

**CITY OF SOUTH TUCSON, ARIZONA**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2021



CITY OF SOUTH TUCSON, ARIZONA  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2021

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.....	19
Reconciliation of the Balance Sheet to the Statement of Net Position.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	22
Fiduciary Funds:	
Statement of Fiduciary Net Position.....	23
Statement of Changes in Fiduciary Net Position.....	24
Notes to Financial Statements.....	25 - 51
Other Required Supplementary Information:	
Budgetary Comparison Schedules.....	54 - 57
Schedule of Proportionate Share of the Net Pension Liability - Cost-Sharing Plans.....	58
Schedule of Changes in the Net Pension Liability and Related Ratios - Agent Plans .....	59 - 60
Schedule of Pension Contributions.....	61 - 62
Notes to Pension Plan Schedules.....	63 - 64





## 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, 2021, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider 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, 2021, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 7 through 13, Budgetary Comparison Schedules on pages 54 through 57, Schedule of Proportionate Share of the Net Pension Liability - Cost-Sharing Plans on page 58, Schedule of Changes in the Net Pension Liability and Related Ratios - Agent Plans on pages 59 and 60, Schedule of Pension Contributions on pages 61 and 62 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 U.S. generally accepted auditing standards, 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 the City received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the City received 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 will issue our report dated September 16, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Fester & Chapman, PLLC*

September 16, 2022





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, 2021

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, 2021.

## FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2020-21 as follows.

- The City's total net position of governmental activities decreased by \$1.5 million to negative \$2.8 million primarily due to long term pension liabilities.
- General revenues from governmental activities accounted for \$5.7 million in revenue, or 56 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.4 million or 44 percent of total governmental activities revenues.
- The City had \$11.6 million in expenses related to governmental activities, an increase of \$1.3 million or 13 percent from the prior fiscal year.
- Among major funds, the General Fund had \$6.2 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues. The total expenditures of the General Fund were \$5.4 million. The General Fund's fund balance increased from \$1.1 million to \$1.8 million.
- The Housing Fund had \$2.2 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were \$1.9 million.
- The Housing Fund reported a fund balance increase of \$324,556.
- The total expenditures of the Non-major Governmental Fund were \$1.7 million. This Fund reported a fund balance decrease of \$35,099 primarily due to revenue deferral in Highways and Streets.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the 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.

CITY OF SOUTH TUCSON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021

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, Youth Operations Center, and Grant 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 nonmajor governmental funds is provided in the form of combining schedules.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The fiduciary funds financial statements are reported on the accrual basis of accounting, but due to their custodial nature, the fiduciary funds do not have a measurement focus.

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

CITY OF SOUTH TUCSON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021

**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 position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceed assets by \$6.7 million at the current fiscal year end.

The largest portion of the City's net position 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, 2021 and June 30, 2020.

	<u>Governmental Activities</u>	
	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 3,987,420	\$ 2,697,127
Capital assets, net	<u>18,817,826</u>	<u>19,867,467</u>
Total assets, net	<u>22,805,246</u>	<u>22,564,594</u>
Deferred outflows of resources	<u>6,899,163</u>	<u>4,583,276</u>
Current liabilities	1,067,703	883,558
Long-term liabilities	<u>28,428,372</u>	<u>23,104,698</u>
Total liabilities	<u>29,496,075</u>	<u>23,988,256</u>
Deferred inflows of resources	<u>2,978,936</u>	<u>4,437,451</u>
Net investment in capital assets	12,915,125	13,738,953
Restricted	919,199	449,422
Unrestricted	<u>(16,604,926)</u>	<u>(15,466,212)</u>
Total net position	<u>\$ (2,770,602)</u>	<u>\$ (1,277,837)</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, 2021

- The increase of total liabilities in the amount of \$5.5 million is primarily due to an increase in the City's net pension liabilities.
- The reduction of \$1.1 million in capital assets is due mostly to depreciation expense.
- The increase in deferred outflows of resources in the amount of \$2.3 million is related to pensions.

**Changes in net position.** The City's total revenues for the current fiscal year were \$10.1 million. The total cost of all programs and services was \$11.6 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2021 and June 30, 2020.

	Statement of Activities - Governmental Activities	
	Year Ended June 30,	
	2021	2020
Revenues:		
Program revenues:		
Charges for services	\$ 958,200	\$ 762,592
Operating grants and contributions	3,505,216	3,257,820
General revenues:		
Property taxes	61,954	57,026
City sales tax	3,822,068	3,414,218
State shared revenues	1,823,677	1,599,979
Investment earnings	(58,729)	19,412
Miscellaneous	<u>16,485</u>	<u>138,745</u>
Total revenues	<u>10,128,871</u>	<u>9,249,792</u>
Expenses:		
General government	1,842,259	2,484,418
Public safety	5,680,332	4,081,915
Highways and streets	1,150,753	1,080,959
Culture and recreation	256,478	267,068
Redevelopment and housing	2,161,512	2,108,958
Economic developments		229
Interest on long-term debt	<u>530,302</u>	<u>297,969</u>
Total expenses	<u>11,621,636</u>	<u>10,321,516</u>
Change in net position	(1,492,765)	(1,071,724)
Net position, beginning	<u>(1,277,837)</u>	<u>(206,113)</u>
Net position, ending	<u>\$ (2,770,602)</u>	<u>\$ (1,277,837)</u>

CITY OF SOUTH TUCSON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021

- Operating grants and contributions revenues increased \$247,396 due primarily to CARES Act funding for public safety.
- Sales tax revenues increased \$407,850 due to increased sales activity and out of state sales tax collections.
- General government expenditures decreased \$642,159 due in part to depreciation expense.
- Public safety expenditures increased \$1.6 million due to the net pension liability.
- Interest on longterm debt increased \$232,333 as it contained the annual portion of interest for the newly refinanced 2019 Series Bonds in the previous fiscal year.

**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	2021		2020	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
General government	\$ 1,842,259	\$ (1,496,195)	\$ 2,484,418	\$ (2,172,909)
Public safety	5,680,332	(4,562,263)	4,081,915	(3,722,754)
Highways and streets	1,150,753	(565,118)	1,080,959	(386,054)
Culture and recreation	256,478	(66,252)	267,068	63,662
Redevelopment and housing	2,161,512	61,910	2,108,958	87,529
Economic development	-	-	229	127,391
Interest on long-term debt	530,302	(530,302)	297,969	(297,969)
Total	<u>\$ 11,621,636</u>	<u>\$ (7,158,220)</u>	<u>\$ 10,321,516</u>	<u>\$ (6,301,104)</u>

- Federal and state governments and charges for services subsidized certain governmental programs with revenues of \$4.4 million.
- Net cost of governmental activities of \$7.2 million was financed by general revenues, which are made up of primarily City sales tax and state shared revenues of \$5.6 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 \$2,763,382, an increase of \$1,077,433 or 64 percent.

The General Fund is the principal operating fund of the City. The increase in fund balance of \$717,778 from \$1.1 million as of fiscal year end was a result of the reduction in public safety expenditures which were covered by the CARES Act at the beginning of the year and an increase in sales tax collections by year end.

CITY OF SOUTH TUCSON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021

The fund balance increased \$324,556 in the Housing Fund to \$536,368 as of fiscal year end. Housing Fund expenditures decreased \$207,856 from prior year due mostly to capital outlay.

