

CITY OF SOUTH TUCSON, ARIZONA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

CITY OF SOUTH TUCSON, ARIZONA
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona, as of June 30, 2008, and the respective budgetary comparison for the General, Housing and LTAF Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A prior period adjustment was recorded in Note 3.A. to adjust the City's estimate of its allowance for uncollectibles for court fines, as well as to correct a revenue missposted in the prior fiscal year.

The management's discussion and analysis on pages 3 - 10 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 51 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

March 31, 2009

Management's Discussion and Analysis

We (the City of South Tucson, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2008. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if the City's financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on the City's debt and operation. When referring to prior year data in this analysis we will be drawing upon information from last year's audited financial reports.

Financial Highlights

- ◆ The assets of the City of South Tucson, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$20,947,146 (net assets). Of this amount a deficit of \$1,416,482 was recorded as unrestricted net assets.
- ◆ As of the close of the current fiscal year, the City of South Tucson, Arizona's governmental funds reported combined ending fund balances of \$1,867,787, a decrease of \$286,359 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was a deficit of \$425,260.
- ◆ General Fund revenues (on a budgetary basis) were less than budgeted revenues by \$160,318 for fiscal year 2008. Additionally, budgetary basis expenditures exceeded the final budget in the General Fund.
- ◆ General Fund revenues were less than expenditures by \$59,222; a negative variance of \$327,104 from the original budget.
- ◆ The City issued \$7,905,000 in excise tax revenue bonds to refund \$6,860,000 in excise tax revenues bonds and to provide funds for current projects.

Overview of the Financial Statements

The financial section of the Annual Financial Report (AFR) for the City of South Tucson, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedule presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and major special revenue funds, and notes to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of South Tucson, Arizona's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the City of South Tucson, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the City of South Tucson, Arizona is improving or deteriorating.

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

The government-wide financial statements distinguish functions of the City of South Tucson, Arizona that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City of South Tucson, Arizona include general government, public safety, highways and streets, culture and recreation, redevelopment and housing and economic development.

The government-wide financial statements can be found immediately following the MD&A.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the City. 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 of South Tucson, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of South Tucson, Arizona 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 focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.—Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 14 - 21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of South Tucson, Arizona's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22 - 23 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 25 - 47) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the basic financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The City has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information in Note 4 to the basic financial statements.

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2008 showing that assets exceeded liabilities by \$20,947,146.

**City of South Tucson, Arizona
Condensed Statement of Net Assets
June 30, 2008 and 2007**

	Governmental Activities		
	2008	2007 (restated)	% Change
ASSETS			
Current and other assets	\$ 3,476,827	\$ 3,794,849	(8.4)%
Capital assets			
Non-depreciable	5,149,596	4,508,966	14.2
Depreciable (net)	<u>23,429,463</u>	<u>24,050,489</u>	(2.6)
Total assets	<u>32,055,886</u>	<u>32,354,304</u>	(0.9)
LIABILITIES			
Other liabilities	832,070	969,252	(14.2)
Non-current liabilities			
Due within one year	176,784	490,806	(64.0)
Due in more than one year	<u>10,099,886</u>	<u>8,674,785</u>	16.4
Total liabilities	<u>11,108,740</u>	<u>10,134,843</u>	9.6
NET ASSETS			
Invested in capital assets, net of related debt	20,801,870	21,482,299	(3.2)
Restricted	1,561,758	1,673,657	(6.7)
Unrestricted	<u>(1,416,482)</u>	<u>(1,462,673)</u>	(3.2)
Total net assets	<u>\$ 20,947,146</u>	<u>\$ 21,693,283</u>	(3.4)

The City does not currently have any proprietary or enterprise funds that would otherwise be classified as business-type activities. All City funds are considered governmental activities.

Net assets consist of three components. The largest portion of the City of South Tucson, Arizona's net assets (99%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of South Tucson, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of South Tucson, Arizona'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.

An additional portion of the City of South Tucson, Arizona's net assets (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a deficit \$1,416,482. The City's unrestricted net assets are currently in a deficit position largely due to the utilization of resources for interest payments on long-term debt and various City revitalization projects.

City of South Tucson, Arizona
Changes in Net Assets
Fiscal Years Ended June 30, 2008 and 2007

	Governmental Activities		
	2008	2007 (restated)	% Change
Revenues			
Program revenues			
Fees, fines and charges for services	\$ 1,349,488	\$ 1,645,329	(18.0)%
Operating grants and contributions	3,019,566	2,729,701	10.6
Capital grants and contributions	1,951,724	2,018,778	(3.3)
General revenues			
Property taxes	2,162,366	2,542,399	(14.9)
State shared revenues	1,558,295	1,421,070	9.7
Investment earnings	<u>108,233</u>	<u>56,981</u>	89.9
Total revenues	<u>10,149,672</u>	<u>10,414,258</u>	(2.5)
Expenses			
Current			
General government	2,633,111	2,630,909	0.1
Public safety	3,477,696	3,287,644	5.8
Highways and streets	1,547,101	1,571,257	(1.5)
Culture and recreation	237,165	130,298	82.0
Redevelopment and housing	2,534,907	2,147,149	18.1
Economic development	83,766	47,812	75.2
Health and welfare	-	14,796	(100.0)
Interest on long-term debt	<u>382,063</u>	<u>374,035</u>	2.1
Total expenses	<u>10,895,809</u>	<u>10,203,900</u>	6.8
Change in net assets	(746,137)	210,358	(454.7)
Net assets, beginning of year (restated)	<u>21,693,283</u>	<u>21,482,925</u>	1.0
Net assets, end of year	<u>\$ 20,947,146</u>	<u>\$ 21,693,283</u>	(3.4)

Governmental activities. Governmental activities decreased the City's net assets by \$746,137. Key factors of this decrease were due to the following:

- ◆ Fees fines and charges for services decreased \$295,841 due to the final Rio Nuevo payment being received in the prior year in the amount of \$250,000.
- ◆ Operating grants and contributions increased \$289,865 due to various police grant programs during the current year.
- ◆ Property taxes decreased \$380,033 due to a decrease in the transaction privilege tax revenue as a result of the current economy.
- ◆ Expenses increased largely due to an increase in public safety, culture and recreation and redevelopment and housing. The increase was due to increased salaries and costs of operation.

Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$1,867,787, a decrease of \$286,359 in comparison with the prior year. The General Fund reported a negative fund balance of \$425,260. The deficit is due to the prior year's use of resources to pay off a capital lease. At fiscal year-end 2007-08 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2006-07
General Fund	\$ (425,260)	\$ (215,355)
Housing Fund	461,749	338,272
LTAF Fund	498,907	49,193
Debt Service Fund	619,491	(75,967)
Revitalization Projects Fund	(113,495)	(197,170)
Flood Control Fund	401,952	(1,087)
Nonmajor Governmental Funds	424,443	(184,245)

The fund balance of the City of South Tucson, Arizona's General Fund decreased by \$215,355. The decrease was due to a transfer to fund the required debt service payment.

The Housing Fund increased due to rents received in excess of the costs.

The LTAF and Debt Service Funds did not significantly change from the prior year.

The Revitalization Projects Fund decreased due to the City using funds during the current year and nearing completion of several major roadway projects.

