

CITY OF SOUTH TUCSON, ARIZONA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

CITY OF SOUTH TUCSON, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

Table of Contents

Independent Auditors' Report.....	1 - 3
Required Supplementary Information - Management's Discussion and Analysis.....	7 - 13
Basic Financial Statements:	
Government-Wide Statements:	
Statement of Net Position.....	16
Statement of Activities.....	17
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	18 - 19
Reconciliation of the Balance Sheet to the Statement of Net Position.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	22 - 23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	24
Fiduciary Funds	
Statement of Fiduciary Net Position.....	25
Statement of Changes in Fiduciary Net Position.....	26
Notes to Financial Statements.....	27 - 43
Other Required Supplementary Information	
Budgetary Comparison Schedules.....	46 - 53
Schedule of Agent Retirement Plans' Funding Progress.....	54



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, 2014, 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, 2014, 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.

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.

Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies

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.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the City Council, management, and other responsible parties within the City and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, 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. 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* in considering the City's internal control over financial reporting and compliance.

Handwritten signature in cursive script that reads "Fester & Chapman P.C.".

March 31, 2015



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, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2013-14 as follows.

- The City's total net position of governmental activities decreased by \$100,472 to \$20.2 million primarily due to depreciation expense.
- General revenues from governmental activities accounted for \$4.2 million in revenue, or 47 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3.9 million or 44 percent of total governmental activities revenues. All special items of \$806,155, or 9 percent of all revenues was received from a settlement of an intergovernmental payable with the Pima County.
- The City had \$9.0 million in expenses related to governmental activities, a decrease of \$350,268, or a 4 percent reduction from the prior fiscal year.
- Among major funds, the General Fund had \$4.8 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues. The total expenditures of the General Fund were \$4.9 million. The General Fund's fund balance decreased from \$1,237,850 to \$943,762.
- The Housing Fund had \$2.0 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were \$2.0 million.
- The Housing Fund reported a fund balance increase of \$93,565.
- The total expenditures of the CDBG Fund were \$282,106. The CDBG Fund reported a fund balance increase of \$23,661.
- The total expenditures of the Youth Operations Center Fund were \$136,554. The Youth Operations Center Fund reported a fund balance decrease of \$23,554.
- The RICO Fund had \$164,200 in revenues which consisted of intergovernmental revenues. The total expenditures of the RICO Fund were \$275,714. The RICO Fund reported a fund balance decrease of \$111,514.
- The Grants Fund had \$307,104 in revenues which consisted of intergovernmental revenues. The total expenditures of the Grants Fund were \$282,488. The Grants Fund reported a fund balance increase of \$193,829 due to transfers from other funds.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The Statement of Net Position presents information on all of the City's assets and liabilities, with the

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2014

difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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, CDBG, 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, 2014

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 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, 2014 and June 30, 2013.

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 2,221,561	\$ 2,356,870
Capital assets, net	<u>27,437,971</u>	<u>28,046,344</u>
Total assets, net	<u>29,659,532</u>	<u>30,403,214</u>
Current liabilities	936,534	932,097
Long-term liabilities	<u>8,483,083</u>	<u>9,130,730</u>
Total liabilities	<u>9,419,617</u>	<u>10,062,827</u>
Net investment in capital assets	20,272,243	21,046,172
Restricted	1,256,551	1,498,493
Unrestricted	<u>(1,288,879)</u>	<u>(2,204,278)</u>
Total net position	<u>\$ 20,239,915</u>	<u>\$ 20,340,387</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, 2014

- The decrease of long-term liabilities in the amount of \$647,647 primarily is due to a waiver of intergovernmental payable to Pima County.
- The reduction of \$608,373 in capital assets is due to depreciation expense.

Changes in net position. The City's total revenues for the current fiscal year were \$8.9 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, 2014 and June 30, 2013.

Statement of Activities - Governmental Activities

	Year Ended June 30,	
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 951,685	\$ 1,101,938
Operating grants and contributions	2,918,700	2,845,707
Capital grants and contributions	38,901	65,768
General revenues:		
Property taxes	647,670	647,567
City sales tax	1,750,828	1,833,283
State shared revenues	1,380,488	1,265,807
Investment income	1,175	1,799
Sales of capital assets	275,500	
Miscellaneous	149,925	58,048
Special item	<u>806,155</u>	
Total revenues	<u>8,921,027</u>	<u>7,819,917</u>
Expenses:		
General government	1,817,576	1,447,345
Public safety	3,110,159	3,304,284
Highways and streets	1,241,338	1,339,786
Culture and recreation	136,554	134,310
Redevelopment and housing	2,230,022	2,567,484
Economic developments	1,968	99,518
Interest on long-term debt	<u>483,882</u>	<u>479,040</u>
Total expenses	<u>9,021,499</u>	<u>9,371,767</u>
Change in net position	(100,472)	(1,551,850)
Net position, beginning	<u>20,340,387</u>	<u>21,892,237</u>
Net position, ending	<u>\$ 20,239,915</u>	<u>\$ 20,340,387</u>