**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 \$522,068 in City sales tax revenues was due to an increase in sales activity.
- A combined favorable variance of \$58,063 in intergovernmental revenues and licenses and permits was primarily the result of increased state sales tax and increased building permits.
- An unfavorable variance of \$114,763 in public safety expenditures was a result of increased pension contributions due to the Public Safety Personnel Retirement System.
- A favorable variance of \$360,420 in general government expenditures was a result of unused contingency in non-departmental.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** As of year end, the City had invested \$18.8 million in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$1 million. Total depreciation expense for the current fiscal year was \$1.5 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2021 and June 30, 2020.

	Governmental Activities	
	2021	2020
Capital assets - non-depreciable	\$ 315,962	\$ 357,947
Capital assets - depreciable, net	18,501,864	19,509,520
Total capital assets, net	\$ 18,817,826	\$ 19,867,467

Additional information on the City's capital assets can be found in Note 4.

**Debt Administration** At year end, the City had \$7.5 million in long-term debt outstanding, excluding net pension liabilities. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2021 and June 30, 2020.

	Governmental Activities	
	2021	2020
Revenue bonds payable	\$ 5,902,701	\$ 6,128,514
Other commitments	1,639,414	1,715,469
Total	\$ 7,542,115	\$ 7,843,983

Additional information on the City's long-term debt can be found in Note 5.



CITY OF SOUTH TUCSON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2021

**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 2021-22. The most significant factors affecting the subsequent year's budget are:

- City sales tax growth trends
- Increased costs for public safety
- Decreased decennial census population resulting in decreased state shared revenues.
- Possible receipt of emergency federal funding otherwise known as the State and Local Fiscal Recovery Fund (SLFRF / ARPA).
- Increased pension liability due to prior fire reserve service.
- Subsequent effects of the ongoing outbreak of the Coronavirus disease (COVID-19) on City operations. Possible effects to include, but not limited to, the disruption to City revenue streams, absenteeism in the workforce, unavailability of services and supplies used in operations, and a decline in value of assets held by the City, including inventories and property and equipment, ultimately resulting in an adverse impact on the City's financial position, operations, and cash flows.

**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, 2021

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 2,850,840
Accounts receivable	109,795
Due from governmental entities	899,240
Inventory	5,281
Prepaid items	41,327
Restricted cash held by other governments	80,937
Capital assets, not being depreciated	315,962
Capital assets, being depreciated, net	<u>18,501,864</u>
Total assets	<u>22,805,246</u>
 <b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>	
Deferred outflows related to pensions	<u>6,899,163</u>
 <b><u>LIABILITIES</u></b>	
Accounts payable	768,265
Accrued payroll and employee benefits	210,491
Customer deposits	88,947
Noncurrent liabilities:	
Due within one year	399,857
Due in more than one year	<u>28,028,515</u>
Total liabilities	<u>29,496,075</u>
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred inflows related to pensions	<u>2,978,936</u>
 <b><u>NET POSITION</u></b>	
Net investment in capital assets	12,915,125
Restricted for:	
Public safety	26,924
Highways and streets	378,285
Redevelopment and housing	497,478
Culture and recreation	16,512
Unrestricted (deficit)	<u>(16,604,926)</u>
Total net position	<u>\$ (2,770,602)</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 1,842,259	\$ 346,064	\$	\$ (1,496,195)
Public safety	5,680,332	101,814	1,016,255	(4,562,263)
Highways and streets	1,150,753		585,635	(565,118)
Culture and recreation	256,478		190,226	(66,252)
Redevelopment and housing	2,161,512	510,322	1,713,100	61,910
Interest on long-term debt	<u>530,302</u>			<u>(530,302)</u>
Total governmental activities	<u>\$ 11,621,636</u>	<u>\$ 958,200</u>	<u>\$ 3,505,216</u>	<u>(7,158,220)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				61,954
City sales taxes				3,822,068
State shared sales tax				677,988
State shared vehicle license tax				296,963
Urban revenue sharing				848,726
Investment earnings				(58,729)
Miscellaneous				<u>16,485</u>
Total general revenues				<u>5,665,455</u>
Change in net position				(1,492,765)
Net position, July 1, 2020				<u>(1,277,837)</u>
Net position, June 30, 2021				<u>\$ (2,770,602)</u>

See accompanying notes to financial statements.



CITY OF SOUTH TUCSON, ARIZONA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2021

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 2,077,198	\$ 476,154	\$ 297,488	\$ 2,850,840
Cash held by other governments			80,937	80,937
Accounts receivable	109,795			109,795
Due from governmental entities	530,435	97,034	271,771	899,240
Due from other funds	13,948	210,047		223,995
Inventory		5,281		5,281
Prepaid items	<u>7,718</u>	<u>33,609</u>		<u>41,327</u>
Total assets	<u>\$ 2,739,094</u>	<u>\$ 822,125</u>	<u>\$ 650,196</u>	<u>\$ 4,211,415</u>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 667,566	\$ 38,314	\$ 62,385	\$ 768,265
Accrued payroll and employee benefits	190,944	11,141	8,406	210,491
Due to other funds	22,787	199,859	1,349	223,995
Customer deposits and other liabilities	<u>52,504</u>	<u>36,443</u>		<u>88,947</u>
Total liabilities	<u>933,801</u>	<u>285,757</u>	<u>72,140</u>	<u>1,291,698</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Unavailable revenue - intergovernmental			<u>156,335</u>	<u>156,335</u>
<b><u>FUND BALANCES</u></b>				
Nonspendable	7,718	38,890		46,608
Restricted		497,478	421,721	919,199
Unassigned	<u>1,797,575</u>			<u>1,797,575</u>
Total fund balances	<u>1,805,293</u>	<u>536,368</u>	<u>421,721</u>	<u>2,763,382</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,739,094</u>	<u>\$ 822,125</u>	<u>\$ 650,196</u>	<u>\$ 4,211,415</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2021

Fund balances - total governmental funds \$ 2,763,382

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	\$ 49,149,776	
Less accumulated depreciation	<u>(30,331,950)</u>	18,817,826

Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	156,335
---	---------

Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the funds.	3,920,227
---	-----------

Long-term liabilities, such as net pension/OPEB liabilities, bonds payable, compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	
Compensated absences	(160,005)
Net pension liabilities	(20,726,252)
Revenue bonds payable	(5,902,701)
Other commitments	<u>(1,639,414)</u>
	<u>(28,428,372)</u>

Net position of governmental activities	\$ <u>(2,770,602)</u>
---	-----------------------

See accompanying notes to financial statements.



