio (b) / (a)	5.1%	0.0%	59.9%	0.0%
Covered payroll (c)	626,179	626,179	160,581	160,581
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) – (b))/(c)	1,011.9%	28.05%	697.4%	45.77%

The actuarial methods and assumptions used are the same for all plans and related benefits, and for the most recent valuation date, are as follows:

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

NOTE 12 - SUBSEQUENT EVENT

At June 30, 2013, the City owed Pima County \$1,940,715 for fees and interest charges related to housing prisoners. In October 2013, Pima County and the City entered into a settlement agreement whereby \$200,000 of fees were forgiven and interest charges totaling \$606,155 were waived. Upon execution of the agreement, the City agreed to make an initial payment of \$150,00 and to pay the remaining balance of \$984,563 over a 10 year period, in 10 equal installments of \$106, 760 with interest at 1.5% per annum.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2013

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property taxes	\$ 647,850	\$ 647,567	\$ (283)
City sales taxes	1,589,024	1,833,283	244,259
License and permits	299,323	272,557	(26,766)
Intergovernmental revenue	1,289,484	1,265,807	(23,677)
Charges for services	125,889	107,471	(18,418)
Fines and forfeits	227,550	287,249	59,699
Investment income		1,868	1,868
Miscellaneous	<u>140,500</u>	<u>56,511</u>	<u>(83,989)</u>
Total revenues	<u>4,319,620</u>	<u>4,472,313</u>	<u>152,693</u>
EXPENDITURES			
General government:			
Administration	11,000	11,179	(179)
City manager	429,973	452,655	(22,682)
Mayor and Council	45,641	37,082	8,559
City clerk	68,609	61,546	7,063
Finance	104,440	105,674	(1,234)
Information technologies	131,245	46,256	84,989
Personnel	15,571	7,385	8,186
Planning and zoning	16,564	50,467	(33,903)
Public buildings	61,944	57,517	4,427
Non-departmental	<u>285,000</u>	<u>287,997</u>	<u>(2,997)</u>
Total general governments	<u>1,169,987</u>	<u>1,117,758</u>	<u>52,229</u>
Public safety:			
Magistrate Court	229,673	240,049	(10,376)
Fire department	575,889	603,868	(27,979)
Police department	<u>1,496,781</u>	<u>1,919,224</u>	<u>(422,443)</u>
Total public safety	<u>2,302,343</u>	<u>2,763,141</u>	<u>(460,798)</u>
Highways and streets:			
Transportation and flood control	17,064	9,063	8,001
Public works	30,447	61,894	(31,447)
Sanitation	65,000	21,364	43,636
Streets		4,079	(4,079)
Fleet	<u>41,484</u>	<u>44,062</u>	<u>(2,578)</u>
Total highways and streets	<u>153,995</u>	<u>140,462</u>	<u>13,533</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2013

(CONTINUED)

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Economic development:			
Development services	16,750	20,652	(3,902)
Total economic development	16,750	20,652	(3,902)
Capital outlay		16,844	(16,844)
Debt services	676,545	626,913	49,632
Total expenditures	4,319,620	4,685,770	(366,150)
Excess (deficiency) of revenues over (under) expenditures		(213,457)	(213,457)
 OTHER FINANCING SOURCES (USES)			
Other financing sources		176,771	176,771
Transfer in		508,733	508,733
Transfer out		(207,356)	(207,356)
Total other financing uses		478,148	478,148
Net changes in fund balance		264,691	264,691
 Fund balance, beginning of year (as restated)		678,018	678,018
Fund balance, end of year	\$	\$ 942,709	\$ 942,709

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - HOUSING FUND
 YEAR ENDED JUNE 30, 2013

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ 2,359,106	\$ 1,449,868	\$ (909,238)
Investment income		30	30
Rents	230,000	400,778	170,778
Miscellaneous	<u>1,170</u>	<u>13,863</u>	<u>12,693</u>
Total revenues	<u>2,590,276</u>	<u>1,864,539</u>	<u>(725,737)</u>
EXPENDITURES			
Redevelopment and housing	<u>2,590,276</u>	<u>2,011,140</u>	<u>579,136</u>
Total expenditures	<u>2,590,276</u>	<u>2,011,140</u>	<u>579,136</u>
Excess (deficiency) of revenues over (under) expenditures		(146,601)	(146,601)
Fund balance, beginning of year	<u> </u>	<u>556,493</u>	<u>556,493</u>
Fund balance, end of year	<u>\$ </u>	<u>\$ 409,892</u>	<u>\$ 409,892</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - FLOOD CONTROL FUND
 YEAR ENDED JUNE 30, 2013

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>210,000</u>	\$ _____	\$ <u>(210,000)</u>
Total revenues	<u>210,000</u>	_____	<u>(210,000)</u>
EXPENDITURES			
Highway and streets	<u>210,000</u>	<u>92,302</u>	<u>117,698</u>
Total expenditures	<u>210,000</u>	<u>92,302</u>	<u>117,698</u>
Excess (deficiency) of revenues over (under) expenditures		(92,302)	(92,302)
Fund balance, beginning of year	_____	<u>387,443</u>	<u>387,443</u>
Fund balance, end of year	<u>\$ _____</u>	<u>\$ 295,141</u>	<u>\$ 295,141</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - YOUTH OPERATIONS CENTER FUND
 YEAR ENDED JUNE 30, 2013