- Total governmental activities revenues increased \$1.1 million or 14 percent due to the waiver of intergovernmental payable and the state shared sales tax increases.
- General government expenses increased primarily due to cost of living adjustments.

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2014

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	2014		2013	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
General government	\$ 1,817,576	\$ (1,530,444)	\$ 1,447,345	\$ (1,163,869)
Public safety	3,110,159	(2,128,571)	3,304,284	(2,188,081)
Highways and streets	1,241,338	(854,047)	1,339,786	(857,111)
Culture and recreation	136,554	75,235	134,310	77,479
Redevelopment and housing	2,230,022	(188,536)	2,567,484	(694,293)
Economic development	1,968	(1,968)	99,518	(53,439)
Interest on long-term debt	483,882	(483,882)	479,040	(479,040)
Total	<u>\$ 9,021,499</u>	<u>\$ (5,112,213)</u>	<u>\$ 9,371,767</u>	<u>\$ (5,358,354)</u>

- Federal and State governments and charges for services subsidized certain governmental programs with revenues of \$4 million.
- Net cost of governmental activities of \$5.1 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 \$1.3 million, a decrease of \$139,746 or 9.8 percent.

The General Fund is the principal operating fund of the City. The decrease in fund balance of \$294,088 to \$943,762 as of fiscal year end was a result of transfer out to other governmental funds and the loss of other funding sources.

General Fund expenditures increased \$208,287 as a result of cost of living adjustments, the reinstatement of merit increases, leave time payouts for departing employees and the loss of alternate funding sources for Public Works and Planning and Zoning.

The fund balance decreased \$111,514 in the RICO Fund to \$(47,032) as of fiscal year end. RICO Fund revenues decreased \$119,659 primarily as a result of decreased distribution from federal and state governments.

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2014

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:

- A favorable variance of \$346,981 in miscellaneous revenue was a result of fire truck sales.
- An unfavorable variance of \$127,094 in planning and zoning was due to the transfer of personnel costs from the discontinued grant program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets As of June 30, 2014, the City had invested \$27.4 million in capital assets, net of accumulated depreciation. This amount represents a net increase prior to depreciation of \$88,958. Total depreciation expense for the current fiscal year was \$1.3 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2014 and June 30, 2013.

	Governmental Activities	
	2014	2013
Capital assets - non-depreciable	\$ 315,962	\$ 315,962
Capital assets - depreciable, net	27,122,009	27,730,382
Total capital assets, net	\$ 27,437,971	\$ 28,046,344

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

Debt Administration At year end, the City had \$8.2 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, 2014 and June 30, 2013.

	Governmental Activities	
	2014	2013
Revenue bonds payable	\$ 6,892,456	\$ 7,000,171
Obligations under capital leases	273,272	
Other commitments	984,560	1,940,715
Total	\$ 8,150,288	\$ 8,940,886

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 2014-15. The most significant factors affecting the subsequent year's budget are:

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

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2014

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.



BASIC FINANCIAL STATEMENTS

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 783,543
Accounts receivable	9,176
Due from governmental entities	644,834
Inventory	5,106
Prepaid items	26,644
Restricted investments	603,950
Restricted cash held by other governments	148,308
Capital assets, non-depreciable	315,962
Capital assets, being depreciated, net	<u>27,122,009</u>
Total assets	<u>29,659,532</u>
<u>LIABILITIES</u>	
Accounts payable	738,950
Accrued payroll and employee benefits	157,878
Customer deposits	33,461
Unearned revenue	6,245
Noncurrent liabilities:	
Due within one year	549,432
Due in more than one year	<u>7,933,651</u>
Total liabilities	<u>9,419,617</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	20,272,243
Restricted for:	
Public safety	78,137
Highways and streets	71,007
Redevelopment housing	503,457
Debt service	603,950
Unrestricted	<u>(1,288,879)</u>
Total net position	<u>\$ 20,239,915</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