CITY OF SOUTH TUCSON, ARIZONA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
City sales taxes	\$ 3,822,068			\$ 3,822,068
Property taxes	61,954			61,954
Licenses and permits	346,064			346,064
Intergovernmental	1,810,146	\$ 1,707,408	\$ 1,649,010	5,166,564
Charges for services	1,760			1,760
Fines and forfeits	147,310			147,310
Investment earnings	1,503	31		1,534
Rents		357,215		357,215
Miscellaneous	<u>16,792</u>	<u>178,260</u>	<u>635</u>	<u>195,687</u>
Total revenues	<u>6,207,597</u>	<u>2,242,914</u>	<u>1,649,645</u>	<u>10,100,156</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,590,993			1,590,993
Public safety	3,088,460		781,765	3,870,225
Highways and streets	145,907		503,565	649,472
Culture and recreation			241,482	241,482
Redevelopment and housing		1,883,304		1,883,304
Economic development				
Capital outlay	68,362	35,054	153,529	256,945
Debt service:				
Principal retirement	301,869			301,869
Interest and fiscal charges	<u>228,433</u>			<u>228,433</u>
Total expenditures	<u>5,424,024</u>	<u>1,918,358</u>	<u>1,680,341</u>	<u>9,022,723</u>
Excess (deficiency) of revenues over (under) expenditures	<u>783,573</u>	<u>324,556</u>	<u>(30,696)</u>	<u>1,077,433</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			65,795	65,795
Transfers out	<u>(65,795)</u>			<u>(65,795)</u>
Total other financing sources (uses)	<u>(65,795)</u>		<u>65,795</u>	
Net change in fund balances	717,778	324,556	35,099	1,077,433
Fund balances, July 1, 2020	<u>1,087,515</u>	<u>211,812</u>	<u>386,622</u>	<u>1,685,949</u>
Fund balances, June 30, 2021	<u>\$ 1,805,293</u>	<u>\$ 536,368</u>	<u>\$ 421,721</u>	<u>\$ 2,763,382</u>

See accompanying notes to financial statements.

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, 2021

Net change in fund balances - total governmental funds		\$ 1,077,433
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Capital outlay	\$ 429,962	
Depreciation expense	<u>(1,479,603)</u>	(1,049,641)
<p>City pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension/OPEB liability is measured a year before the City's report date. Pension/OPEB expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pension, is reported in the statement of activities.</p>		
Pension/OPEB contributions	1,061,356	
Pension/OPEB expense	<u>(2,927,893)</u>	(1,866,537)
<p>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.</p>		
Principal repaid	225,813	
Other commitments	<u>76,055</u>	301,868
<p>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.</p>		
Compensated absences		15,397
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		<u>28,715</u>
Change in net position of governmental activities		<u><u>\$ (1,492,765)</u></u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2021

	<u>Private Purpose Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>136,215</u>
Total assets	<u>136,215</u>
NET POSITION	
Restricted for individuals	\$ <u>136,215</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2021

	Private Purpose Trust Fund
ADDITIONS:	
Contributions	\$ <u>27,447</u>
Total additions	<u>27,447</u>
DEDUCTIONS:	
Benefits	<u>11,160</u>
Total deductions	<u>11,160</u>
Change in net position	16,287
Net position, July 1, 2020	<u>119,928</u>
Net position, June 30, 2021	\$ <u><u>136,215</u></u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

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 an 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.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

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. 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.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

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.

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.

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."

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

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the life of the asset are not capitalized.



CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position. 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, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

P. Post Employment Benefits

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

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.

*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 balances classifications could be used.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 2 - FUND BALANCE CLASSIFICATIONS (CONTINUED)

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>Non-major Governmental Fund</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Inventory		\$ 5,281		\$ 5,281
Prepaid items	\$ 7,718	33,609		41,327
Restricted:				
Public safety			\$ 101,823	101,823
Highways and streets			378,285	378,285
Redevelopment and housing		497,478		497,478
Culture and recreation			16,512	16,512
Debt service				
Unassigned	\$ <u>1,797,575</u>		(74,899)	<u>1,722,676</u>
Total fund balances	\$ <u>1,805,293</u>	\$ <u>536,368</u>	\$ <u>421,721</u>	\$ <u>2,763,382</u>

NOTE 3 - CASH AND INVESTMENTS

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

*Custodial Credit Risk – Deposits.* 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, 2021, the carrying amount of deposits was \$2,987,055 and the bank balance was \$3,166,287. As of June 30, 2021, the City's deposits were fully insured by the Federal Deposit Insurance Corporation or collateralized by the Arizona State Treasurer pooled collateral program.

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>
State Treasurer's investment pool 5		\$ <u>28,182</u>
Total		\$ <u>28,182</u>

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

*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.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows.

<u>Governmental activities:</u>	<u>July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2021</u>
Capital assets not being depreciated:				
Land	\$ 315,962			\$ 315,962
Construction in progress	<u>41,985</u>		\$ (41,985)	
Total capital assets not being depreciated	<u>357,947</u>		<u>(41,985)</u>	<u>315,962</u>
Capital assets being depreciated:				
Land improvements	2,970,748			2,970,748
Buildings and improvements	13,065,559	\$ 152,607		13,218,166
Infrastructure	28,602,301	140,912		28,743,213
Machinery, equipment and vehicles	<u>3,723,259</u>	<u>178,428</u>		<u>3,901,687</u>
Total capital assets being depreciated	<u>48,361,867</u>	<u>471,947</u>		<u>48,833,814</u>
Less accumulated depreciation for:				
Land improvements	(1,585,002)	(57,661)		(1,642,663)
Buildings and improvements	(8,761,045)	(462,895)		(9,223,940)
Infrastructure	(15,513,672)	(825,291)		(16,338,963)
Machinery, equipment and vehicles	<u>(2,992,628)</u>	<u>(133,756)</u>		<u>(3,126,384)</u>
Total accumulated depreciation	<u>(28,852,347)</u>	<u>(1,479,603)</u>		<u>(30,331,950)</u>
Total capital assets being depreciated, net	<u>19,509,520</u>	<u>(1,007,656)</u>		<u>18,501,864</u>
Governmental activities capital assets, net	<u>\$ 19,867,467</u>	<u>\$ (1,007,656)</u>	<u>\$ (41,985)</u>	<u>\$ 18,817,826</u>

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

Governmental activities:	
General government	\$ 314,640
Public safety	178,623
Highways and streets	591,585
Redevelopment and housing	<u>394,755</u>
Total depreciation expense - governmental activities	<u>\$ 1,479,603</u>

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2021:

<u>Governmental activities:</u>	<u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2021</u>	<u>Due Within 1 Year</u>
Revenue bonds payable	\$ 6,128,514		\$ (225,813)	\$ 5,902,701	\$ 234,654
Net bonds payable	6,128,514		(225,813)	5,902,701	234,654
Compensated absences payable	175,403	\$ 47,451	(62,849)	160,005	87,172
Net pension liabilities	15,085,312	5,640,940		20,726,252	
Other commitments	<u>1,715,469</u>		<u>(76,055)</u>	<u>1,639,414</u>	<u>78,031</u>
Governmental activities long-term liabilities	<u>\$ 23,104,698</u>	<u>\$ 5,688,391</u>	<u>\$ (364,717)</u>	<u>\$ 28,428,372</u>	<u>\$ 399,857</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, 2021</u>	<u>Due Within One Year</u>
Governmental activities:					
Excise Tax Revenue Bond, Series 2019	\$ 6,445,135	2.94%	7/1/20-34	\$ 5,902,701	\$ 234,654
Total				<u>\$ 5,902,701</u>	<u>\$ 234,654</u>

The City has pledged future excise taxes and state shared revenues to repay an outstanding revenue bond and refunding revenue bonds of \$6.4 million as of June 30, 2021. Proceeds from the original bond issuances, including those subsequently refunded, provided financing for public works and other City vehicles and equipment. On December 19, 2019, an advance refunding of \$6.2 million was completed on the series 2007 revenue bonds and replaced with the series 2019 bonds. The bond is payable through 2034. The total principal and interest to be paid on the bonds is \$8.04 million. The current total excise taxes and state shared revenues were \$4,500,056 and the total principal and interest paid on the bond was \$404,332 or 10% of gross revenues.