Nonmajor Governmental Funds of the City are combined into one column on the governmental fund statements and the net decrease was mainly due to the use of funds for various City projects.

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 18 - 21. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

The City did not amend its original budget during the year.

General Fund revenues of \$4,916,325, on a budgetary basis, were less than budgeted revenues of \$5,076,643 by \$(160,318) while budgetary basis expenditures of \$4,975,547 were in excess of budgeted expenditures. The excess of budgeted revenues over actual revenues received is primarily due to projections of local sales tax and state shared sales tax falling short of earlier expectations due to a down turn in the economy, forcing across the board expenditure reductions.

Capital Asset and Debt Administration

The City's capital assets for its governmental activities as of June 30, 2008 amounted to \$28,579,059 (net of accumulated depreciation), a net increase of 0.1%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

Capital assets include land, land and improvements, buildings and improvements, furniture, equipment, and vehicles, construction in progress and infrastructure. During fiscal year 2007-2008 the annual depreciation expense was \$1,129,270. Additions to capital assets during the fiscal year for totaled \$1,306,337.

Major capital asset events during the current fiscal year included the following:

- ◆ The continuation of roadway improvements.
- ◆ Improvements to the municipal complex.

The following table provides a breakdown of the capital assets of the City at June 30, 2008 and 2007.

**City of South Tucson, Arizona
Capital Assets (net)
June 30, 2008 and 2007**

	Governmental Activities	
	2008	2007
Land	\$ 321,673	\$ 479,136
Land improvements	939,072	566,961
Buildings and improvements	7,132,789	7,358,843
Infrastructure	14,137,115	14,664,740
Furniture, equipment and vehicles	1,220,487	1,459,945
Construction in progress	4,827,923	4,029,830
	\$ 28,579,059	\$ 28,559,455

Long-term Debt

At the end of the current fiscal year, the City of South Tucson, Arizona had total long-term debt outstanding of \$7,905,000. The City issued a refunding excise tax revenue bond. The refunding bond was issued to refund the prior bonds at a lower interest rate and to issue new debt for improvements to existing City facilities.

The following schedule shows the outstanding bonds of the City as of June 30, 2008 and 2007. Further detail on the City's outstanding debt may be found in Note 3.E. beginning on page 40.

**City of South Tucson, Arizona
Outstanding Debt
June 30, 2008 and 2007**

	Governmental Activities	
	2008	2007
MPC Excise Tax Revenue Bonds	\$ 7,905,000	\$ 6,860,000

Economic Factors and Next Year's Budgets and Rates

The City occupies one square mile and is composed largely of small business and low income housing. The City continues to seek sources of revenues through grants and taxes to support many of its operations. Key Factors contributing to the preparation of next year's budget were as follows:

The condition of our Nation's economy and the State of Arizona's continued budget crisis are unavoidable factors that will necessarily force us to reevaluate how we can continue to provide our residents the high quality service that they have come to expect within the limitations caused by these external factors.

Financial Contact

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

City of South Tucson, Arizona
Accounting Department
P.O. Box 7307
South Tucson, AZ 85725
(520) 792-2424

Basic Financial Statements

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 433,591
Receivables, net	
Accounts receivable	377,219
Taxes receivable	309,591
Intergovernmental receivable	728,376
Interest receivable	30,206
Inventories	64,913
Prepaid items	23,180
Deferred charges	632,147
Restricted assets	877,604
Capital assets	
Non-depreciable	5,149,596
Depreciable (net)	<u>23,429,463</u>
Total assets	<u>32,055,886</u>
Liabilities	
Accounts payable	593,771
Accrued wages and benefits	168,607
Intergovernmental payable	2,953
Customer deposits payable	30,327
Unearned revenue	36,412
Noncurrent liabilities	
Due within one year	176,784
Due in more than one year	<u>10,099,886</u>
Total liabilities	<u>11,108,740</u>
Net assets	
Invested in capital assets, net of related debt	20,801,870
Restricted for	
Highways and streets	498,907
Debt service	619,491
Other	443,360
Unrestricted	<u>(1,416,482)</u>
Total net assets	<u>\$ 20,947,146</u>

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

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs					
Governmental activities					
Current					
General government	\$ 2,633,111	\$ 993,876	\$ 170,904	\$ 31,993	\$ (1,436,338)
Public safety	3,477,696	7,789	273,509	164,497	(3,031,901)
Highways and streets	1,547,101	1,330	479,552	1,186,019	119,800
Culture and recreation	237,165	-	247,235	-	10,070
Redevelopment and housing	2,534,907	346,043	1,738,368	569,215	118,719
Economic development	83,766	450	109,998	-	26,682
Interest on long-term debt	382,063	-	-	-	(382,063)
Totals	<u>\$ 10,895,809</u>	<u>\$ 1,349,488</u>	<u>\$ 3,019,566</u>	<u>\$ 1,951,724</u>	<u>(4,575,031)</u>
General revenues					
Taxes					
Property taxes					2,162,366
State revenue sharing					792,310
State sales tax revenue sharing					517,419
Auto lieu tax revenue sharing					248,566
Investment earnings					108,233
Total general revenues					<u>3,828,894</u>
Change in net assets					(746,137)
Net assets, beginning of year (restated)					<u>21,693,283</u>
Net assets, end of year					<u>\$ 20,947,146</u>

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

CITY OF SOUTH TUCSON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Housing	LTAf	Debt Service	Revitalization Projects	Flood Control	Nonmajor Governmental Funds	Totals
Assets								
Cash and cash equivalents	\$ -	\$ 418,261	\$ -	\$ -	\$ -	\$ -	\$ 15,330	\$ 433,591
Restricted assets	258,113	-	-	619,491	-	-	-	877,604
Receivables, net								
Accounts receivable	166,176	9,646	-	-	-	-	201,397	377,219
Taxes receivable	309,591	-	-	-	-	-	-	309,591
Intergovernmental receivable	57,948	24,779	-	-	192,254	220,619	232,776	728,376
Interest receivable	30,206	-	-	-	-	-	-	30,206
Due from other funds	182,600	-	498,907	-	-	195,692	392,307	1,269,506
Inventories	-	64,913	-	-	-	-	-	64,913
Prepaid items	300	22,880	-	-	-	-	-	23,180
Total assets	\$ 1,004,934	\$ 540,479	\$ 498,907	\$ 619,491	\$ 192,254	\$ 416,311	\$ 841,810	\$ 4,114,186
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 463,296	\$ 39,060	\$ -	\$ -	\$ -	\$ 14,359	\$ 77,056	\$ 593,771
Accrued wages and benefits	163,751	4,856	-	-	-	-	-	168,607
Intergovernmental payable	-	2,953	-	-	-	-	-	2,953
Due to other funds	777,522	-	-	-	305,749	-	186,235	1,269,506
Deferred revenue	25,625	-	-	-	-	-	119,198	144,823
Unearned revenue	-	1,534	-	-	-	-	34,878	36,412
Customer deposits payable	-	30,327	-	-	-	-	-	30,327
Total liabilities	1,430,194	78,730	-	-	305,749	14,359	417,367	2,246,399
Fund balances								
Unreserved	(425,260)	461,749	498,907	619,491	(113,495)	401,952	-	1,443,344
Unreserved, reported in nonmajor Special revenue funds	-	-	-	-	-	-	424,443	424,443
Total fund balances	(425,260)	461,749	498,907	619,491	(113,495)	401,952	424,443	1,867,787
Total liabilities and fund balances	\$ 1,004,934	\$ 540,479	\$ 498,907	\$ 619,491	\$ 192,254	\$ 416,311	\$ 841,810	\$ 4,114,186

