# CITY OF SOUTH TUCSON, ARIZONA SINGLE AUDIT REPORTING PACKAGE FISCAL YEAR ENDED JUNE 30, 2011

# CITY OF SOUTH TUCSON, ARIZONA

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# CITY OF SOUTH TUCSON, ARIZONA REPORT ON AUDIT OF FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011





# **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012, on our consideration of the City of South Tucson, Arizona internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 and budgetary comparison information on pages 54 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Heinfeld, melch & Co., P.C.

HEINFELD, MEECH & CO., P.C. Certified Public Accountants

March 23, 2012

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

As management of the City of South Tucson, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011.

#### FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2010-11 as follows.

- The City's total net assets of governmental activities decreased \$1.2 million to \$24.5 million primarily due to unfunded depreciation expense.
- General revenues from governmental activities accounted for \$3.0 million in revenue, or 39 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.7 million or 61 percent of total governmental activities revenues.
- The City had \$9.0 million in expenses related to governmental activities, an increase of 6 percent from the prior fiscal year.
- Among major funds, the General Fund had \$3.9 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues. The total expenditures of the General Fund were \$3.6 million. The General Fund's fund balance decreased from \$548,956 to \$340,520.
- The Housing Fund had \$1.8 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were \$1.8 million. The Housing Fund reported a fund balance decrease of \$20,630.
- The Flood Control Fund had \$323,116 in revenues which consisted of intergovernmental revenues. The total expenditures of the Flood Control Fund were \$165,440. The Flood Control Fund reported a fund balance increase of \$157,676.
- The Grants Fund had \$691,580 in revenues which consisted of intergovernmental revenues. The total expenditures of the Grants Fund were \$790,468, of which 302,387 consisted of capital outlay. The Grants Fund reported a fund balance decrease of \$98,888.
- The Regional Transportation Authority Fund had \$16,220 in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Regional Transportation Authority Fund were \$18,484. The Regional Transportation Fund's fund balance decreased from a deficit of \$331,930 to a deficit of \$334,194.
- To address the fund deficit of the Regional Transportation Fund the Regional Transportation Authority is in the process of finalizing an agreement that will allow for funding for services provided to the City of South Tucson to be funded with voter approved RTA funding. City management anticipates that the intergovernmental agreement will be in place by June 30, 2012.

## **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

The government-wide financial statements outline functions of the City that are principally supported by sales taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, highways and streets, culture and recreation, redevelopment and housing, and economic development.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

#### **OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)**

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Housing, Flood Control, Local Transportation Assistance, Grants, and Regional Transportation Authority Funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules.

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information.

#### **OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)**

During the year ended June 30, 2011, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions. Additional information on the fund balance classifications, components of fund balance, and other information related to fund balance can be found in Note 2.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$24.5 million at the current fiscal year end.

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, land improvements; buildings and improvements; infrastructure; machinery, equipment, and vehicles; and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table presents a summary of the City's net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

	Governmental Activities			
	2011	2010		
Current and other assets	\$ 3,085,475	\$ 3,586,517		
Capital assets, net	31,228,013	31,878,919		
Total assets, net	34,313,488	35,465,436		
Current liabilities	153,291	284,857		
Long-term liabilities	9,628,050	9,245,818		
Total liabilities	9,781,341	9,530,675		
Invested in capital assets,				
net of related debt	24,105,516	24,743,237		
Restricted	2,920,662	1,246,225		
Unrestricted	(2,494,031)	(54,701)		
Total net assets	\$ 24,532,147	\$ 25,934,761		

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)**

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

- The addition of long-term liabilities in the amount of \$451,453 for inmate billings.
- The addition of \$428,663 in capital assets through land improvements and purchases of vehicles, furniture and equipment.

Changes in net assets. The City's total revenues for the current fiscal year were \$7.7 million. The total cost of all programs and services was \$9.0 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

	-	Fiscal Year Ended 1ne 30, 2011	Fiscal Year Ended June 30, 2010		
Revenues:					
Program revenues:					
Charges for services	\$	1,135,153	\$	1,627,767	
Operating grants and contributions		3,488,367		3,437,942	
Capital grants and contributions		83,256		1,619,250	
General revenues:					
Property taxes		59,539		46,922	
City sales tax		1,664,576		1,741,531	
State shared revenues		1,184,810		1,359,798	
Investment income		22,088		80,498	
Miscellaneous		33,027		28,569	
Total revenues		7,670,816		9,942,277	
Expenses:					
General government		1,640,122		2,080,172	
Public safety		2,953,825		2,584,847	
Highways and streets		1,293,597		789,289	
Culture and recreation		125,172		114,064	
Redevelopment and housing		2,298,546		2,186,777	
Economic development		69,403		101,146	
Interest on long-term debt		520,781		542,957	
Total expenses		8,901,446		8,399,252	
Change in net assets	\$	(1,230,630)	\$	1,543,025	

# GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

- Total governmental activities revenues decreased \$2.3 million, or 23 percent, primarily as a result of a decrease in capital grants received in the fiscal year.
- Charges for services revenues decreased \$492,614 due to the recognition of deferred revenues as charges for services in the prior year.
- Total governmental activities expenses increased \$502,194, or 6 percent, primarily as a result of increased expense for streets projects of the City.

**Governmental activities.** The following table presents the cost of the City's functional activities. The table also shows each function's net cost (total cost less changes for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

		2011				2010			
		Total	Net (Expense)/		Total		Ne	et (Expense)/	
<b>Governmental Activities</b>	]	Expenses	Revenue		Expenses		Revenue		
General government	\$	1,640,122	\$	(1,223,854)	\$	2,080,172	\$	(1,593,902)	
Public safety		2,953,825		(2,086,808)		2,584,847		(1,429,821)	
Highways and streets		1,293,597		(98,538)		789,289		1,680,758	
Culture and recreation		125,172		44,815		114,064		97,725	
Redevelopment and housing		2,298,546		(283,481)		2,186,777		55,138	
Economic development		69,403		(26,023)		101,146		18,766	
Interest on long-term debt		520,781		(520,781)		542,957		(542,957)	
Total	\$	8,901,446	\$	(4,194,670)	\$	8,399,252	\$	(1,714,293)	

- Federal and State governments and charges for services subsidized certain governmental programs with revenues of \$4.7 million.
- Net cost of governmental activities of \$4.2 million was financed by general revenues, which are made up of primarily City sales tax and state shared revenues of \$2.9 million.

# FINANCIAL ANALYSIS OF THE CITY'S FUNDS

**Governmental funds**. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$1.9 million, a decrease of \$122,491 or 6 percent from the prior year primarily due to the increased utilization of prior year's fund balance by the City.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The General Fund is the principal operating fund of the City. The fund balance decreased \$208,436 in the General Fund to \$340,520 as of fiscal year end. General Fund revenues decreased \$196,222 as a result of a reduction in state shared revenues and sales tax collections.

The fund balance decreased \$98,888 in the Grants Fund to \$94,936 as of fiscal year end. Grants Fund expenditures increased \$226,600 as a result of the use of prior years grant funding and new grants funding received in the fiscal year.

The continued deficit of the Regional Transportation Authority Fund is due to transportation services provided by the City of Tucson for the City of South Tucson which have not been reimbursed by the Regional Transportation Authority. To address the fund deficit of the fund the Regional Transportation Authority and the City of Tucson are in the process of finalizing an agreement that will allow for funding for services provided to the City of South Tucson to be funded with voter approved RTA funding. City management anticipates that the intergovernmental agreement will be in place by June 30, 2012.

# **BUDGETARY HIGHLIGHTS**

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The unfavorable variance of \$160,916 in miscellaneous revenue was a result of projections over estimating sales of City assets.
- The unfavorable variance of \$222,829 in highway and streets expenditures was a result of an increase in unforeseen contracts for street projects.

# CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets**. As of year end, the City had invested \$31.2 million in capital assets, net of accumulated depreciation. This amount represents a net increase prior to depreciation of \$413,766. Total depreciation expense for the current fiscal year was \$1.1 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2011 and June 30, 2010.

	Government	Governmental Activities			
	2011	2010			
Capital assets – non-depreciable	\$ 9,191,996	\$ 9,206,893			
Capital assets – depreciable, net	22,036,017	22,672,026			
Total capital assets, net	\$ 31,228,013	\$ 31,878,919			

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

**Debt Administration.** At year end, the City had \$9.4 million in long-term debt outstanding. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2011 and June 30, 2010.

	As of	As of
	June 30, 2011	June 30, 2010
Revenue bonds payable	\$ 7,065,601	\$ 7,033,316
Obligations under capital leases	56,896	102,366
Other commitments	2,294,673	1,843,696
Total	\$ 9,417,170	\$ 8,979,378

Additional information on the City's long-term debt can be found in Notes 7 through 10.

# ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

City management considered many factors in the process of developing the operating budget for the fiscal year 2011-12. The most significant factors affecting the subsequent year's budget are:

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

#### General Fund

The budget for the General Fund decreased from \$4.2 million to \$3.9 million. The main reason for this decrease is the reduction of staffing levels for fire and police services due to loss of available funding.

# CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Department, 1601 South 6th Avenue, South Tucson, Arizona 85713.

**BASIC FINANCIAL STATEMENTS** 

GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CITY OF SOUTH TUCSON, ARIZONA STATEMENT OF NET ASSETS JUNE 30, 2011

	Governmental Activites	
<u>ASSETS</u>		
Current assets:		
Cash and investments	\$	1,124,988
Accounts receivable		464,242
Due from governmental entities		748,116
Loans receivable		119,198
Inventory		8,644
Prepaid items		16,313
Total current assets		2,481,501
Noncurrent assets:		
Cash and investments - restricted		603,974
Capital assets, non-depreciable		9,191,996
Capital assets, depreciable (net)		22,036,017
Total noncurrent assets		31,831,987
Total assets		34,313,488
LIABILITIES Current liabilities:		14,075
Accounts payable		
Accrued payroll and employee benefits		105,025
Compensated absences payable		114,062
Customer Deposits		34,191
Capital leases payable Total current liabilities		<u>39,023</u> 306,376
Total current hadmities		500,570
Noncurrent liabilities:		
Compensated absences payable		96,818
Other commitments		2,294,673
Capital leases payable		17,873
General obligation bonds payable		7,065,601
Total noncurrent liabilities		9,474,965
Total liabilities		9,781,341
NET ASSETS		
Invested in capital assets, net of related debt		24,105,516
Restricted for:		1 115 740
Highways and streets		1,115,749
Grants		969,551
Debt service		603,974
Capital projects		3,000
Economic development		228,388
Unrestricted	*	(2,494,031)
Total net assets	\$	24,532,147

# CITY OF SOUTH TUCSON, ARIZONA STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2011

		]	Net (Expense) Revenue and Changes in Net Assets				
Functions/Programs	Expenses	Charges for Services	0		Charges for Grants and and		Governmental Activities
Governmental activities:							
General government \$	1,640,122	\$ 195,222	\$ 221,046	\$	\$ (1,223,854)		
Public safety	2,953,825	302,825	564,192		(2,086,808)		
Highways and streets	1,293,597	7,995	1,118,506	68,558	(98,538)		
Culture and recreation	125,172	98,789	56,500	14,698	44,815		
Redevelopment and housing	2,298,546	530,322	1,484,743		(283,481)		
Economic development	69,403		43,380		(26,023)		
Interest on long-term debt	520,781				(520,781)		
Total governmental activites \$	8,901,446	\$ 1,135,153	\$ 3,488,367	\$ 83,256	(4,194,670)		

# General revenues:

Taxes:	
Property taxes, levied for general purposes	59,539
City sales taxes	1,664,576
Unrestricted state shared revenues	1,184,810
Investment income	22,088
Miscellaneous	33,027
Total general revenues	2,964,040
Changes in net assets	(1,230,630)
Net assets, beginning of year, as restated	25,762,777
Net assets, end of year	\$ 24,532,147

# FUND FINANCIAL STATEMENTS

# CITY OF SOUTH TUCSON, ARIZONA BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2011

	General	Н	Housing		od Control
ASSETS					
Cash and investments	\$	\$	410,778	\$	256,147
Cash and investments - restricted	603,974				
Accounts receivable	430,010				
Due from governmental entities	164,832				
Loans receivable					
Due from other funds			476,985		216,660
Inventory			8,644		
Prepaid items	16,313				
Total assets	\$ 1,215,129	\$	896,407	\$	472,807
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$	\$		\$	
Accrued payroll and employee benefits	74,921		8,173		4,853
Due to other funds	759,802				
Customer Deposits	,		34,191		
Deferred revenue	39,886				
Other commitments					
Total liabilities	874,609		42,364		4,853
Fund balances (deficits):					
Nonspendable	16,313		8,644		
Restricted	603,974		845,399		467,954
Unassigned	(279,767)		0+3,399		+07,954
Total fund balances	340,520		854,043		467,954
	540,520		034,043		+07,954
Total liabilities and fund balances	\$ 1,215,129	\$	896,407	\$	472,807