Other commitments are composed of a long-term agreement with Pima County totaling \$1,100,000 related to the City's settlement of a lawsuit involving the collection of a secondary property tax for the tax years 2011 through 2013. In July 2019, the City entered into a promissory note with the County to finance the settlement. The promissory note matures in October 2038 and has an interest rate of 3.50%.

Other commitments are also 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. In August 2017, the City revised the agreement to extend repayment of settlement amount, plus interest at the rate of 1.5%, over a 20-year period.

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.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 5 - 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 Commitments	
	Principal	Interest	Principal	Interest
2022	\$ 234,654	\$ 17,815	\$ 78,031	\$ 45,756
2023	237,795	164,893	80,066	43,722
2024	245,448	157,845	82,161	41,627
2025	451,063	149,118	84,319	39,469
2026	468,219	135,731	86,541	37,246
2027-2031	2,548,722	462,748	468,463	153,333
2032-2036	1,716,800	89,276	535,041	86,977
2037-2041			224,792	15,916
Total	<u>\$ 5,902,701</u>	<u>\$ 1,177,426</u>	<u>\$ 1,639,414</u>	<u>\$ 464,046</u>

NOTE 6 - INTERFUND BALANCES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2021, consisted of amounts loaned by the General Fund to the Housing Funds and Non-Major Governmental Funds to help meet fund obligations. The amounts payable from the Housing Funds and Non-Major Governmental Funds at year end were \$16,712 and \$1,349, respectively.

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.

NOTE 7 - RISK MANAGEMENT

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

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

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

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the three plans described below and on the following pages. The plans are component units of the State of Arizona. At June 30, 2021, the City reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Government Activities
Net pension and OPEB liabilities	\$ 20,726,252
Deferred outflows of resources related to pensions and OPEB	6,899,163
Deferred inflows of resources related to pensions and OPEB	2,978,936
Pension and OPEB expense	2,927,893

The City did not disclose the OPEB plan separately because of its insignificance to the City's financial statements. The City's accrued payroll and employee benefits includes \$41,636 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2021. Also, the City reported \$1,061,356 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

**A. Arizona State Retirement System**

**Plan Description** - City employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at [www.azasrs.gov](http://www.azasrs.gov).

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

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

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

**Contributions** - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2021, statute required active ASRS members to contribute at the actuarially determined rate of 12.22 percent (12.04 percent for retirement and 0.18 percent for long-term disability) of the members' annual covered payroll, and statute required the city to contribute at the actuarially determined rate of 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 percent for long-term disability) of the active members' annual covered payroll. The City's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2021, were \$115,848.

During fiscal year 2021, the City paid for ASRS and OPEB contributions from the General Fund.

**Liability** - At June 30, 2021, the City reported a liability of \$1,722,895 for its proportionate share of the ASRS' net pension/OPEB liability.

The net asset and net liability was measured as of June 30, 2020. The total liability used to calculate the net asset and net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2019, to the measurement date of June 30, 2020. The City's proportion of the net asset and net liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2020. The City's proportion measured as of June 30, 2020 was 0.00994 percent, which was a decrease of 0.00025 percent from its proportion measured as of June 30, 2019.

**Expense** - For the year ended June 30, 2021, the City recognized pension expense for ASRS of \$16,139.



CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Deferred Outflows/Inflows of Resources** - At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 16,211	\$ 13,203
Changes of assumptions or other inputs	4,443	
Net difference between projected and actual earnings on pension plan investments	173,671	
Changes in proportion and differences between City contributions and proportionate share of contributions		71,833
City contributions subsequent to the measurement date	<u>115,848</u>	
Total	<u><u>\$ 310,173</u></u>	<u><u>\$ 85,036</u></u>

The amount reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ending June 30,	
2022	\$ (41,198)
2023	39,442
2024	60,794
2025	51,345
2026	(1,072)
Thereafter	(22)

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

ASRS	
Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

ASRS	Target	Long-Term
<u>Asset Class</u>	<u>Allocation</u>	<u>Geometric Real</u>
		<u>Rate of Return</u>
Equity	50%	6.39%
Fixed income - credit	20%	5.44%
Fixed income - interest rate sensitive	10%	0.22%
Real estate	20%	5.85%
Total	<u>100%</u>	

**Discount Rate** - The discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

**Sensitivity of the City’s Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate** - The following table presents the City’s proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.5 percent, as well as what the City’s proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

ASRS	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
	<u>(6.5%)</u>	<u>Rate (7.5%)</u>	<u>(8.5%)</u>
The City’s proportionate share of the net pension/OPEB liability	\$ 2,371,793	\$ 1,722,895	\$ 1,180,175

**Plan Fiduciary Net Position** - Detailed information about the plans’ fiduciary net position is available in the separately issued ASRS financial report.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**B. Public Safety Personnel Retirement System (PSPRS)**

**Plan descriptions** - The City's police and fire employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers an agent and cost-sharing multiple-employer defined benefit pension plan and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the Provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool) which are not further disclosed because of their relative insignificance to the City's financial statements.

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

**Benefits Provided** - The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits for public safety personnel who are regularly assigned hazardous duty. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

CITY OF SOUTH TUCSON, ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

PSPRS	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
<b>Retirement and Disability:</b>		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
<b>Benefit percent</b>		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% or 2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
<b>Survivor Benefit:</b>		
Retired Members	80% of retired member's pension benefit	
Active Members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Employees Covered by Benefit Terms** - At June 30, 2021, the following employees were covered by the agent plans' benefit terms:

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Inactive employees or beneficiaries currently receiving benefits	16	7
Inactive employees entitled to but not yet receiving benefits	3	2
Active employees	<u>9</u>	<u>1</u>
Total	<u><u>28</u></u>	<u><u>10</u></u>

**Contributions** - State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for the PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2021, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Active members—Pension	7.65%	7.65%
City Pension	114.63%	326.80%
Health insurance premium benefit	1.22%	0%

The City's contributions to the plans for the year ended June 30, 2021, were:

	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>
PSPRS - Police	\$ 621,932	\$ 4,657
PSPRS - Fire	308,356	

During fiscal year 2021, the City paid for PSPRS and OPEB contributions from the General Fund.