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

CITY OF SOUTH TUCSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2008

Fund balances - total governmental funds	\$	1,867,787
Amounts reported for governmental activities in the statement of net assets are different because:		
Court fines not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds.		25,625
CDBG loans recognized as revenues in previous years, but deferred in the governmental funds.		119,198
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		41,904,545
Less accumulated depreciation		<u>(13,325,486)</u>
Capital assets used in governmental activities		<u>28,579,059</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Revenue bonds		(7,905,000)
Premium on revenue bonds		(60,044)
Deferred amount on the refunding		364,151
Capital leases		(176,296)
Compensated absences		(299,228)
Long-term liabilities not due and payable in the current period		(2,200,253)
Deferred issuance costs recorded on the revenue bonds are recorded as an expenditure in the fund financial statements, but are recorded as an asset and deferred over the live of the bond in the government-wide financial statements.		
		<u>632,147</u>
Net assets of governmental activities	\$	<u>20,947,146</u>

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

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General	Housing	LTAF	Debt Service	Revitalization Projects	Flood Control	Nonmajor Governmental Funds	Totals
Revenues								
Taxes								
Property taxes	\$ 2,162,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,162,366
Intergovernmental	1,665,465	1,787,790	49,805	-	230,883	529,120	2,263,006	6,526,069
Fines and forfeitures	149,054	-	-	-	-	-	-	149,054
Licenses and permits	281,116	-	-	-	-	-	-	281,116
Charges for services	251,067	-	1,330	-	-	-	-	252,397
Rents and royalties	98,788	239,487	-	-	-	-	-	338,275
Contributions and donations	116	-	-	-	-	-	3,850	3,966
Investment earnings	81,938	3,401	-	3,290	6,966	-	12,638	108,233
Other	226,415	101,781	-	-	-	-	450	328,646
Total Revenues	4,916,325	2,132,459	51,135	3,290	237,849	529,120	2,279,944	10,150,122
Expenditures								
Current								
General government	1,768,689	-	-	-	-	-	130,872	1,899,561
Public safety	2,814,887	-	-	-	-	-	464,813	3,279,700
Highways and streets	311,636	-	1,942	-	-	530,207	958,788	1,802,573
Culture and recreation	-	-	-	-	-	-	295,817	295,817
Redevelopment and housing	-	1,794,187	-	-	-	-	531,681	2,325,868
Economic development	-	-	-	-	-	-	83,766	83,766
Debt Service								
Principal retirement	40,860	-	-	-	-	-	-	40,860
Interest on long-term debt	39,475	-	-	342,588	-	-	-	382,063
Issuance costs	-	-	-	632,147	-	-	-	632,147
Capital outlay	-	-	-	-	435,019	-	-	435,019
Total Expenditures	4,975,547	1,794,187	1,942	974,735	435,019	530,207	2,465,737	11,177,374
Excess (deficiency) of revenues over expenditures	(59,222)	338,272	49,193	(971,445)	(197,170)	(1,087)	(185,793)	(1,027,252)
Other financing sources (uses)								
Transfers in	27,195	-	-	326,600	-	-	28,743	382,538
Transfers out	(355,343)	-	-	-	-	-	(27,195)	(382,538)
Issuance of long-term debt	172,015	-	-	7,732,985	-	-	-	7,905,000
Premium on the issuance of long-term debt	-	-	-	60,044	-	-	-	60,044
Payment to refunded debt escrow agent	-	-	-	(7,224,151)	-	-	-	(7,224,151)
Total other financing sources (uses)	(156,133)	-	-	895,478	-	-	1,548	740,893
Net change in fund balances	(215,355)	338,272	49,193	(75,967)	(197,170)	(1,087)	(184,245)	(286,359)
Fund balances, beginning of year (restated)	(209,905)	123,477	449,714	695,458	83,675	403,039	608,688	2,154,146
Fund balances, end of year	\$ (425,260)	\$ 461,749	\$ 498,907	\$ 619,491	\$ (113,495)	\$ 401,952	\$ 424,443	\$ 1,867,787

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

CITY OF SOUTH TUCSON, ARIZONA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds \$ (286,359)

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

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

Expenditures for capital assets	1,306,337
Less current year depreciation	<u>(1,129,270)</u>
Excess capital expenditures over depreciation	<u>177,067</u>

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (157,463)

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.
 CDBG loan proceeds (450)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets.

Principal payments on long-term debt	40,860
Increase in other commitments	(361,741)
Issuance of long-term debt	(7,905,000)
Premium on the issuance of long-term debt	(60,044)
Bond issuance costs	632,147
Payment to refunded debt escrow agent	7,224,151

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net change in compensated absences	<u>(49,305)</u>
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Change in net assets of governmental activities \$ (746,137)

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

CITY OF SOUTH TUCSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ 2,515,752	\$ 2,162,366	\$ (353,386)
Intergovernmental	1,774,302	1,665,465	(108,837)
Fines and forfeitures	172,600	149,054	(23,546)
Licenses and permits	291,700	281,116	(10,584)
Charges for services	191,000	251,067	60,067
Rents and royalties	98,789	98,788	(1)
Contributions and donations	-	116	116
Investment earnings	8,000	81,938	73,938
Other	24,500	226,415	201,915
Total Revenues	<u>5,076,643</u>	<u>4,916,325</u>	<u>(160,318)</u>
Expenditures			
Current			
General government			
Operating administration	14,950	6,717	8,233
City manager administration	505,244	498,217	7,027
Mayor and council	53,558	43,669	9,889
Magistrate court	228,292	199,239	29,053
City clerk	89,710	83,642	6,068
Finance	175,072	158,728	16,344
Information technology	123,979	100,513	23,466
Personnel	46,087	38,691	7,396
Development services	75,263	50,390	24,873
Planning and zoning	59,241	29,864	29,377
Public buildings	168,107	297,350	(129,243)
Non-departmental	282,102	261,669	20,433
Total general government	<u>1,821,605</u>	<u>1,768,689</u>	<u>52,916</u>
Public safety			
Fire department	801,515	839,062	(37,547)
Voluntary fire department	46,474	36,177	10,297
Police department	1,457,291	1,663,299	(206,008)
Civilian police department	265,040	276,349	(11,309)
Total public safety	<u>2,570,320</u>	<u>2,814,887</u>	<u>(244,567)</u>
Highways and streets			
Public works	26,666	24,461	2,205
Sanitation	200,505	186,358	14,147
Streets	24,531	11,736	12,795
Fleet service	51,125	48,666	2,459
Trans. and flood control	41,890	40,415	1,475
Total highways and streets	<u>344,717</u>	<u>311,636</u>	<u>33,081</u>
Debt Service			
Principal retirement	42,419	40,860	1,559
Interest on long-term debt	29,700	39,475	(9,775)
Total Expenditures	<u>4,808,761</u>	<u>4,975,547</u>	<u>(166,786)</u>
Excess (deficiency) of revenues over expenditures	<u>267,882</u>	<u>(59,222)</u>	<u>(327,104)</u>