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	\$ 1,817,576	\$ 287,132			\$ (1,530,444)
Public safety	3,110,159	232,136	\$ 710,551	\$ 38,901	(2,128,571)
Highways and streets	1,241,338		387,291		(854,047)
Culture and recreation	136,554	98,789	113,000		75,235
Redevelopment and housing	2,230,022	333,628	1,707,858		(188,536)
Economic development	1,968				(1,968)
Interest on long-term debt	483,882				(483,882)
Total governmental activities	<u>\$ 9,021,499</u>	<u>\$ 951,685</u>	<u>\$ 2,918,700</u>	<u>\$ 38,901</u>	<u>(5,112,213)</u>

General revenues:

Taxes:	
Property taxes, levied for general purposes	647,670
City sales taxes	1,750,828
State shared sales tax	532,244
State shared vehicle license tax	206,243
Urban revenue sharing	642,001
Investment earnings	1,175
Gains on disposal of capital assets	275,500
Miscellaneous	<u>149,925</u>
Total general revenues	4,205,586
Special item	<u>806,155</u>
Change in net position	(100,472)
Net position, July 1, 2013	<u>20,340,387</u>
Net position, June 30, 2014	<u>\$ 20,239,915</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Housing Fund</u>	<u>CDBG Fund</u>
<u>ASSETS</u>			
Cash and investments	\$ 84,490	\$ 566,954	
Investments - restricted	603,950		
Cash held by other governments			
Accounts receivable	9,176		
Due from governmental entities	324,397		\$ 167,658
Due from other funds	505,494		
Inventory		5,106	
Prepaid items		26,644	
Total assets	<u>\$ 1,527,507</u>	<u>\$ 598,704</u>	<u>\$ 167,658</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 299,344	\$ 48,445	\$ 97,227
Accrued payroll and employee benefits	131,480	13,341	1,399
Due to other funds	149,786		125,230
Customer deposits		33,461	
Unearned revenue	3,135		
Total liabilities	<u>583,745</u>	<u>95,247</u>	<u>223,856</u>
Fund balances (deficits):			
Nonspendable		31,750	
Restricted	603,950	471,707	
Unassigned	339,812		(56,198)
Total fund balances (deficits)	<u>943,762</u>	<u>503,457</u>	<u>(56,198)</u>
Total liabilities and fund balances	<u>\$ 1,527,507</u>	<u>\$ 598,704</u>	<u>\$ 167,658</u>

See accompanying notes to financial statements.

Youth Operations Center Fund	RICO Fund	Grants Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$ 28,407	\$ 83,543	\$ 20,149	\$ 783,543
	148,308			603,950
		152,779		148,308
			181,078	9,176
				644,834
				686,572
				5,106
				26,644
	\$ 176,715	\$ 236,322	\$ 201,227	\$ 2,908,133
\$ 2,904	\$ 43,543	\$ 128,072	\$ 119,415	\$ 738,950
			11,658	157,878
204,349	180,204	27,003		686,572
				33,461
		3,110		6,245
207,253	223,747	158,185	131,073	1,623,106
		78,137	71,007	31,750
(207,253)	(47,032)		(853)	1,224,801
(207,253)	(47,032)	78,137	70,154	28,476
\$	\$ 176,715	\$ 236,322	\$ 201,227	\$ 2,908,133



CITY OF SOUTH TUCSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Fund balances - total governmental funds \$ 1,285,027

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	\$ 48,056,109	
Less accumulated depreciation	<u>(20,618,138)</u>	27,437,971

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	185,274	
Revenue bonds payable	6,892,456	
Capital leases	273,272	
Claims and judgments	147,521	
Other commitments	<u>984,560</u>	<u>(8,483,083)</u>

Net position of governmental activities \$ 20,239,915

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Housing Fund</u>	<u>CDBG Fund</u>
REVENUES			
City sales taxes	\$ 1,750,828		
Property taxes	647,670		
Licenses and permits	287,132		
Intergovernmental	1,380,488	\$ 1,707,858	\$ 294,501
Charges for services	94,883		
Fines and forfeits	232,136		
Investment earnings	1,175		
Rents		337,534	
Miscellaneous	<u>413,981</u>		
Total revenues	<u>4,808,293</u>	<u>2,045,392</u>	<u>294,501</u>
EXPENDITURES			
Current:			
General government	1,356,797		
Public safety	2,738,340		
Highways and streets	168,909		
Culture and recreation			
Redevelopment and housing		1,951,827	282,106
Economic development	1,968		
Capital outlay	11,198		
Debt service:			
Principal retirement	147,638		
Interest and fiscal charges	<u>469,207</u>		
Total expenditures	<u>4,894,057</u>	<u>1,951,827</u>	<u>282,106</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(85,764)</u>	<u>93,565</u>	<u>12,395</u>
OTHER FINANCING SOURCES (USES)			
Transfers in			11,266
Transfers out	<u>(208,324)</u>		
Total other financing sources (uses)	<u>(208,324)</u>		<u>11,266</u>
Net change in fund balances	(294,088)	93,565	23,661
Fund balances, July 1, 2013	<u>1,237,850</u>	<u>409,892</u>	<u>(79,859)</u>
Fund balances, June 30, 2014	<u>\$ 943,762</u>	<u>\$ 503,457</u>	<u>\$ (56,198)</u>