**Liability** - At June 30, 2021, the City reported the following assets and liabilities:

	<u>Net Pension (Asset) Liability</u>	<u>Net OPEB (Asset) Liability</u>
PSPRS - Police	\$ 15,597,618	\$ 46,252
PSPRS - Fire	3,274,197	(60,917)

The net assets and net liabilities were measured as of June 30, 2020, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

PSPRS - Pension	
Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.5% for pension/not applicable for OPEB
Price inflation	2.5% for pension/not applicable for OPEB
Cost-of-living adjustment	1.75% for pension/not applicable for OPEB
Mortality rates	PubS-2010 tables.
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.3 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
U.S. public equity	23%	4.93%
International public equity	15%	6.09%
Global private equity	18%	8.42%
Other assets (capital appreciation)	7%	5.61%
Core bonds	2%	0.22%
Private credit	22%	5.31%
Diversifying strategies	12%	3.22%
Cash - Mellon	1%	-0.60%
<b>Total</b>	<b>100%</b>	

**Discount Rate** - At June 30, 2020, the discount rate used to measure the PSPRS total pension/OPEB liability was 7.3 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rate equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Changes in the Net Pension/OPEB Liability** - Changes in the net pension/OPEB liability are as follows for the year ended June 30, 2021:

PSPRS - Police:	Pension			Health Insurance Premium Benefit		
	Increase (Decrease)			Increase (Decrease)		
	Total Position Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) – (b)
Balances at June 30, 2020	\$ 10,654,526	\$ 406,801	\$ 10,247,725	\$ 169,691	\$ 111,649	\$ 58,042
Changes for the year:						
Service cost	101,623		101,623	3,610		3,610
Interest on the total liability	762,724		762,724	12,437		12,437
Differences between expected and actual experience in the measurement of the liability	(133,246)		(133,246)	(16,766)		(16,766)
Changes of assumptions or other inputs	5,321,190		5,321,190			
Contributions—employer		685,562	(685,562)		9,842	(9,842)
Contributions—employee		36,508	(36,508)			
Net investment income		(19,133)	19,133		1,338	(1,338)
Benefit payments, including refunds of employee contributions	(615,758)	(615,758)		(10,474)	(10,474)	
Administrative expense		(539)	539		(109)	109
Net changes	5,436,533	86,640	5,349,893	(11,193)	597	(11,790)
Balances at June 30, 2021	\$ 16,091,059	\$ 493,441	\$ 15,597,618	\$ 158,498	\$ 112,246	\$ 46,252

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

	Pension			Health Insurance Premium Benefit		
	Increase (Decrease)			Increase (Decrease)		
	Total Position Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)	Total Position Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
PSPRS - Fire:						
Balances at June 30, 2020	\$ 4,293,746	\$ 1,061,996	\$ 3,231,750	\$ 45,669	\$ 90,823	\$ (45,154)
Changes for the year:						
Service cost	12,474		12,474	447		447
Interest on the total liability	304,940		304,940	3,378		3,378
Differences between expected and actual experience in the measurement of the liability	74,943		74,943	(18,534)		(18,534)
Changes of assumptions or other inputs						
Contributions—employer		336,167	(336,167)			
Contributions—employee		8,996	(8,996)			
Net investment income		5,913	(5,913)		1,147	(1,147)
Benefit payments, including refunds of employee contributions	(257,912)	(257,912)		(937)	(937)	
Administrative expense		(1,166)	1,166		(93)	93
Net changes	134,445	91,998	42,447	(15,646)	117	(15,763)
Balances at June 30, 2021	\$ 4,428,191	\$ 1,153,994	\$ 3,274,197	\$ 30,023	\$ 90,940	\$ (60,917)

**Sensitivity of the City’s Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate -**

The following table presents the City’s net pension/OPEB (asset) liabilities calculated using the discount rate of 7.3 percent, as well as what the City’s net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	1% Decrease (6.3%)	Current Discount Rate (7.3%)	1% Increase (8.3%)
PSPRS - Police:			
Net pension liability	\$ 18,125,568	\$ 15,597,618	\$ 13,588,477
Net OPEB (asset) liability	62,924	46,252	32,135
PSPRS - Fire:			
Net pension liability	3,770,977	3,274,197	2,860,579
Net OPEB (asset) liability	(57,537)	(60,917)	(63,777)



CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Plan Fiduciary Net Position** - Detailed information about the plans' fiduciary net position is available in the separately issued PSPRS financial reports.

**Expense** - For the year ended June 30, 2021, the City recognized the following pension and OPEB expense:

	Pension Expense	OPEB Expense
PSPRS - Police	\$ 2,706,273	\$ (16,530)
PSPRS - Fire	237,885	(20,377)

**Deferred Outflows/Inflows of Resources** - At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 529,792	\$ 99,936		\$ 57,665
Changes of assumptions	4,975,170	2,727,324	\$ 6,297	590
Net difference between projected and actual earnings on pension plan investments	44,678		5,991	
City contributions subsequent to the measurement date	621,932		4,657	
Total	\$ 6,171,572	\$ 2,827,260	\$ 16,945	\$ 58,255

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 63,134		\$ 4,852	
City contributions subsequent to the measurement date	308,356			
Total	\$ 371,490		\$ 4,852	

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

<u>Year ending June 30,</u>	<u>PSPRS - Police</u>		<u>PSPRS - Fire</u>	
	<u>Pension</u>	<u>Health</u>	<u>Pension</u>	<u>Health</u>
2022	\$ 1,200,695	\$ (19,296)	\$ 9,448	\$ 829
2023	201,646	(14,054)	19,784	1,501
2024	1,309,501	(13,974)	18,951	1,433
2025	10,538	1,357	14,951	1,089

**C. Elected Officials Retirement Plan**

**Plan description** - Elected officials and judges participate in the Elected Officials Retirement Plan (EORP). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for elected officials and judges who were members of the plan on December 31, 2013. The EORP pension and OPEB plans were closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes its financial statements and required supplementary information, for the EORP plans. The report is available on PSPRS’s website at [www.psprs.com](http://www.psprs.com).

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

EORP	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability:		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal Retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability Retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor Benefit:		
Retired Members	75% of retired member's benefit	50% of retired member's benefit
Active Members and Other Inactive Members	75% of disability retirement benefit	50% of disability retirement benefit

\* With reduced benefits of 0.25% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 7 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

CITY OF SOUTH TUCSON, ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Contributions** - State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability. For the year ended June 30, 2021, statute required active EORP members to contribute 7 or 13 percent of the members' annual covered payroll and the City to contribute at the actuarially determined rate of 61.43 percent of all active EORP members' annual covered payroll. Also, statute required the City to contribute 49.39 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 55.43 percent to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the City's required contributions to ASRS and EODCRS for these elected officials and judges. The City's contributions to the pension plan for the year ended June 30, 2021, was \$10,563.

During fiscal year 2021, the City paid for EORP pension contributions from the General Fund.

**Liability** - At June 30, 2021, the City reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the City's proportionate share of the State's appropriation for EORP. The amount the City recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the EORP net pension liability	\$	159,848
State's proportionate share of the EORP net pension liability associated with the City		15,192
Total	\$	175,040

The City also reported an asset of \$13,641 for its proportionate share of EORP's net OPEB asset.

The net asset and net liability was measured as of June 30, 2020, and the total liability used to calculate the net asset and net liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2020, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

The City's proportion of the net pension liability was based on the City's required contributions to the plan relative to the total of all participating employers' required contributions for the year ended June 30, 2020. The City's proportion of the net OPEB asset was based on the City's present value of benefits relative to the total of all participating employers' present value of benefits for the year ended June 30, 2020. The City's proportion measured as of June 30, 2020 was 0.23682 percent, which was an increase of 0.20943 percent from its proportion measured as of June 30, 2019.

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Expense** - For the year ended June 30, 2021, the City recognized pension and OPEB expense for EORP of \$(880) and \$5,383, respectively for the City's proportionate share of the State's appropriation to EORP and the designated court fees.