LTAF Grants		Grants	Regional Transportation Authority		Gov	on-Major vernmental Funds	Total Governmental Funds		
\$		\$	51,144	\$	83,778	\$	323,141	\$	1,124,988
									603,974
							34,232		464,242
			54,248		417,401		111,635		748,116
							119,198		119,198
	526,030								1,219,675
									8,644
	<b>52</b> < 0 <b>2</b> 0		105.000	<u>_</u>	501.150	<u>_</u>	<b>5</b> 00 <b>0</b> 0 f	<u>_</u>	16,313
\$	526,030	\$	105,392	\$	501,179	\$	588,206	\$	4,305,150
\$		\$	10,456 10,456	\$	571 417,401 417,401 835,373	\$	14,075 6,051 459,873 119,198 599,197	\$	$14,075 \\ 105,025 \\ 1,219,675 \\ 34,191 \\ 576,485 \\ 417,401 \\ 2,366,852 \\ \end{array}$
	50 ( 000		04.026				070 705		24,957
	526,030		94,936		(224, 104)		373,725		2,912,018
	526 020		04.026		(334,194)		(384,716)		(998,677)
	526,030		94,936		(334,194)		(10,991)		1,938,298
\$	526,030	\$	105,392	\$	501,179	\$	588,206	\$	4,305,150

#### CITY OF SOUTH TUCSON, ARIZONA RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

Total governmental fund balances		\$ 1,938,298
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	\$ 47,753,312	
Less accumulated depreciation	(16,525,299)	31,228,013
Some revenues will not be available to pay for current period expenditures and therefore are deferred in the funds.		
Court fines	39,886	
Intergovernmental	417,401	
Loan receivable	119,198	576,485
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(210,880)	
Capital lease	(56,896)	
Revenue bonds payable	(7,065,601)	
Other commitments	(1,877,272)	 (9,210,649)
Net assets of governmental activities		\$ 24,532,147

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

# CITY OF SOUTH TUCSON, ARIZONA STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2011

		General	Н	lousing	Floo	d Control
Revenues:						
Property taxes	\$	59,539	\$		\$	
City sales taxes		1,664,576				
Licenses and permits		254,730				
Intergovernmental		1,184,810		1,484,743		323,116
Charges for services		267,236				
Fines and forfeits		377,826				
Investment income		21,801		287		
Rents				260,996		
Contributions and donations		1,700				
Miscellaneous		59,477		13,221		
Total revenues		3,891,695		1,759,247		323,116
Expenditures:						
Current -						
General government		1,127,438				
Public safety		2,066,821				
Highways and streets		370,769				165,440
Culture and recreation						
Redevelopment and housing				1,779,877		
Economic development						
Capital outlay						
Debt service -						
Principal retirement		45,470				
Interest and fiscal charges		17,646				
Total expenditures		3,628,144		1,779,877		165,440
Excess (deficiency) of revenues over expenditures		263,551		(20,630)		157,676
Other financing sources (uses):						
Transfers in						
Transfers out		(470,850)				
Total other financing sources (uses):		(470,850)		<u> </u>		
Changes in fund balances	. <u> </u>	(207,299)		(20,630)		157,676
Fund balances (deficits), beginning of year, as restated		548,956		874,673		310,278
Increase\(decrease) in reserve for prepaid items		(1,137)				
Fund balances (deficits), end of year	\$	340,520	\$	854,043	\$	467,954

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

I	LTAF	Grants	Regional Transportation Authority	Non-Major Governmental Funds	Total Governmental Funds
\$		\$	\$	\$	\$ 59,539 1,664,576 254,730
	7,995	691,580	16,220	1,055,964	4,756,433 275,231 377,826 22,088 260,996 1,700
	7,995	691,580	16,220	1,055,964	72,698 7,745,817
		216,611		3,986	1,348,035
	5,018	202,067	18,484	132,069 281,819	2,400,957 841,530
	5,010		10,101	125,172	125,172
				327,768	2,107,645
		69,403			69,403
		302,387		138,076	440,463
					45,470
				470,850	488,496
	5,018	790,468	18,484	1,479,740	7,867,171
	2,977	(98,888)	(2,264)	(423,776)	(121,354)
				470,850	470,850
			·	470,850	(470,850)
	2,977	(98,888)	(2,264)	47,074	(121,354)
	523,053	193,824	(331,930)	(58,065)	2,060,789
					(1,137)
\$	526,030	\$ 94,936	\$ (334,194)	\$ (10,991)	\$ 1,938,298
	·				. , ,