(continued)

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

CITY OF SOUTH TUCSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
<i>(concluded)</i>			
Other financing sources (uses)			
Transfers in	275,000	27,195	(247,805)
Transfers out	(632,882)	(355,343)	277,539
Issuance of long-term debt	90,000	172,015	82,015
Total other financing sources (uses)	<u>(267,882)</u>	<u>(156,133)</u>	<u>111,749</u>
Net change in fund balances	-	(215,355)	(215,355)
Fund balances, beginning of year (deficit)	-	(209,905)	(209,905)
Fund balances, end of year (deficit)	<u>\$ -</u>	<u>\$ (425,260)</u>	<u>\$ (425,260)</u>

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

CITY OF SOUTH TUCSON, ARIZONA
HOUSING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 1,460,168	\$ 1,787,790	\$ 327,622
Rents and royalties	298,000	239,487	(58,513)
Investment earnings	-	3,401	3,401
Other	<u>18,271</u>	<u>101,781</u>	<u>83,510</u>
Total Revenues	<u>1,776,439</u>	<u>2,132,459</u>	<u>356,020</u>
Expenditures			
Current			
Redevelopment and housing	<u>1,776,439</u>	<u>1,794,187</u>	<u>(17,748)</u>
Total Expenditures	<u>1,776,439</u>	<u>1,794,187</u>	<u>(17,748)</u>
Excess (deficiency) of revenues over expenditures	-	338,272	338,272
Fund balances, beginning of year	<u>-</u>	<u>123,477</u>	<u>123,477</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 461,749</u>	<u>\$ 461,749</u>

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

CITY OF SOUTH TUCSON, ARIZONA
 LTAF FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ 36,648	\$ 49,805	\$ 13,157
Charges for services	<u>-</u>	<u>1,330</u>	<u>1,330</u>
Total Revenues	<u>36,648</u>	<u>51,135</u>	<u>14,487</u>
Expenditures			
Current			
Highways and streets	<u>36,648</u>	<u>1,942</u>	<u>34,706</u>
Total Expenditures	<u>36,648</u>	<u>1,942</u>	<u>34,706</u>
Excess (deficiency) of revenues over expenditures	-	49,193	49,193
Fund balances, beginning of year	<u>-</u>	<u>449,714</u>	<u>449,714</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 498,907</u>	<u>\$ 498,907</u>

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

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Pension Trust</u>
Assets	
Cash and cash equivalents	\$ 197,829
Total assets	<u>\$ 197,829</u>
Net Assets	
Held in trust for pension benefits	<u>\$ 197,829</u>

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

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Pension Trust
Additions	
Contributions	
State insurance contribution	\$ 740
Total additions	740
 Deductions	
Benefits	8,750
Total deductions	8,750
 Change in net assets	(8,010)
 Net assets, beginning of year	205,839
 Net assets, end of year	\$ 197,829

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

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CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of South Tucson, Arizona (City) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying basic 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.

Included within the reporting entity:

South Tucson Industrial Development Authority. The South Tucson Industrial Development Authority's governing board is appointed by the City Council. The bond issuance authorizations are also approved by the City Council. The Industrial Development Authority has been inactive in recent years.

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 City has a "moral obligation" for the repayment of the MPC's bonds. For financial reporting purposes, transactions of the MPC are combined together and included as if they were part of the City's operations.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues 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 THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

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. Taxes and other items not properly 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 are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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 provider have been met.

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, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Intergovernmental grants and aid, franchise taxes, licenses charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Housing Fund* is used to account for the operations of the City's public housing program.

The *Local Transportation Assistance Fund (LTAF)* is used to account for state funds received for local transportation.

The *Debt Service Fund* accounts for the accumulation of resources for and the payment of, long-term principal, interest and related costs.

The *Revitalization Projects Fund* accounts for the construction of major infrastructure improvements.

The *Flood Control Fund* accounts for the activity of a county grant used for flood control on various street projects.

Additionally, the Town reports the following fund types:

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

~~As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.~~

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, Cities or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

Court fines receivable are shown net of an allowance for uncollectibles.

Pima County levies real property taxes on or before the third Monday in August that 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. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Short-term interfund receivables/payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. Inventories and prepaid items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

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

5. Capital assets

Capital assets, which include land and improvements, buildings and improvements, infrastructure, furniture, equipment and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Land improvements	20 years
Buildings and improvements	50 years
Infrastructure	75 years
Furniture, equipment and vehicles	5-15 years

6. Compensated absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

8. Net assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because the City reports all assets which make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

~~9.~~ **Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

4. Expenditures may not legally exceed the expenditure limitation described below of 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. The City Manager, subject to City Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department. The adopted budget cannot be amended in any way without City Council approval.

5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	Amount of Overexpenditure
General Fund:	
Public buildings	\$ 129,243
Fire department	37,547
Police department	206,008
Civilian police department	11,309
Interest	9,775
Housing Fund	17,748

Cash was available to meet all the overexpenditures above.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

C. Deficit fund equity

A deficit fund balance in the amount of \$425,260 and \$113,495 was reported in the General and Revitalization Projects Funds, respectively. The deficit was the result of a carryover from prior years, plus current year debt service requirements in the General Fund. The City plans to recover the deficit in the General Fund over the next three years as the money from the New River agreement with the City of Tucson, Arizona is received. The Revitalization Projects Fund deficit was due to current year costs, which are expected to be recovered in the upcoming fiscal year through Pima County.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Prior period adjustment

A prior period adjustment was recorded in the government-wide financial statements to adjust the court receivable balance for amounts that were deemed uncollectible. A prior period adjustment was recorded in the government-wide and governmental fund financial statements to correct the following: revenue in the Revitalization Projects Fund which was understated in the prior year due to the revenue being included on the balance sheet in error. The following summary reconciles the beginning net assets and fund balances, as restated, to the prior year audited financial statements.

	Government- wide Financial Statements	Fund Financial Statements
Net assets/fund balances at June 30, 2007 (as previously stated)	\$ 22,338,437	\$ 2,035,170
Prior period adjustment:		
Adjustment to the allowance for uncollectibles	(764,130)	-
Misscoded prior year revenue	118,976	118,976
Net assets/fund balances at July 1, 2007 (restated)	\$ 21,693,283	\$ 2,154,146

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

B. Assets

1. Deposits and investments

Deposits and investments at June 30, 2008 consist of the following:

Deposits	
Cash on hand	\$ 2,532
Cash in bank	202,482
Cash on deposit with Pima County	157,534
Investments	
State Treasurer's Investment Pool	268,872
Cash on deposit with trustee	<u>877,604</u>
Total deposits and investments	1,509,024
Less: Restricted assets	(877,604)
Fiduciary funds cash	<u>(197,829)</u>
Total cash and cash equivalents	<u>\$ 433,591</u>

Deposits - The carrying value of the City's deposits at June 30, 2008 was \$202,482 and the bank balance was \$1,019,903. Of the bank balance \$200,000 was covered by federal depository insurance and \$819,903 was covered by collateral held by the City's custodial bank in the City's name. The cash on deposit with Pima County was collateralized by Pima County in the City's name.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. The cash on deposit with the trustee is held and invested by the City's trustee in U.S. Treasury notes.