**Deferred outflows/inflows of resources** - At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

EORP	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 131	\$ 224	\$ 567
Changes of assumptions or other inputs			16	
Net difference between projected and actual earnings on pension plan investments	\$ 3,080		1,549	
Changes in proportion and differences between city contributions and proportionate share of contributions		7,687	8,699	
City contributions subsequent to the measurement date	10,563			
Total	<u>\$ 13,643</u>	<u>\$ 7,818</u>	<u>\$ 10,488</u>	<u>\$ 567</u>

The amounts reported as deferred outflows of resources related to EORP pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions and OPEB will be recognized as expenses as follows:

Year ending June 30,	Pension	Health Insurance Premium Benefit
2022	\$ (7,396)	\$ 7,269
2023	993	1,817
2024	971	489
2025	694	346

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

EORP	
Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.75% for pensions/not applicable for OPEB
Price Inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.75% for pensions/not applicable for OPEB
Mortality rates	PubG-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

The long-term expected rate of return on EORP plan investments was determined to be 7.3 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP Asset Class	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
U.S. public equity	23%	4.93%
International public equity	15%	6.09%
Global private equity	18%	8.42%
Other assets (capital appreciation)	7%	5.61%
Core bonds	2%	0.22%
Private credit	22%	5.31%
Diversifying strategies	12%	3.22%
Cash - Mellon	1%	-0.60%
Total	<u>100%</u>	

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**Discount rates** - At June 30, 2020, the discount rates used to measure the EORP total pension liability and total OPEB liability was 7.3 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the actuarially determined rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

**Sensitivity of the City’s proportionate share of the EORP net pension/OPEB (asset) liability to changes in the discount rate** - The following table presents the City’s proportionate share of the net pension/OPEB (asset) liability calculated using the discount rates of 7.3 percent, as well as what the City’s proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (6.3 percent) or one percentage point higher (8.3 percent) than the current rate:

EORP	1% Decrease (6.3%)	Current Discount Rate (7.3%)	1% Increase (8.3%)
City’s proportionate share of the net pension liability	\$ 182,353	\$ 159,848	\$ 140,605
City’s proportionate share of the net OPEB (asset)	(12,067)	(13,641)	(15,016)

**Plan Fiduciary Net Position** - Detailed information about the plans' fiduciary net position is available in the separately issued EORP financial report.





## OTHER REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTH TUCSON, ARIZONA  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 YEAR ENDED JUNE 30, 2021

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
<b>REVENUES</b>			
City sales taxes	\$ 3,300,000	\$ 3,822,068	\$ 522,068
Property taxes	58,000	61,954	3,954
License and permits	326,455	346,064	19,609
Intergovernmental	1,771,692	1,810,146	38,454
Charges for services	1,500	1,760	260
Fines and forfeits	117,000	147,310	30,310
Investment earnings		1,503	1,503
Miscellaneous	<u>31,560</u>	<u>16,792</u>	<u>(14,768)</u>
Total revenues	<u>5,606,207</u>	<u>6,207,597</u>	<u>601,390</u>
<b>EXPENDITURES</b>			
General government:			
Administration		2,000	(2,000)
City manager	220,670	220,428	242
Mayor and Council	41,210	39,028	2,182
City clerk	110,689	66,337	44,352
Finance	188,788	188,135	653
Information technologies	90,820	114,510	(23,690)
Development services	214,427	172,874	41,553
Public buildings	12,502	23,293	(10,791)
Non-departmental	<u>1,072,307</u>	<u>764,388</u>	<u>307,919</u>
Total general governments	<u>1,951,413</u>	<u>1,590,993</u>	<u>360,420</u>
Public safety:			
Magistrate Court	226,592	226,431	161
Fire department	746,940	668,616	78,324
Police department	<u>2,000,165</u>	<u>2,193,413</u>	<u>(193,248)</u>
Total public safety	<u>2,973,697</u>	<u>3,088,460</u>	<u>(114,763)</u>
Highways and streets:			
Public works	<u>104,838</u>	<u>145,907</u>	<u>(41,069)</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 YEAR ENDED JUNE 30, 2021

(CONTINUED)

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Capital outlay	41,429	68,362	(26,933)
Debt services	534,832	530,302	4,530
Total expenditures	5,606,209	5,424,024	182,185
Excess (deficiency) of revenues over (under) expenditures	(2)	783,573	783,575
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer out		(65,795)	(65,795)
Total other financing sources (uses)		(65,795)	(65,795)
Net changes in fund balance	(2)	717,778	717,780
Fund balance, beginning of year	1,087,515	1,087,515	
Fund balance, end of year	\$ 1,087,513	\$ 1,805,293	\$ 717,780

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
 BUDGETARY COMPARISON SCHEDULE - HOUSING FUND  
 YEAR ENDED JUNE 30, 2021

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Intergovernmental	\$ 1,179,295	\$ 1,707,408	\$ 528,113
Investment earnings		31	31
Rents	56,075	357,215	301,140
Miscellaneous		<u>178,260</u>	<u>178,260</u>
Total revenues	<u>1,235,370</u>	<u>2,242,914</u>	<u>1,007,544</u>
<b>EXPENDITURES</b>			
Redevelopment and housing	1,235,370	1,883,304	(647,934)
Capital outlay		<u>35,054</u>	<u>(35,054)</u>
Total expenditures	<u>1,235,370</u>	<u>1,918,358</u>	<u>(682,988)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>                    </u>	<u>324,556</u>	<u>324,556</u>
Fund balance, beginning of year	<u>211,812</u>	<u>211,812</u>	<u>                    </u>
Fund balance, end of year	<u>\$ 211,812</u>	<u>\$ 536,368</u>	<u>\$ 324,556</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
 NOTES TO BUDGETARY COMPARISON SCHEDULES  
 JUNE 30, 2021

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

The accompanying Budgetary Comparison Schedules are prepared on a modified accrual basis of accounting.

Expenditures may not legally exceed the expenditure limitation described below for all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds (except for the Housing Fund). The City Manager, subject to City Council approval, may at any time unencumbered appropriation balance or option thereof between a department or activity. The adopted budget can not be amended in any way without City Council approval.

NOTE 2 - EXCESS EXPENDITURES OVER BUDGET

At year end, the City had expenditures in the General Fund, Grants Fund and Housing Fund that exceeded the budget; however, this does not constitute a violation of any legal provisions.