#### CITY OF SOUTH TUCSON, ARIZONA RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2011

Net changes in fund balances - total governmental funds	\$	(122,491)
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:		
Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.		
Expenditures for capitalized assets \$ 413,7	766	
Less current year depreciation (1,064,e	672)	(650,906)
Revenues for court fines in the Statement of Activities do not provide current financial resources and are not reported as revenues in the funds.		(75,001)
Repayment of obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Capital leases 45,4	470	
Other commitments (450,9		(405,507)
Some expenses reported in the Statement of Activities do not provide or require the use of current financial resources and therefore are not reported in governmental funds.		
Amortization of bond items (32,2	285)	
Compensated absences 55,5	,	23,275
Change in net assets in governmental activities	\$	(1,230,630)

# CITY OF SOUTH TUCSON, ARIZONA STATEMENT OF FIDUCIARY FUND NET ASSETS JUNE 30, 2011

	Pen	Pension Trust	
ASSETS Cash and investments Total assets	\$	204,013 204,013	
<u>NET ASSETS</u> Held in trust	\$	204,013	

# CITY OF SOUTH TUCSON, ARIZONA STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS YEAR ENDED JUNE 30, 2011

	Pension Trust	
Additions:		
State insurance contributions	\$ 17,860	
Total additions	17,860	
Deductions:		
Benefits	16,642	
Total deductions	16,642	
Changes in net assets	1,218	
Net assets, beginning of year	202,795	
Net assets, end of year	\$ 204,013	

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

During the year ended June 30, 2011, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds, and clarifies existing governmental fund type definitions.

The more significant of the City's accounting policies are described below.

# A. Reporting Entity

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

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

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

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

### **B.** Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

Property taxes, City sales taxes, licenses and permits, charges for services, fines and forfeits, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenue arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as deferred revenue on the governmental fund financial statements.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The City reports the following major governmental funds.

<u>General Fund</u> – This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

<u>The Housing Fund</u> – This fund accounts for the operations of the City's public housing program.

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

<u>The Local Transportation Assistance Fund (LTAF)</u> – This fund accounts for state funds received for local transportation.

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

<u>Grants Fund</u> – This fund accounts for miscellaneous grant funding received by the City from Federal and State agencies.

<u>Regional Transportation Authority Fund</u> – This fund accounts for transportation projects funded by the Regional Transportation Authority.

Additionally, the City reports the following fund type:

<u>Fiduciary Fund</u> – The Fiduciary Fund is a Pension Trust Fund which accounts for the activities of the Firefighters' Relief and Pension Trust Fund (Trust Fund). The Trust Fund accumulates funds for the defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

# **D.** Cash and Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

# E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

# F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

# G. Property Tax Calendar

The property tax levy, as described in the Arizona State Statutes, is divided into two levies, a primary levy and a secondary levy. Secondary taxes are levied strictly for the retirement and redemption of bonded indebtedness, while the primary levy may be used for any legal operating purpose. The primary property tax levy is limited to a 2% annual increase over the prior year's maximum allowable levy plus an adjustment for properties that were not taxed in the previous year.

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

Property taxes are levied by the City and collected by the County Treasurer. Real property taxes are levied on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The billings are considered past due after these dates, at which time the applicable property is subject to penalties and interest.

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

# H. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed on the government-wide financial statements and as expenditures when purchased on the fund financial statements.

# I. Prepaid Items

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

# J. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, machinery, equipment, and vehicles; construction in progress; and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure capital assets include only those assets acquired or constructed since July 1, 2003.

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

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

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

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

Assets	Years
Land improvements	15 - 50
Buildings and improvements	20 - 50
Infrastructure	20 - 75
Machinery, equipment, and vehicles	10

#### K. Compensated Absences

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Vacation benefits and compensation time vest for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The current and long-term liabilities for accumulated vacation and compensation time are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

# L. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Debt premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the debt using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