Interest rate risk. In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting its investments to U.S. government securities with maturities of six months or less.

Credit risk. The City limits its investments to the State Treasurer's Investment Pool and U.S. Government Securities. The cash on deposit with the trustee is invested in U.S. Government Money Market Funds and therefore, has no credit risk.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City currently does not have a policy in regards to custodial credit. However, because each of the City's investments are secured by the federal government, depository insurance or are collateralized, the City is not exposed to custodial credit risk. The City's investments in the State Treasurer's Investment Pool did not receive a credit quality rating from a national rating agency.

2. Restricted assets

Restricted assets at June 30, 2008 consisted of the following:

Construction projects	\$ 212,139
Future debt service	58,468
Reserve fund	<u>606,997</u>
	<u>\$ 877,604</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

3. Receivables

Court fines are recorded net of uncollectible amounts in the government-wide statements and are recorded as a receivable and deferred revenue in the fund statements because they do not meet the revenue recognition criteria for the modified accrual basis of accounting. The total receivable at June 30, 2008 was \$993,753 which was reduced by \$968,128 for uncollectible amounts for a net receivable balance at June 30, 2008 of \$25,625. A prior period adjustment was recorded in the government-wide financial statements to restate the prior year receivable balance for an adjusted allowance for uncollectible.

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

	<u>Unavailable</u>	<u>Unearned</u>
Court fines receivable		
(General Fund)	\$ 25,625	\$ -
Grants received in advance		
(Nonmajor Governmental Funds)	-	34,878
(Housing Fund)	-	1,534
CDBG loan receivable		
(Nonmajor Governmental Funds)	<u>119,198</u>	<u>-</u>
	<u>\$ 144,823</u>	<u>\$ 36,412</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

4. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 479,136	\$ -	\$ (157,463)	\$ 321,673
Construction-in-progress	<u>4,029,830</u>	<u>1,062,678</u>	<u>(264,585)</u>	<u>4,827,923</u>
Total capital assets, not being depreciated	<u>4,508,966</u>	<u>1,062,678</u>	<u>(422,048)</u>	<u>5,149,596</u>
Capital assets being depreciated:				
Land improvements	1,289,717	434,312	-	1,724,029
Buildings and improvements	11,302,707	-	-	11,302,707
Infrastructure	19,888,396	-	-	19,888,396
Furniture, equipment and vehicles	<u>3,765,885</u>	<u>73,932</u>	<u>-</u>	<u>3,839,817</u>
Total capital assets being depreciated	<u>36,246,705</u>	<u>508,244</u>	<u>-</u>	<u>36,754,949</u>
Less accumulated depreciation for:				
Land improvements	(722,756)	(62,201)	-	(784,957)
Buildings and improvements	(3,943,864)	(226,054)	-	(4,169,918)
Infrastructure	(5,223,656)	(527,625)	-	(5,751,281)
Furniture, equipment and vehicles	<u>(2,305,940)</u>	<u>(313,390)</u>	<u>-</u>	<u>(2,619,330)</u>
Total accumulated depreciation	<u>(12,196,216)</u>	<u>(1,129,270)</u>	<u>-</u>	<u>(13,325,486)</u>
Total capital assets, being depreciated, net	<u>24,050,489</u>	<u>(621,026)</u>	<u>-</u>	<u>23,429,463</u>
Governmental activities capital assets, net	<u>\$ 28,559,455</u>	<u>\$ 441,652</u>	<u>\$ (422,048)</u>	<u>\$ 28,579,059</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 299,200
Public safety	197,996
Highways and streets	423,035
Redevelopment and housing	<u>209,039</u>
Total depreciation expense-governmental activities	\$ <u>1,129,270</u>

5. Construction commitments

The City has an active construction project at June 30, 2008. The project includes the revitalization of the 29th Street Corridor. At fiscal year end the City's commitments with contractors were as follows:

<u>Project</u>	<u>Governmental Activities</u>	
	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
36th street to 4th avenue roadway	\$ 130,437	\$ 398,806
40th street to I-10 roadway	249,145	158,902
Mill avenue and overlay	72,383	34,290
Drainage project	621,948	1,097,052
9th avenue project	4,264	105,736
Youth art project	<u>5,285</u>	<u>27,540</u>
	<u>\$ 1,083,462</u>	<u>\$ 1,822,326</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

C. Interfund receivables, payables and transfers

As of June 30, 2008 interfund receivable and payables were as follows:

Due To	Due From			Total
	General Fund	Revitalization Project Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 182,600	\$ -	\$ 182,600
LTA Fund	498,907	-	-	498,907
Flood Control Fund	195,692	-	-	195,692
Nonmajor Governmental Funds	<u>82,923</u>	<u>123,149</u>	<u>186,235</u>	<u>392,307</u>
	<u>\$ 777,522</u>	<u>\$ 305,749</u>	<u>\$ 186,235</u>	<u>\$ 1,269,506</u>

The above interfund receivables and payables are due to a cash short-fall at fiscal year end in the General Fund, Revitalization Project Fund and Nonmajor Governmental Funds. The City anticipates receiving funding immediately following the fiscal year end to cover the deficit in the Nonmajor Governmental Funds and anticipates recovering the deficit in the General and Revitalization Projects Funds over the next few years through sales tax revenues and funding through Pima County, respectively.

Interfund transfers for the year ended June 30, 2008 consisted of the following:

Transfers In	Transfers Out		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 27,195	\$ 27,195
Debt Service Fund	326,600	-	326,600
Nonmajor Governmental Funds	<u>28,743</u>	<u>-</u>	<u>28,743</u>
Total	<u>\$ 355,343</u>	<u>\$ 27,195</u>	<u>\$ 382,538</u>

Transfers were made to pay debt service obligations during the fiscal year and to fund capital projects and subsidize various grant funds.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

D. Obligations under leases

Operating lease

The City leases copy machines and a printer under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating lease totaled \$16,341 for the year ended June 30, 2008.