Fund/Department	Excess
General Fund:	
Administration	\$ 2,000
Information technologies	23,690
Public building	10,791
Police department	193,248
Public works	41,069
Capital outlay	26,933
Housing Fund	682,988

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
COST-SHARING PLANS  
JUNE 30, 2021

ASRS

	Reporting Fiscal Year (Measurement Date)							
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2012
City's proportion of the net pension liability	0.00994%	0.01019%	0.01119%	0.01177%	0.01547%	0.0113%	0.0121%	Information not available
City's proportionate share of the net pension liability	\$ 1,722,895	\$ 1,486,452	\$ 1,562,770	\$ 1,831,619	\$ 2,497,013	\$ 1,757,071	\$ 1,794,262	
City's covered payroll	\$ 1,000,716	\$ 948,453	\$ 992,624	\$ 1,174,479	\$ 1,029,098	\$ 1,062,705	\$ 1,144,019	
City's proportionate share of the net pension liability as a percentage of its covered payroll	172.17%	156.72%	157.44%	155.95%	242.64%	165.34%	156.84%	
Plan fiduciary net position as a percentage of the total pension liability	69.33 %	73.24 %	73.40 %	69.92 %	67.06 %	68.35 %	69.49 %	

EORP

	Reporting Fiscal Year (Measurement Date)							
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2012
City's proportion of the net pension liability	0.23682%	0.02600%	0.02739%	0.02192%	0.0194012%	0.02068%	0.02700%	Information not available
City's proportionate share of the net pension liability	\$ 159,848	\$ 172,474	\$ 172,607	\$ 246,826	\$ 183,294	\$ 161,579	\$ 181,117	
State's proportionate share of the net pension liability associated with the City	<u>15,192</u>	<u>16,211</u>	<u>29,575</u>	<u>54,095</u>	<u>37,845</u>	<u>50,374</u>	<u>55,532</u>	
Total	<u>\$ 175,040</u>	<u>\$ 188,685</u>	<u>\$ 202,182</u>	<u>\$ 300,921</u>	<u>\$ 221,139</u>	<u>\$ 211,953</u>	<u>\$ 236,649</u>	
City's covered payroll	\$ 20,814	\$ 19,679	\$ 30,074	\$ 17,600	\$ 19,200	\$ 18,400	\$ 20,160	
City's proportionate share of the net pension liability as a percentage of its covered payroll	840.97 %	958.81 %	672.28 %	1,709.78 %	1,151.77 %	1,151.92 %	1,173.85 %	
Plan fiduciary net position as a percentage of the total pension liability	29.80 %	30.14 %	30.36 %	49.21 %	23.42 %	28.32 %	31.91 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS  
AGENT PLANS  
JUNE 30, 2021

PSPRS - Police

	Reporting Fiscal Year (Measurement Date)							
	<u>2021 (2020)</u>	<u>2020 (2019)</u>	<u>2019 (2018)</u>	<u>2018 (2017)</u>	<u>2017 (2016)</u>	<u>2016 (2015)</u>	<u>2015 (2014)</u>	<u>2014 through 2012</u>
Total pension liability:								
Service cost	\$ 101,623	\$ 107,973	\$ 108,583	\$ 128,576	\$ 147,746	\$ 125,289	\$ 119,965	Information not available
Interest on the total pension liability	762,724	543,377	673,874	595,757	584,629	622,567	506,492	
Changes of benefit terms				129,091	(276,431)	-	320,282	
Differences between expected and actual experience in the measurement of the pension liability	(133,246)	1,020,380	100,547	357,248	302,447	(700,135)	(141,838)	
Changes of assumptions or other inputs	5,321,190	(5,454,649)	5,416,989	549,517	288,288	-	1,233,249	
Benefit payments, including refunds of employee contributions	<u>(615,758)</u>	<u>(601,911)</u>	<u>(625,508)</u>	<u>(548,916)</u>	<u>(533,415)</u>	<u>(551,060)</u>	<u>(573,234)</u>	
Net change in total pension liability	5,436,533	(4,384,830)	5,674,485	1,211,273	513,264	(503,339)	1,464,916	
Total pension liability—beginning	<u>10,654,526</u>	<u>15,039,356</u>	<u>9,364,871</u>	<u>8,153,598</u>	<u>7,640,334</u>	<u>8,143,673</u>	<u>6,678,757</u>	
Total pension liability—ending (a)	<u>\$16,091,059</u>	<u>\$10,654,526</u>	<u>\$15,039,356</u>	<u>\$ 9,364,871</u>	<u>\$ 8,153,598</u>	<u>\$ 7,640,334</u>	<u>\$ 8,143,673</u>	
Plan fiduciary net position:								
Contributions—employer	\$ 685,562	\$ 710,429	\$ 393,004	\$ 479,505	\$ 599,358	\$ 412,532	\$ 420,896	
Contributions—employee	36,508	41,567	66,894	66,858	91,595	65,326	66,539	
Net investment income	(19,133)	17,410	25,932	60,059	1,149	4,804	30,627	
Benefit payments, including refunds of employee contributions	(615,758)	(601,911)	(625,508)	(548,916)	(533,415)	(551,060)	(573,234)	
Hall/Parker settlement			(93,209)					
Administrative expense	(539)	(1,250)	(1,095)	(931)	(565)	(354)	(247)	
Other changes	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(17,623)</u>	<u>219,560</u>	<u>341</u>	<u>1,423</u>	
Net change in plan fiduciary net position	86,640	166,245	(233,984)	38,952	377,682	(68,411)	(53,996)	
Plan fiduciary net position—beginning	<u>406,801</u>	<u>287,855</u>	<u>528,385</u>	<u>489,433</u>	<u>111,751</u>	<u>180,162</u>	<u>234,158</u>	
Plan fiduciary net position—ending (b)	<u>\$ 493,441</u>	<u>\$ 454,100</u>	<u>\$ 294,401</u>	<u>\$ 528,385</u>	<u>\$ 489,433</u>	<u>\$ 111,751</u>	<u>\$ 180,162</u>	
City's net pension liability (asset)—ending (a) – (b)	\$15,597,618	\$10,200,426	\$14,744,955	\$ 8,836,486	\$ 7,664,165	\$ 7,528,583	\$ 7,963,511	
Plan fiduciary net position as a percentage of the total pension liability	3.07 %	4.26 %	1.96 %	5.64 %	6.00 %	1.46 %	2.21 %	
Covered payroll	\$ 585,407	\$ 482,168	\$ 498,544	\$ 647,063	\$ 746,054	\$ 587,388	\$ 646,705	
City's net pension liability (asset) as a percentage of covered payroll	2,664.41 %	2,115.53 %	2,957.60 %	1,365.63 %	1,027.29 %	1,281.71 %	1,231.40 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS  
AGENT PLANS  
JUNE 30, 2021  
(CONTINUED)