See accompanying notes to financial statements.

Youth Operations Center Fund	RICO Fund	Grants Fund	Non-major Governmental Funds	Total Governmental Funds
				\$ 1,750,828
				647,670
				287,132
\$ 113,000	\$ 164,200	\$ 307,104	\$ 370,938	4,338,089
				94,883
				232,136
				1,175
				337,534
			11,444	425,425
<u>113,000</u>	<u>164,200</u>	<u>307,104</u>	<u>382,382</u>	<u>8,114,872</u>
			4,915	1,361,712
	187,618	60,093		2,986,051
136,554			426,277	595,186
			680	136,554
				2,234,613
				1,968
	52,884	222,395		286,477
	20,537			168,175
	14,675			483,882
<u>136,554</u>	<u>275,714</u>	<u>282,488</u>	<u>431,872</u>	<u>8,254,618</u>
<u>(23,554)</u>	<u>(111,514)</u>	<u>24,616</u>	<u>(49,490)</u>	<u>(139,746)</u>
		169,213	27,845	208,324
				(208,324)
		<u>169,213</u>	<u>27,845</u>	
(23,554)	(111,514)	193,829	(21,645)	(139,746)
(183,699)	64,482	(115,692)	91,799	1,424,773
<u>\$ (207,253)</u>	<u>\$ (47,032)</u>	<u>\$ 78,137</u>	<u>\$ 70,154</u>	<u>\$ 1,285,027</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, 2014

Net change in fund balances - total governmental funds \$ (139,746)

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	\$ 739,282	
Depreciation expense	<u>(1,347,655)</u>	(608,373)

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	(273,272)	
Revenue bond payable	140,000	
Other commitments	<u>956,155</u>	822,883

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)	
Claims and judgments	(147,521)	
Compensated absences	<u>4,570</u>	<u>(175,236)</u>

Change in net position of governmental activities \$ (100,472)

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Pension Trust	Agency Fund
ASSETS		
Cash and cash equivalents	\$ <u>115,397</u>	\$ <u>110,524</u>
Total assets	<u>115,397</u>	<u>110,524</u>
LIABILITIES		
Deposits held for others	<u> </u>	<u>110,524</u>
Total liabilities	<u> </u>	<u>110,524</u>
NET POSITION		
Held in trust	\$ <u>115,397</u>	\$ <u> </u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014

	Pension Trust
ADDITIONS:	
Contributions	\$ <u>11,173</u>
Total additions	<u>11,173</u>
DEDUCTIONS:	
Benefits	<u>22,819</u>
Total deductions	<u>22,819</u>
Change in net position	(11,646)
Net position, July 1, 2013	<u>127,043</u>
Net position, June 30, 2014	\$ <u><u>115,397</u></u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Unearned revenue arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as 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.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

CDBG Fund - This fund accounts for activities of the City for CDBG grants.

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 types:

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 Earnings

Investment earnings 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."

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. 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.

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.

CITY OF SOUTH TUCSON, ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 2 - 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:	
CDBG	\$ 56,198
Youth Operations Center Fund	207,253
RICO	47,032

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 June 30, 2014, the City had expenditures in funds that exceeded the budgets; however, this does not constitute a violation of any legal provisions.