The future minimum lease payments for these leases are as follows:

Year Ending June 30,	<u>Amount</u>
2009	\$ 14,983
2010	14,335
2011	<u>7,213</u>
Total	<u>\$ 36,531</u>

Capital lease

The City entered into a lease agreement as lessee for financing the acquisition of two police vehicles, a staff vehicle and a garbage truck. The lease agreement qualifies as a capital lease for accounting purposes and; therefore, is recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	<u>Governmental Activities</u>
Vehicles	\$ 276,837
Less: accumulated depreciation	<u>(74,449)</u>
Total	<u>\$ 202,388</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

	Governmental Activities
Year Ending June 30, 2009	\$ 53,334
2010	53,334
2011	42,854
2012	35,368
2013	14,737
Total minimum lease payments	199,627
Less: amount representing interest	(23,331)
Present value of net minimum lease payments	\$ 176,296

E. Long-term obligations

The City has issued long-term debt to refund earlier obligations with higher interest rates. The debt is being repaid by an irrevocable trust with an escrow agent funded by the proceeds of the refunding. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

The City has pledged excise transaction privilege and state shared sales tax to repay \$7.9 million in governmental excise tax revenue bonds issued in 2007. Proceeds of the bonds were used to refund older bonds and additional proceeds were issued to fund improvements to the municipal complex. The bonds are payable from excise tax and state shared sales taxes through 2037. Annual principal and interest payments on the bonds are expected to require less than 25.0 percent of revenues; however, the final payment requires a balloon payment of \$1,150,000 in principal and \$57,500 in interest. The total principal and interest remaining to be paid on the bonds is \$17,534,491. Principal and interest paid for the current year and total excise and state shared sales taxes were \$382,063 and \$2.9 million, respectively.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

Revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Amount</u>
MPC Excise Tax, Series 2007; original issue \$7,905,000	4.10-5.95	7/1/2013-37	\$ <u>7,905,000</u>

Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>	<u>Due within one year</u>
Governmental Activities:					
Bonds and loans payable:					
Revenue bonds	\$ 6,860,000	\$ 7,905,000	\$ (6,860,000)	\$ 7,905,000	\$ -
Deferred amount on:					
Premium on bonds	-	60,044	-	60,044	-
Refunding	-	(364,151)	-	(364,151)	-
Total bonds payable	6,860,000	7,600,893	(6,860,000)	7,600,893	-
Other liabilities:					
Capital leases	217,156	-	(40,860)	176,296	43,501
Compensated absences	249,923	178,707	(129,402)	299,228	133,283
Other commitments	<u>1,838,512</u>	<u>361,741</u>	<u>-</u>	<u>2,200,253</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 9,165,591</u>	<u>\$ 8,141,341</u>	<u>\$ (7,030,262)</u>	<u>\$ 10,276,670</u>	<u>\$ 176,784</u>

Debt service requirements on long-term debt at June 30, 2008 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 470,850
2010	-	470,850
2011	-	470,850
2012	-	470,850
2013	130,000	470,850
2014-18	780,000	2,224,501
2019-23	1,055,000	1,953,982
2024-28	1,420,000	1,589,238
2029-33	1,915,000	1,096,789
2034-37	<u>2,605,000</u>	<u>410,731</u>
	<u>\$ 7,905,000</u>	<u>\$ 9,629,491</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

During the year ended June 30, 2008, the City issued \$7,905,000 in excise tax refunding bonds, with an average interest rate of 6.03 percent, to advance refund \$6,860,000 of outstanding excise tax revenue bonds, with an average interest rate 5.29 percent. The net proceeds of \$7,332,897, including \$60,044 in premiums, (after payment of \$632,147 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded excise tax revenue bonds and in a debt service reserve account for future debt service. In addition to the proceeds from the issuance, funds from the prior issue remaining at the trustee were transferred to the reserve fund and project funds. As a result, the refunded excise tax revenue bonds are considered to be defeased, and the liability for those bonds has been removed from the City's general ledger.

The City advance refunded the bonds to obtain approximately \$397,544 of additional capital funding and extend the debt service on the refunded bonds to 2037, thereby resulting in an economic loss (i.e., difference between the present values of the debt service payments on the old and new debt) of \$93,183.

Other Commitments

The City has an intergovernmental agreement with the City of Tucson, Arizona for transportation services. According to the agreement, the City of Tucson, Arizona will provide transportation to citizens of the City of South Tucson, Arizona at a predetermined rate. As of June 30, 2008, the cities have not come to terms regarding the charges for services. However, the City of Tucson, Arizona has estimated the cost of those charges and is billing the City of South Tucson, Arizona for the related services since the inception of the agreement. The liability is not expected to become due until after the fiscal year ending June 30, 2008, at which time the cities will come to terms regarding the charges for the services and a payment schedule.

NOTE 4 - OTHER INFORMATION

A. Risk management

The City of South Tucson, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; 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 for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$2,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

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.

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

B. Contingent liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave for City employees at June 30, 2008, totaled \$366,783.

C. Retirement plans

Firefighters' Relief and Pension Fund

The City of South Tucson, Arizona Volunteer Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served for 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed \$150 per month, as determined by the board of trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

State statute requires that both the employee and the City contribute an amount equal to 5% of the employee's salary. However, prior to the year ended June 30, 1992, it was determined the funded status of the plan was sufficient not to require further contributions by the City and has been reviewed on an annual basis since 1992 in which no changes in funding status have occurred.

No pension provision changes occurred during the year that affected the required contributions made by the City or its volunteer firefighters.

The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal years or as of the close of the fiscal year.

Arizona State Retirement System

Plan Descriptions - The City contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates. For the year ended June 30, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll. The City's contribution to the plan for the fiscal year ended June 30, 2008 and prior two fiscal years are as follows:

	Retirement Fund	Health-Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,			
2008	\$ 126,321	\$ 16,481	\$ 7,849
2007	127,605	16,649	7,928
2006	99,337	12,961	6,172

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 27.90% and 11.42% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost - During the year ended June 30, 2008 (the date of the last available information), the City of South Tucson, Arizona's annual pension cost of \$263,204 for police and \$69,843 for fire was equal to the City of South Tucson, Arizona's required and actual contributions.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

The required contribution was determined as part of the June 30, 2008 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2008, the most recent actuarial valuation date, the plan was 20.8 percent funded for police and 67.0 percent funded for fire. The actuarial accrued liability for benefits was \$5.2 million for police and \$2.4 million for fire, and the actuarial value of assets was \$1.1 million for police and \$1.6 million for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.2 million for police and \$0.8 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.0 million for police and \$0.6 million for fire, and the ratio of the UAAL to the covered payroll was 433.2 percent for police and 131.2 percent for fire.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the City of South Tucson, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of South Tucson, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Three-Year Trend Information

Police			
<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 225,849	100.0 %	\$ -
2007	214,911	100.0	-
2008	263,204	100.0	-

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Three-Year Trend Information

Fire

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percent</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2006	\$ 63,483	100.0 %	\$ -
2007	55,042	100.0	-
2008	69,843	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 51.

Historical trend information is presented in order for the reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

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Required Supplementary Information

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CITY OF SOUTH TUCSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

**Schedule of Funding Progress
 Police**

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over (Under) funded AAL as a Percentage of Covered Payroll
2006	\$ 1,268,718	\$ 4,597,652	27.6 %	\$ (3,328,934)	\$ 844,928	(394.0)%
2007	1,073,458	4,966,457	21.6	(3,892,999)	887,402	(438.7)
2008	1,087,819	5,239,117	20.8	(4,151,298)	958,261	(433.2)

**Schedule of Funding Progress
 Fire**

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over (Under) funded AAL as a Percentage of Covered Payroll
2006	\$ 1,686,947	\$ 2,012,143	83.8 %	\$ (325,196)	\$ 511,977	(63.5)%
2007	1,556,028	2,312,999	67.3	(756,971)	564,234	(134.2)
2008	1,630,547	2,433,396	67.0	(802,849)	611,721	(131.2)

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SINGLE AUDIT ACT REPORTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona (City) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described as 08-1 through 08-11 in the accompanying schedule of findings and questioned costs to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider items 08-1 through 08-7 and 08-10 through 08-11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of South Tucson, Arizona's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the City in a separate letter dated March 31, 2009.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the City Council, Management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

March 31, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance with Requirements Applicable to Each Major Program

We have audited the compliance of the City of South Tucson, Arizona (City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of South Tucson, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of South Tucson, Arizona's management. Our responsibility is to express an opinion on the City of South Tucson, Arizona's compliance based on our audit.