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ 113,000	\$ 113,000	\$
Miscellaneous	<u> </u>	<u> 300</u>	<u> 300</u>
Total revenues	<u>113,000</u>	<u>113,300</u>	<u>300</u>
EXPENDITURES			
Culture and recreation	<u>113,000</u>	<u>134,310</u>	<u>(21,310)</u>
Total expenditures	<u>113,000</u>	<u>134,310</u>	<u>(21,310)</u>
Excess (deficiency) of revenues over (under) expenditures		(21,010)	(21,010)
Fund balance, beginning of year	<u> </u>	<u>(162,689)</u>	<u>(162,689)</u>
Fund balance, end of year	<u>\$ </u>	<u>\$ (183,699)</u>	<u>\$ (183,699)</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - RICO FUND
 YEAR ENDED JUNE 30, 2013

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>332,620</u>	\$ <u>283,859</u>	\$ <u>(48,761)</u>
Total revenues	<u>332,620</u>	<u>283,859</u>	<u>(48,761)</u>
EXPENDITURES			
Public safety	332,620	193,488	139,132
Capital outlay	<u> </u>	<u>36,534</u>	<u>(36,534)</u>
Total expenditures	<u>332,620</u>	<u>230,022</u>	<u>102,598</u>
Excess (deficiency) of revenues over (under) expenditures		53,837	53,837
Fund balance, beginning of year (as restated)	<u> </u>	<u>10,645</u>	<u>10,645</u>
Fund balance, end of year	<u>\$ <u> </u></u>	<u>\$ <u>64,482</u></u>	<u>\$ <u>64,482</u></u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GRANTS FUND
 YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ <u>2,291,260</u>	\$ <u>396,187</u>	\$ <u>(1,895,073)</u>
Total revenues	<u>2,291,260</u>	<u>396,187</u>	<u>(1,895,073)</u>
EXPENDITURES			
Public safety	946,260	216,820	729,440
Economic development	105,000	78,866	26,134
Capital outlay	<u>1,240,000</u>	<u>207,684</u>	<u>1,032,316</u>
Total expenditures	<u>2,291,260</u>	<u>503,370</u>	<u>1,787,890</u>
Excess (deficiency) of revenues over (under) expenditures		(107,183)	(107,183)
OTHER FINANCING SOURCES (USES)			
Transfer in		88,876	88,876
Transfer out	<u> </u>	<u>(135,147)</u>	<u>(135,147)</u>
Total other financing uses	<u> </u>	<u>(46,271)</u>	<u>(46,271)</u>
Net changes in fund balance		(153,454)	(153,454)
Fund balance, beginning of year (as restated)	<u> </u>	<u>37,762</u>	<u>37,762</u>
Fund balance, end of year	<u>\$ <u> </u></u>	<u>\$ <u>(115,692)</u></u>	<u>\$ <u>(115,692)</u></u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013

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, 2012, and fund balance at June 30, 2013 on a budgetary basis in order to provide a meaningful comparison.

Note 2 - Excess Expenditures over Budget

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

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
JUNE 30, 2013

Analysis of Funding Progress - The following was obtained from the three most recent actuarial valuations of the agent plans:

South Tucson Police Department						
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding (Liability) Excess	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
	(a)	(b)	(a-b)	(a/b)	(c)	([a-b]/c)
<u>June 30, 2013</u>						
Pension	\$ 342,794	\$ 6,678,757	\$ (6,335,963)	5.1%	\$ 626,179	(1,011.9)%
Health insurance premium benefit		175,644	(175,644)	0.0%	626,179	(28.05)%
<u>June 30, 2012</u>						
Pension	543,003	6,658,855	(6,115,852)	8.2%	613,205	(997.4)%
Health insurance premium benefit		189,087	(189,087)	0.0%	613,205	(30.84)%
<u>June 30, 2011</u>						
Pension	760,097	6,385,381	(5,625,284)	11.9%	602,907	(933.0)%
Health insurance premium benefit		182,387	(182,387)	0.0%	602,907	(30.25)%

South Tucson Fire Department						
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding (Liability) Excess	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
	(a)	(b)	(a-b)	(a/b)	(c)	([a-b]/c)
<u>June 30, 2013</u>						
Pension	\$ 1,669,691	\$ 2,789,563	\$ (1,119,872)	59.9%	\$ 160,581	(697.4)%
Health insurance premium benefits		73,493	(73,493)	0.0%	160,581	(45.77)%
<u>June 30, 2012</u>						
Pension	1,738,168	2,863,905	(1,125,737)	60.7%	399,654	(281.7)%
Health insurance premium benefit		109,778	(109,778)	0.0%	399,654	(27.47)%
<u>June 30, 2011</u>						
Pension	1,889,998	2,671,759	(781,761)	70.7%	358,674	(218.0)%
Health insurance premium benefit		121,684	(121,684)	0.0%	358,674	(33.93)%