NOTE 3- 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 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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 - FUND BALANCE CLASSIFICATIONS (CONTIUED)

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 balances 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>CDBG Fund</u>	<u>Youth Operations Fund</u>	<u>RICO Fund</u>	<u>Grants Fund</u>	<u>Non-major Governmental Fund</u>
Fund Balances:							
Nonspendable:							
Inventory		\$ 5,106					
Prepaid items		26,644					
Restricted:							
Public safety						\$ 78,137	
Highways and streets							\$ 71,007
Redevelopment and housing		471,707					
Debt services	\$ 603,950						
Unassigned	<u>339,812</u>		<u>\$(56,198)</u>	<u>\$(207,253)</u>	<u>\$(47,032)</u>		<u>\$(853)</u>
Total fund balances	<u>\$ 943,762</u>	<u>\$ 503,457</u>	<u>\$(56,198)</u>	<u>\$(207,253)</u>	<u>\$(47,032)</u>	<u>\$ 78,137</u>	<u>\$ 70,154</u>

The July 1, 2013 fund balances in the General Fund and Non-Major Governmental Funds do not agree to the prior year financial statements. This is a result of the reclassification of certain funds no longer meeting the definition of a special revenue fund as defined in GASB Statement No. 54 that have been included with the General Fund. In addition, the June 30, 2013 fund balances of the Non-major Governmental Funds do not agree to the prior year financial statements as a result of the classification of the CDBG Fund as a major fund during the fiscal year ended June 30, 2014.

	<u>General Fund</u>	<u>Flood Control Fund</u>	<u>CDBG Fund</u>	<u>Non-major Governmental Funds</u>
Fund balance, June 30, 2013, as previously reported	\$ 942,709	\$ 295,141	\$	\$ 11,940
Fund reclassification	<u>295,141</u>	<u>(295,141)</u>	<u>(79,859)</u>	<u>79,859</u>
Fund balance, July 1, 2013	<u>\$ 1,237,850</u>	<u>\$</u>	<u>\$(79,859)</u>	<u>\$ 91,799</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, the carrying amount of deposits was \$983,646 and the bank balance was \$1,111,793. 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), 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	\$ 603,950
State Treasurer's investment pool 5		<u>25,818</u>
Total		<u>\$ 629,768</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, 2014

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows.

<u>Governmental activities:</u>	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 315,962	<u> </u>	<u> </u>	\$ 315,962
Total capital assets not being depreciated	<u>315,962</u>	<u> </u>	<u> </u>	<u>315,962</u>
Capital assets being depreciated:				
Land improvements	2,970,748			2,970,748
Buildings and improvements	11,922,030	\$ 150,834		12,072,864
Infrastructure	28,559,159		\$ (2,753)	28,556,406
Machinery, equipment and vehicles	<u>4,199,253</u>	<u>588,448</u>	<u>(647,572)</u>	<u>4,140,129</u>
Total capital assets being depreciated	<u>47,651,190</u>	<u>739,282</u>	<u>(650,325)</u>	<u>47,740,147</u>
Less accumulated depreciation for:				
Land improvements	(1,107,569)	(100,382)		(1,207,951)
Buildings and improvements	(5,431,173)	(266,608)		(5,697,781)
Infrastructure	(9,775,287)	(817,315)	2,753	(10,589,849)
Machinery, equipment and vehicles	<u>(3,606,779)</u>	<u>(163,350)</u>	<u>647,572</u>	<u>(3,122,557)</u>
Total accumulated depreciation	<u>(19,920,808)</u>	<u>(1,347,655)</u>	<u>650,325</u>	<u>(20,618,138)</u>
Total capital assets being depreciated, net	<u>27,730,382</u>	<u>(608,373)</u>	<u> </u>	<u>27,122,009</u>
Governmental activities capital assets, net	<u>\$ 28,046,344</u>	<u>\$ (608,373)</u>	<u>\$ </u>	<u>\$ 27,437,971</u>

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

Governmental activities:	
General government	\$ 339,493
Public safety	122,896
Highways and streets	647,885
Redevelopment and housing	<u>237,381</u>
Total depreciation expense - governmental activities	<u>\$ 1,347,655</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014:

<u>Governmental activities:</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Due Within 1 Year</u>
Revenue bonds payable	\$ 7,775,000		\$ (140,000)	\$ 7,635,000	\$ 145,000
Deferred bond discount	<u>(774,829)</u>		<u>32,285</u>	<u>(742,544)</u>	
Net bonds payable	7,000,171		(107,715)	6,892,456	145,000
Capital leases payable		\$ 288,711	(15,439)	273,272	54,049
Compensated absences payable	189,844	161,568	(166,138)	185,274	110,870
Claims and judgments		147,521		147,521	147,521
Other commitments	<u>1,940,715</u>		<u>(956,155)</u>	<u>984,560</u>	<u>91,992</u>
Governmental activities long-term liabilities	<u>\$ 9,130,730</u>	<u>\$ 597,800</u>	<u>\$ (1,245,447)</u>	<u>\$ 8,483,083</u>	<u>\$ 549,432</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, 2014</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>\$ 7,635,000</u>	<u>\$ 145,000</u>
Total				<u>\$ 7,635,000</u>	<u>\$ 145,000</u>

The City has pledged future excise taxes and state shared revenues to repay outstanding revenue bonds of \$7.6 million as of June 30, 2014. 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 \$602,888, or 19% 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. In October 2013, Pima County and the City entered into a settlement agreement whereby \$806,155 of fees and interest charges were forgiven. The remaining balance of \$984,560 will be paid in 10 equal installments of \$106,760 over a 10 year period, with interest at 1.5% per annum.