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

In our opinion, the City of South Tucson, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

Internal Control over Compliance in Accordance with OMB Circular A-133

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs as items 08-12 through 08-17 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and question costs, we consider items 08-12 through 08-17 to be material weaknesses.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and question costs. We did not audit the City's response and accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the City Council, Management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch + Company, P.C.
Cronstrom, Osuch & Company, P.C.

March 31, 2009

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
 FISCAL YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*
 Internal control over financial reporting:

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

Noncompliance material to financial
 statements noted? yes X no

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance
 for major programs: *Unqualified*

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Rental Voucher Program
14.856	Low Income Housing Assistance Program

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

Auditee qualified as low-risk auditee? yes X no

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENTS

08-1	<i>Condition/ Context</i>	Adequate internal controls over the closing procedures necessary to prepare the financial statements for external reporting were not maintained.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP, internal control weakness and numerous material audit adjustments were necessary to correct misstatements in the City's general ledger.
	<i>Cause</i>	Due to the limited staff size of the finance department, the City did not reconcile account balances until more than six months following the fiscal year-end. As a result, numerous accounts were not reconciled prior to commencement of the audit.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the City should develop procedures to ensure the year-end financial statements are properly closed out and are closed more timely.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its current closing procedures and will develop procedures as well as prepare a schedule to ensure the general ledger is closed out more timely and accurately in the future.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

GENERAL LEDGER

<i>08-2 Condition/ Context</i>	Numerous revenues and accounts receivable balances were double posted to the general ledger or were not recorded during the fiscal year. In addition, the activity of several City bank accounts was not recorded during the fiscal year.
<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
<i>Effect</i>	Noncompliance with GAAP and internal control weakness as numerous audit adjustments were necessary to record the activity of the RICO account, the trustee activity of the bonds, to reverse double posted revenues and receivables and to record unrecorded cash receipts.
<i>Cause</i>	Adequate internal controls were not maintained over the general ledger to ensure accounts were properly reconciled during the fiscal year. Due to the limited staff size, not all duties could be performed to ensure adequate internal controls.
<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the City should develop procedures to ensure account balances are reconciled, revenues are properly recorded and all bank activity is properly recorded and reconciled to the general ledger.
<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its current closing procedures to ensure account balances are properly reconciled in the future.
<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

GENERAL LEDGER (CONT'D)

08-3	<i>Condition/ Context</i>	Numerous revenues and expenditures were missposted to incorrect funds.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness as numerous material audit adjustments were necessary to correct the missposted revenues and expenditures.
	<i>Cause</i>	Management error.
	<i>Recommendation</i>	In order to comply with GAAP, strengthen internal controls and prevent material misstatements to the financial statements, revenues and expenditures should be recorded in the proper general ledger accounts.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure that revenues and expenditures are recorded in the proper general ledger account.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

GENERAL LEDGER (CONT'D)

08-4	<i>Condition/ Context</i>	Adequate cut-off procedures were not implemented to ensure revenues and expenditures at or near year-end were recorded in the proper fiscal year.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness as numerous audit adjustments were necessary to adjust year-end payables and receivables in order to record activity in the proper fiscal year.
	<i>Cause</i>	Management oversight.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, proper cutoff procedures should be performed to ensure revenues and expenditures are recorded in the correct fiscal year.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure that proper cutoff procedures are developed and implemented.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

GENERAL LEDGER (CONCL'D)

08-5	<i>Condition/ Context</i>	An accounts payable subsidiary ledger was not maintained that reconciled total accounts payable to the balance reported in the general ledger.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness.
	<i>Cause</i>	Management oversight.
	<i>Recommendation</i>	In order to strengthen internal controls, all accounts payable should be included in an accounts payable subsidiary ledger. The subsidiary ledger should be reconciled to the general ledger monthly and any variances should be investigated and resolved.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure that a proper accounts payable listing is maintained to support the accounts payable balance reported in the general ledger.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

GENERAL LEDGER (CONCL'D)

08-6	<i>Condition/ Context</i>	A reserve for an allowance for uncollectible accounts was not recorded in the General Fund for court fines, refuse collections, business licenses and other miscellaneous fines, fees and charges.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and accounts receivable balances were overstated.
	<i>Cause</i>	The City has not developed a policy to provide a reserve for uncollectible accounts.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the City should develop a policy to address a reserve for an allowance for uncollectible accounts. Factors that should be considered are prior history of collections, as well as environmental factors, including the current economy.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its current procedures and will develop a policy that can be consistently applied to future years.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

CASH

08-7	<i>Condition</i>	Cash balances were not always properly reconciled or reconciled timely to the general ledger.
	<i>Context</i>	Numerous bank accounts were either under or overstated due to double posted revenue, missposted revenue or unrecorded activity.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness.
	<i>Cause</i>	Bank reconciliations were completed more than six months following the fiscal year-end; however, the book balance that was reconciled to the bank did not always reconcile to the general ledger.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the book balance should be reconciled to the general ledger and any variances should be investigated and resolved.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure the book balance reconciles to the general ledger and any variances are investigated and corrected more timely.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

CAPITAL ASSETS

08-8	<i>Condition/ Context</i>	Formal written policies and procedures for were not developed for capital assets.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness.
	<i>Cause</i>	Management oversight.
	<i>Recommendation</i>	In order to strengthen internal controls, the City should develop formal written policies and procedures that address its capitalization policy, depreciable life and the procedures to compile capital assets, conduct a physical inventory, reconcile to the prior year list and reconcile capital expenditures to capital additions.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will consider developing formal written policies and procedures that address all aspects of capital assets.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

INTERGOVERNMENTAL AGREEMENTS

08-9	<i>Condition</i>	The City did not always maintain a fully executed copy of its intergovernmental agreements (IGA) prior to incurring expenditures related to the agreement.
	<i>Context</i>	The Flood Control IGA with Pima County.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness.
	<i>Cause</i>	Due to an oversight by the County, an IGA had not been prepared. Currently, the City has a draft copy of the IGA, but did not have a fully executed IGA prior to incurring expenditures.
	<i>Recommendation</i>	In order to strengthen internal controls, a fully executed copy of each intergovernmental agreement (IGA) should be maintained prior to incurring expenditures.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and is in the process of reviewing the draft IGA and will retroactively execute the IGA upon approval.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONT'D)

GRANT REVENUES

08-10	<i>Condition/ Context</i>	Reimbursement requests were not always submitted to the grantor timely.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness as most grants have a defined period for eligible funding; if funds are not requested in that time period, grantors often have the right to refuse reimbursement.
	<i>Cause</i>	Management oversight.
	<i>Recommendation</i>	In order to strengthen internal controls, requests for reimbursement should be presented to the grantor within a reasonable period of time following the actual expenditure.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure that reimbursable grant revenues are requested in a timely manner.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCL'D)