PSPRS - Fire

	Reporting Fiscal Year (Measurement Date)							2014 through 2012
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2016 (2015)	
Total pension liability:								
Service cost	\$ 12,474	\$ 10,159	\$ 9,905	\$ 20,508	\$ 19,410	\$ 28,968	\$ 30,423	Information not available
Interest on the total pension liability	304,940	293,857	278,048	267,833	267,942	265,218	210,418	
Changes of benefit terms	-	-	-	35,564	(53,755)	-	92,636	
Differences between expected and actual experience in the measurement of the pension liability	74,943	85,816	175,300	(47,375)	38,866	(40,483)	145,266	
Changes of assumptions or other inputs	-	69,464	-	168,658	117,102	-	451,472	
Benefit payments, including refunds of employee contributions	<u>(257,912)</u>	<u>(252,855)</u>	<u>(256,808)</u>	<u>(250,354)</u>	<u>(214,223)</u>	<u>(214,223)</u>	<u>(248,574)</u>	
Net change in total pension liability	134,445	206,441	206,445	194,834	175,342	39,480	681,641	
Total pension liability—beginning	<u>4,293,746</u>	<u>4,087,305</u>	<u>3,880,860</u>	<u>3,686,026</u>	<u>3,510,684</u>	<u>3,471,204</u>	<u>2,789,563</u>	
Total pension liability—ending (a)	<u>\$ 4,428,191</u>	<u>\$ 4,293,746</u>	<u>\$ 4,087,305</u>	<u>\$ 3,880,860</u>	<u>\$ 3,686,026</u>	<u>\$ 3,510,684</u>	<u>\$ 3,471,204</u>	
Plan fiduciary net position:								
Contributions—employer	\$ 336,167	\$ 159,811	\$ 65,946	\$ 74,718	\$ 102,548	\$ 84,561	\$ 44,137	
Contributions—employee	8,996	4,163	3,910	10,114	17,377	17,436	16,767	
Net investment income	5,913	57,683	79,007	139,853	7,602	49,864	183,267	
Benefit payments, including refunds of employee contributions	(257,912)	(252,855)	(256,808)	(250,354)	(214,223)	(214,223)	(248,574)	
Hall/Parker settlement			(26,772)					
Administrative expense	(1,166)	(2,004)	(1,902)	(1,637)	(1,494)	(1,594)	(1,476)	
Other changes	-	-	16	17	9	(1,256)	-	
Net change in plan fiduciary net position	91,998	(33,202)	(136,603)	(27,289)	(88,181)	(65,212)	(5,879)	
Plan fiduciary net position—beginning	<u>1,061,996</u>	<u>1,095,198</u>	<u>1,231,801</u>	<u>1,259,090</u>	<u>1,347,271</u>	<u>1,412,483</u>	<u>1,418,362</u>	
Plan fiduciary net position—ending (b)	<u>\$ 1,153,994</u>	<u>\$ 1,061,996</u>	<u>\$ 1,095,198</u>	<u>\$ 1,231,801</u>	<u>\$ 1,259,090</u>	<u>\$ 1,347,271</u>	<u>\$ 1,412,483</u>	
City's net pension liability (asset)—ending (a) – (b)	\$ 3,274,197	\$ 3,231,750	\$ 2,992,107	\$ 2,649,059	\$ 2,426,936	\$ 2,163,413	\$ 2,058,721	
Plan fiduciary net position as a percentage of the total pension liability	26.06 %	24.73 %	26.80 %	31.74 %	34.16 %	38.38 %	40.69 %	
Covered payroll	\$ 61,783	\$ 56,417	\$ 44,879	\$ 93,860	\$ 146,708	\$ 158,399	\$ 166,427	
City's net pension liability (asset) as a percentage of covered payroll	5,299.51 %	5,728.33 %	6,667.05 %	2,822.35 %	1,654.26 %	1,365.80 %	1,237.01 %	

See accompanying notes to schedule.



CITY OF SOUTH TUCSON, ARIZONA  
SCHEDULE OF PENSION CONTRIBUTIONS  
JUNE 30, 2021

ASRS

	Reporting Fiscal Year								2013 through 2012
	2021	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 115,848	\$ 114,582	\$ 106,037	\$ 108,196	\$ 124,512	\$ 111,657	\$ 113,145	\$ 117,507	Information not available
City's contributions in relation to the statutorily required contribution	<u>115,848</u>	<u>114,582</u>	<u>106,037</u>	<u>108,196</u>	<u>124,512</u>	<u>111,657</u>	<u>113,145</u>	<u>117,507</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 994,403	\$1,000,716	\$ 948,453	\$ 992,624	\$1,174,479	\$1,029,098	\$1,062,705	\$1,144,019	
City's contributions as a percentage of covered payroll	11.65 %	11.45 %	11.18 %	10.90 %	10.60 %	10.85 %	10.65 %	10.27 %	

PSPRS - Police

	Reporting Fiscal Year								2013 through 2012
	2021	2020	2019	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 621,932	\$ 611,165	\$ 499,599	\$ 375,977	\$ 484,872	\$ 572,629	\$ 412,532	\$ 420,896	Information not available
City's contributions in relation to the actuarially determined contribution	<u>621,932</u>	<u>611,165</u>	<u>499,599</u>	<u>375,977</u>	<u>484,872</u>	<u>572,629</u>	<u>412,532</u>	<u>420,896</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 542,556	\$ 585,407	\$ 482,168	\$ 458,788	\$ 647,063	\$ 746,054	\$ 587,388	\$ 646,705	
City's contributions as a percentage of covered payroll	114.63 %	104.40 %	103.67 %	81.95 %	74.93 %	76.75 %	70.23 %	65.08 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
SCHEDULE OF PENSION CONTRIBUTIONS  
JUNE 30, 2021

PSPRS - Fire

	Reporting Fiscal Year								2013 through 2012
	2021	2020	2019	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 308,356	\$ 241,867	\$ 93,416	\$ 66,111	\$ 74,717	\$ 98,267	\$ 84,561	\$ 44,137	Information not available
City's contributions in relation to the actuarially determined contribution	<u>308,356</u>	<u>241,867</u>	<u>93,416</u>	<u>66,111</u>	<u>74,717</u>	<u>98,267</u>	<u>84,561</u>	<u>44,137</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 94,356	\$ 61,783	\$ 56,417	\$ 44,879	\$ 93,860	\$ 146,708	\$ 158,399	\$ 166,427	
City's contributions as a percentage of covered payroll	326.80 %	391.48 %	167.10 %	147.31 %	79.60 %	66.98 %	53.38 %	26.52 %	

EORP

	Reporting Fiscal Year								2013 through 2012
	2021	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 10,563	\$ 10,301	\$ 9,812	\$ 3,657	\$ 3,514	\$ 4,095	\$ 4,350	\$ 6,301	Information not available
City's contributions in relation to the statutorily required contribution	<u>10,563</u>	<u>10,301</u>	<u>9,812</u>	<u>3,657</u>	<u>3,514</u>	<u>4,095</u>	<u>4,350</u>	<u>6,301</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 21,465	\$ 20,814	\$ 19,679	\$ 30,074	\$ 17,600	\$ 19,200	\$ 18,400	\$ 20,160	
City's contributions as a percentage of covered payroll	49.21 %	49.49 %	49.86 %	12.16 %	19.97 %	21.33 %	23.64 %	31.25 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA  
 NOTES TO PENSION PLAN SCHEDULES  
 JUNE 30, 2021

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2019 actuarial valuation	19 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor

Actuarial assumptions:

Investment rate of return	<p>PSPRS members with initial membership date before July 1, 2017: In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.</p> <p>PSPRS members with initial membership on or after July 1, 2017: 7%.</p>
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5% for PSPRS. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females)

CITY OF SOUTH TUCSON, ARIZONA  
NOTES TO PENSION PLAN SCHEDULES  
JUNE 30, 2021

NOTE 2 - FACTORS THAT AFFECT TRENDS

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS, and EORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2019 for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. EORP-required contributions are not based on actuarial valuations, and therefore, these changes did not affect them. Also, the County refunded excess employee contributions to PSPRS and EORP members. PSPRS and EORP allowed the County to reduce its actual employer contributions for the refund amounts. As a result, the County's pension contributions were less than the actuarially or statutorily determined contributions for 2018 and 2019.

The fiscal year 2019 (measurement date 2018) pension liabilities for EORP reflect the replacement of the permanent benefit increase (PBI) for retirees based on investment returns with a cost of living adjustment based on inflation. Also the EORP liability and required pension contributions for fiscal year 2019 reflect a statutory change that requires the employer contribution rate to be actuarially determined. This change increased the discount rate used to calculate the liability thereby reducing the total pension liability.

NOTE 3 - OPEB DISCLOSURE

No OPEB pension plan schedules were provided as it was considered insignificant to the financial statements.