Compensated absences accrue during each pay period at a rate determined by years of service. Both vacation and personal time can be taken off from work, within certain limitations, or may be payable to employees upon termination or retirement. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 - LONG-TERM DEBT (CONTINUED)

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

Year ending June 30:	Governmental Activities			
	Bond Payable		Other Commitment	
	Principal	Interest	Principal	Interest
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	185,000	415,112	97,637	9,123
2020-24	1,120,000	1,889,362	405,415	21,627
2025-29	1,510,000	1,502,262	105,177	1,579
2030-34	2,030,000	979,493		
2035-37	2,150,000	264,506		
Total	<u>\$ 7,635,000</u>	<u>\$ 6,812,246</u>	<u>\$ 984,560</u>	<u>\$ 83,040</u>

NOTE 7 - OBLIGATIONS UNDER LEASES

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Vehicles and equipment	\$ 296,125
Less: Accumulated depreciation	-
Carrying value	<u>\$ 296,125</u>

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2014, were as follows:

Year ending June 30:	
2015	\$ 64,722
2016	64,722
2017	64,722
2018	64,722
2019	<u>43,148</u>
Total minimum payments required	302,036
Less amount representing interest	<u>(28,764)</u>
Present value of minimum lease payments	<u>\$ 273,272</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 - OBLIGATIONS UNDER LEASES (CONTINUED)

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 \$9,274 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:		
	2015	\$ 6,649
	2016	<u>450</u>
Total minimum payments required		<u>\$ 7,099</u>

NOTE 8 - INTERFUND BALANCES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014, is listed below.

	Due from					
Due to	General Fund	CDBG Fund	Youth Operations Center Fund	RICO Fund	Grants Fund	Total
General Fund		\$ 121,480	\$ 176,807	\$ 180,204	\$ 27,003	\$ 505,494
Non-major						
Governmental Fund	\$ <u>149,786</u>	<u>3,750</u>	<u>27,542</u>	<u> </u>	<u> </u>	<u>181,078</u>
Total	<u>\$ 149,786</u>	<u>\$ 125,230</u>	<u>\$ 204,349</u>	<u>\$ 180,204</u>	<u>\$ 27,003</u>	<u>\$ 686,572</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, 2014, were as follows:

	Transfers in			
Transfers out	CDBG	Grants Fund	Non-Major Governmental Funds	Total
General Fund	\$ <u>11,266</u>	\$ <u>169,213</u>	\$ <u>27,845</u>	\$ <u>208,324</u>
Total	<u>\$ 11,266</u>	<u>\$ 169,213</u>	<u>\$ 27,845</u>	<u>\$ 208,324</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 the 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, 2014. 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, 2014, is either not determinable or immaterial to the financial position of the City.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

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, 2014, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.3 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 11.54 percent (10.7 percent for retirement, 0.60 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
2014	\$ 116,960	\$ 6,558	\$ 2,663
2013	113,749	7,216	2,663
2012	88,958	5,678	2,163

Agent plans - For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rates of 67.73 percent and 29.18 percent for police and fire, respectively. The health insurance premium benefit portion of the contribution rate was actuarially set at 2.26 percent and 1.8 percent of covered payroll for police and fire, respectively.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012, 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, 2014

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 2014 contribution requirements, are as follows:

	<u>PSPRS</u>
Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	24 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%
Projected salary increases includes inflation at	5%-9% 5%

Annual Pension/OPEB Cost - The City's pension/OPEB cost for the agent plans for the year ended June 30, 2014, 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	\$ 442,616	\$ 15,279	\$ 120,641	\$ 7,931
Contributions made	\$ 442,616	\$ 15,279	\$ 120,641	\$ 7,931

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, 2014

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	2014	\$ 442,616	100 %	\$ 0
Health Insurance Premium				
Benefit	2014	15,279	100 %	0
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
PSPRS - Fire:				
Pension	2014	120,641	100 %	0
Health Insurance Premium				
Benefit	2014	7,931	100 %	0
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