HOUSING GRANTS

08-11	<i>Condition</i>	The housing department's revenues, expenditures and cash balances were not reconciled to the City's general ledger.
	<i>Context</i>	Section 8, low-rent and the capital grant.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP).
	<i>Effect</i>	Noncompliance with GAAP and several adjustments were necessary to reconcile the activity.
	<i>Cause</i>	The housing department submits checks to the City for funds received and submits check requests for expenditures. Therefore, a timing difference exists between the housing department and the general ledger.
	<i>Recommendation</i>	In order to comply with GAAP, the City should assign an employee responsible for reconciling activity of the housing department to the general ledger and any variances should be investigated and resolved.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure revenues, expenditures and cash balances of the housing department are reconciled to the general ledger.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

LOW INCOME HOUSING ASSISTANCE PROGRAM

SECTION 8 RENTAL VOUCHER PROGRAM

CFDA No.'s 14.856 AND 14.871

08-12	<i>Condition/ Context</i>	Adequate internal controls over the closing procedures necessary to prepare the financial statements for external reporting were not maintained.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP, internal control weakness and numerous material audit adjustments were necessary to correct misstatements in the City's general ledger.
	<i>Cause</i>	Due to the limited staff size of the finance department, the City did not reconcile account balances until more than six months following the fiscal year-end. As a result, numerous accounts were not reconciled prior to commencement of the audit.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the City should develop procedures to ensure the year-end financial statements are properly closed out and are closed more timely.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its current closing procedures and will develop procedures as well as prepare a schedule to ensure the general ledger is closed out more timely and accurately in the future.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONT'D)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONT'D)

LOW INCOME HOUSING ASSISTANCE PROGRAM

SECTION 8 RENTAL VOUCHER PROGRAM

CFDA No.'s 14.856 AND 14.871

08-13	<i>Condition/ Context</i>	Numerous revenues and accounts receivable balances were double posted to the general ledger or were not recorded during the fiscal year. In addition, the activity of several City bank accounts was not recorded during the fiscal year.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness as numerous audit adjustments were necessary to record the activity of the RICO account, the trustee activity of the bonds, to reverse double posted revenues and receivables and to record unrecorded cash receipts.
	<i>Cause</i>	Adequate internal controls were not maintained over the general ledger to ensure accounts were properly reconciled during the fiscal year. Due to the limited staff size, not all duties could be performed to ensure adequate internal controls.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the City should develop procedures to ensure account balances are reconciled, revenues are properly recorded and all bank activity is properly recorded and reconciled to the general ledger.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its current closing procedures to ensure account balances are properly reconciled in the future.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONT'D)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONT'D)

LOW INCOME HOUSING ASSISTANCE PROGRAM

SECTION 8 RENTAL VOUCHER PROGRAM

CFDA No.'s 14.856 AND 14.871

08-14	<i>Condition/ Context</i>	Numerous revenues and expenditures were missposted to incorrect funds.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness as numerous material audit adjustments were necessary to correct the missposted revenues and expenditures.
	<i>Cause</i>	Management error.
	<i>Recommendation</i>	In order to comply with GAAP, strengthen internal controls and prevent material misstatements to the financial statements, revenues and expenditures should be recorded in the proper general ledger accounts.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure that revenues and expenditures are recorded in the proper general ledger account.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONT'D)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONT'D)

LOW INCOME HOUSING ASSISTANCE PROGRAM

SECTION 8 RENTAL VOUCHER PROGRAM

CFDA No.'s 14.856 AND 14.871

08-15	<i>Condition/ Context</i>	Adequate cut-off procedures were not implemented to ensure revenues and expenditures at or near year-end were recorded in the proper fiscal year.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness as numerous audit adjustments were necessary to adjust year-end payables and receivables in order to record activity in the proper fiscal year.
	<i>Cause</i>	Management oversight.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, proper cutoff procedures should be performed to ensure revenues and expenditures are recorded in the correct fiscal year.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure that proper cutoff procedures are developed and implemented.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONT'D)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONT'D)

LOW INCOME HOUSING ASSISTANCE PROGRAM

SECTION 8 RENTAL VOUCHER PROGRAM

CFDA No.'s 14.856 AND 14.871

08-16	<i>Condition</i>	Cash balances were not always properly reconciled or reconciled timely to the general ledger.
	<i>Context</i>	Numerous bank accounts were either under or overstated due to double posted revenue, missposted revenue or unrecorded activity.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness.
	<i>Cause</i>	Bank reconciliations were completed more than six months following the fiscal year-end; however, the book balance that was reconciled to the bank did not always reconcile to the general ledger.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the book balance should be reconciled to the general ledger and any variances should be investigated and resolved.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure the book balance reconciles to the general ledger and any variances are investigated and corrected more timely.
	<i>Contact Person</i>	Ruben Villa, Finance Director

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCL'D)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONCL'D)

LOW INCOME HOUSING ASSISTANCE PROGRAM

SECTION 8 RENTAL VOUCHER PROGRAM

CFDA No.'s 14.856 AND 14.871

08-17 *Condition* The housing department's revenues, expenditures and cash balances were not reconciled to the City's general ledger.

Context Section 8, low-rent and the capital grant.....

Criteria Accounting principles generally accepted in the United States of America (GAAP).

Effect Noncompliance with GAAP and several adjustments were necessary to reconcile the activity.

Cause The housing department submits checks to the City for funds received and submits check requests for expenditures. Therefore, a timing difference exists between the housing department and the general ledger.

Recommendation In order to comply with GAAP, the City should assign an employee responsible for reconciling activity of the housing department to the general ledger and any variances should be investigated and resolved.

Corrective Action Plan The City concurs with this recommendation and will ensure revenues, expenditures and cash balances of the housing department are reconciled to the general ledger.

Contact Person Ruben Villa, Finance Director

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None noted.

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Low Income Housing Assistance Program	14.856	N/A	\$ 492,530
Section 8 Rental Voucher Program	14.871	N/A	997,045
Comprehensive Improvement Assistance Program 1999	14.852	N/A	141,903
Passed through Pima County:			
Community Development Block Grant	14.218	01-39-S-133219-1003	16,998
Community Development Block Grant	14.218	01-70-S-135385-1104	98,185
Community Development Block Grant	14.218	01-70-S137787-0406	91,016
Community Development Block Grant	14.218	01-70-S-138940-1006	242,940
Community Development Block Grant	14.218	01-70-S-141607-1008	<u>229,200</u>
Total U.S. Department of Housing and Urban Development			<u>2,309,817</u>
Environmental Protection Agency			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	<u>41,657</u>
U.S. Department of Health and Human Services			
Drug Free Communities	93.276	N/A	85,575
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	N/A	<u>48,256</u>
Total U.S. Department of Health and Human Services			<u>133,831</u>
U.S. Department of Homeland Security			
Passed through Arizona Department of Homeland Security Operation Stonegarden	97.067	444418-01	<u>64,651</u>
Total U.S. Department of Homeland Security			<u>64,651</u>
U.S. Department of Commerce			
Economic Development Grant	11.300	07-8705151	<u>109,998</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,659,954</u>

Note: This schedule was prepared on the modified accrual basis of accounting.