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)	\$ 8,143,673	\$ 183,010	\$ 3,471,204	\$ 96,337
Actuarial value of assets (b)	182,695	88,959	1,432,344	80,966
Unfunded actuarial accrued liability (funding excess) (a) – (b)	7,960,978	94,051	2,038,860	15,371
Funded ratio (b) / (a)	2.2%	48.6%	41.3%	84.0%
Covered payroll (c)	642,885	642,885	160,129	160,129
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) – (b))/(c)	1,238.3%	14.6%	1,273.3%	9.6%

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - RETIREMENT PLANS (CONTINUED)

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:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	22 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	4.0%-8.0%
includes inflation at	4.0%



OTHER REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property taxes	\$ 657,720	\$ 647,670	\$ (10,050)
City sales taxes	1,780,376	1,750,828	(29,548)
License and permits	318,765	287,132	(31,633)
Intergovernmental revenue	1,357,195	1,380,488	23,293
Charges for services	100,889	94,883	(6,006)
Fines and forfeits	277,100	232,136	(44,964)
Investment income		1,175	1,175
Miscellaneous	<u>67,000</u>	<u>413,981</u>	<u>346,981</u>
Total revenues	<u>4,559,045</u>	<u>4,808,293</u>	<u>249,248</u>
EXPENDITURES			
General government:			
Administration	2,700	2,801	(101)
City manager	441,776	507,342	(65,566)
Mayor and Council	39,521	58,164	(18,643)
City clerk	83,580	47,359	36,221
Finance	153,064	169,187	(16,123)
Information technologies	116,617	101,378	15,239
Personnel	13,265	7,089	6,176
Planning and zoning	37,455	164,549	(127,094)
Public buildings	65,637	37,527	28,110
Non-departmental	<u>258,500</u>	<u>261,854</u>	<u>(3,354)</u>
Total general governments	<u>1,212,115</u>	<u>1,357,250</u>	<u>(145,135)</u>
Public safety:			
Magistrate Court	273,663	235,197	38,466
Fire department	557,748	669,102	(111,354)
Police department	<u>1,634,526</u>	<u>1,844,557</u>	<u>(210,031)</u>
Total public safety	<u>2,465,937</u>	<u>2,748,856</u>	<u>(282,919)</u>
Highways and streets:			
Transportation and flood control	80,557	17,603	62,954
Public works	35,868	66,266	(30,398)
Sanitation	18,000	24,883	(6,883)
Streets	31,435	9,537	21,898
Fleet	<u>55,784</u>	<u>50,147</u>	<u>5,637</u>
Total highways and streets	<u>221,644</u>	<u>168,436</u>	<u>53,208</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2014

(CONTINUED)

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Economic development:			
Development services	47,461	2,670	44,791
Total economic development	47,461	2,670	44,791
Debt services	611,888	616,845	(4,957)
Total expenditures	4,559,045	4,894,057	(335,012)
Excess (deficiency) of revenues over (under) expenditures		(85,764)	(85,764)
 OTHER FINANCING SOURCES (USES)			
Transfer out	_____	(208,324)	(208,324)
Total other financing uses	_____	(208,324)	(208,324)
Net changes in fund balance		(294,088)	(294,088)
 Fund balance, beginning of year	_____	1,237,850	1,237,850
Fund balance, end of year	\$ _____	\$ 943,762	\$ 943,762

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - HOUSING FUND
 YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ 1,820,000	\$ 1,707,858	\$ (112,142)
Rents	310,000	337,534	27,534
Miscellaneous	<u>1,170</u>	<u> </u>	<u>(1,170)</u>
Total revenues	<u>2,131,170</u>	<u>2,045,392</u>	<u>(85,778)</u>
EXPENDITURES			
Redevelopment and housing	<u>2,131,170</u>	<u>1,951,827</u>	<u>179,343</u>
Total expenditures	<u>2,131,170</u>	<u>1,951,827</u>	<u>179,343</u>
Excess (deficiency) of revenues over (under) expenditures		93,565	93,565
Fund balance, beginning of year	<u> </u>	<u>409,892</u>	<u>409,892</u>
Fund balance, end of year	<u>\$ </u>	<u>\$ 503,457</u>	<u>\$ 503,457</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - CDBG FUND
 YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>1,043,258</u>	\$ <u>294,501</u>	\$ <u>(748,757)</u>
Total revenues	<u>1,043,258</u>	<u>294,501</u>	<u>(748,757)</u>
EXPENDITURES			
Redevelopment and housing	<u>1,043,258</u>	<u>282,106</u>	<u>761,152</u>
Total expenditures	<u>1,043,258</u>	<u>282,106</u>	<u>761,152</u>
Excess (deficiency) of revenues over (under) expenditures		12,395	12,395
OTHER FINANCING SOURCES (USES)			
Transfer in	<u> </u>	<u>11,266</u>	<u>11,266</u>
Total other financing uses	<u> </u>	<u>11,266</u>	<u>11,266</u>
Net changes in fund balance		23,661	
Fund balance, beginning of year	<u> </u>	<u>(79,859)</u>	<u>(79,859)</u>
Fund balance, end of year	<u>\$ </u>	<u>\$ (56,198)</u>	<u>\$ (56,198)</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - YOUTH OPERATIONS CENTER FUND
 YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>113,000</u>	\$ <u>113,000</u>	\$ <u> </u>
Total revenues	<u>113,000</u>	<u>113,000</u>	<u> </u>
EXPENDITURES			
Culture and recreation	<u>113,000</u>	<u>136,554</u>	<u>(23,554)</u>
Total expenditures	<u>113,000</u>	<u>136,554</u>	<u>(23,554)</u>
Excess (deficiency) of revenues over (under) expenditures		(23,554)	(23,554)
Fund balance, beginning of year	<u> </u>	<u>(183,699)</u>	<u>(183,699)</u>
Fund balance, end of year	<u>\$ <u> </u></u>	<u>\$ <u>(207,253)</u></u>	<u>\$ <u>(207,253)</u></u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - RICO FUND
 YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>412,620</u>	\$ <u>164,200</u>	\$ <u>(248,420)</u>
Total revenues	<u>412,620</u>	<u>164,200</u>	<u>(248,420)</u>
EXPENDITURES			
Public safety	292,620	187,618	105,002
Capital outlay	120,000	52,884	67,116
Debt services	<u> </u>	<u>35,212</u>	<u>(35,212)</u>
Total expenditures	<u>412,620</u>	<u>275,714</u>	<u>136,906</u>
Excess (deficiency) of revenues over (under) expenditures		(111,514)	(111,514)
Fund balance, beginning of year	<u> </u>	<u>64,482</u>	<u>64,482</u>
Fund balance, end of year	<u>\$ </u>	<u>\$ (47,032)</u>	<u>\$ (47,032)</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GRANTS FUND
 YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>1,110,703</u>	\$ <u>307,104</u>	\$ <u>(803,599)</u>
Total revenues	<u>1,110,703</u>	<u>307,104</u>	<u>(803,599)</u>
EXPENDITURES			
Public safety	32,556	60,093	(27,537)
Capital outlay	<u>1,078,147</u>	<u>222,395</u>	<u>855,752</u>
Total expenditures	<u>1,110,703</u>	<u>282,488</u>	<u>828,215</u>
Excess (deficiency) of revenues over (under) expenditures		24,616	24,616
OTHER FINANCING SOURCES (USES)			
Transfer in	<u> </u>	<u>169,213</u>	<u>169,213</u>
Total other financing uses	<u> </u>	<u>169,213</u>	<u>169,213</u>
Net changes in fund balance		193,829	193,829
Fund balance, beginning of year	<u> </u>	<u>(115,692)</u>	<u>(115,692)</u>
Fund balance, end of year	<u>\$ </u>	<u>\$ 78,137</u>	<u>\$ 78,137</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2014

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, 2013, and fund balance at June 30, 2014 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, 2014

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, 2014</u>						
Pension	\$ 182,695	\$ 8,143,673	\$ (7,960,978)	2.2%	\$ 642,885	(1,238.3)%
Health insurance premium benefit	88,959	183,010	(94,051)	48.6%	642,885	(14.6)%
<u>June 30, 2013</u>						
Pension	342,794	6,678,757	(6,335,963)	5.1%	626,179	(1,011.8)%
Health insurance premium benefit		175,644	(175,644)	0.0%	626,179	(28.1)%
<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	(30.8)%

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, 2014</u>						
Pension	\$ 1,432,344	\$ 3,471,204	\$ (2,038,860)	41.3%	\$ 160,129	(1,273.3)%
Health insurance premium benefits	80,966	96,337	(15,371)	84.0%	160,129	(9.6)%
<u>June 30, 2013</u>						
Pension	1,669,691	2,789,563	(1,119,872)	59.9%	160,581	(697.4)%
Health insurance premium benefit		73,493	(73,493)	0.0%	160,581	(45.8)%
<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	(27.5)%