# M. Interfund Activity

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

#### N. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

# **NOTE 2 – FUND BALANCE CLASSIFICATIONS**

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

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

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

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

### NOTE 2 – FUND BALANCE CLASSIFICATIONS (Concl'd)

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

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

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

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

	General Fund	I	lousing Fund	Flo	ood Control Fund	 LTAF Fund	Grants Fund	Tra	Regional nsportation hority Fund	on-Major vernmental Funds
Fund Balances:										
Nonspendable:										
Inventory	\$	\$	8,644	\$		\$	\$	\$		\$
Prepaid items	16,313									
<b>Restricted:</b>										
Grants			845,399				94,936			20,572
Debt service	603,974									
Capital projects										3,000
Economic development										228,388
Highways and streets					467,954	526,030				121,765
Unassigned	(279,767)								(334,194)	 (384,716)
Total fund balances	\$ 340,520	\$	854,043	\$	467,954	\$ 526,030	\$ 94,936	\$	(334,194)	\$ (10,991)

### NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

	 Deficit
Major Funds:	
<b>Regional Transportation Authority</b>	\$ 334,194
Non-Major Governmental Funds:	
Youth Operations Center	38,697
RICO	139,696
JCEF	22,683
<b>Revitalization Projects</b>	183,640

The deficits arose because of operations during the year and prior years. The City is in the process of implementing a corrective plan to improve the health of the funds listed above. The Regional Transportation Authority fund deficit is primarily due to the timing of revenue reimbursements. Additional future revenues are expected to eliminate the deficit.

**Excess Expenditures Over Budget** – At year end, the City had expenditures in funds that exceeded the budgets, however, this does not constitute a violation of any legal provisions.

# **NOTE 4 – CASH AND INVESTMENTS**

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

*Custodial Credit Risk – Deposits*. Custodial credit risk is the risk that in the event of bank failure the City's deposits may not be returned to the City. At year end, the carrying amount of the City's deposits was \$996,238 and the bank balance was \$1,737,064.

# NOTE 4 - CASH AND INVESTMENTS (Concl'd)

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

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

Investment Type	Maturities	Fa	air Value
U.S. Treasuries	Less than one year	\$	673,484
State Treasurer's investment pool 5	27 days average		263,253
Total		\$	936,737

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

*Credit Risk.* The City has no investment policy that would further limit its investment choices. The State Treasurer's investment pool 5 was rated AAA/S1+ by Standard and Poor's at year end.

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

### **NOTE 5 – RECEIVABLES**

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

		General Fund	Trans	gional portation rity Fund	(	Grants Fund		Non-Major overnmental Funds
Due from other governmental entities:	+				+		+	
Due from Federal government	\$		\$		\$	54,248	\$	100,050
Due from State government		164,832						11,585
Due from other governments				417,401				
Net due from governmental entities	\$	164,832	\$	417,401	\$	54,248	\$	111,635

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

	Un	available
Delinquent court fines receivable (General Fund)	\$	39,886
Reimbursable transportation expenses (Regional		
Transportation Authority Fund)		417,401
Loan receivable (Non-Major Governmental Funds)		119,198
Total deferred revenue for governmental funds	\$	576,485

# **NOTE 6 – CAPITAL ASSETS**

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

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 321,673	\$	\$ 5,711	\$ 315,962
Construction in progress	8,885,220		9,186	8,876,034
Total capital assets, not being depreciated	9,206,893		14,897	9,191,996
Capital assets, being depreciated:				
Land improvements	1,706,993	1,263,755		2,970,748
Buildings and improvements	11,694,973		223,564	11,471,409
Infrastructure	20,621,338		732,942	19,888,396
Machinery, equipment and vehicles	4,109,349	121,414		4,230,763
Total capital assets being depreciated	38,132,653	1,385,169	956,506	38,561,316
Less accumulated depreciation for:				
Land improvements	(813,951)	(91,315)		(905,266)
Buildings and improvements	(4,631,348)	(234,489)		(4,865,837)
Infrastructure	(6,806,531)	(527,625)		(7,334,156)
Machinery, equipment and vehicles	(3,208,797)	(211,243)		(3,420,040)
Total accumulated depreciation	(15,460,627)	(1,064,672)		(16,525,299)
Tradition in the trade to include the state of the state	22 (72 02)	220 407	056 506	00 006 017
Total capital assets, being depreciated, net	22,672,026	320,497	956,506	22,036,017
Governmental activities capital assets, net	\$31,878,919	\$320,497	\$ 971,403	\$ 31,228,013
General government Public safety Highways and streets			\$ 291,674 109,685 467,791	
Redevelopment and housing			195,522	
Total depreciation expense		activities	\$ 1,064,672	

<u>**Construction Commitments**</u> – At year end, the City had contractual commitments related to various capital projects for the construction of roadway improvements. At year end the City had spent \$8.9 million on the projects and had estimated remaining contractual commitments of \$52,615. These projects are being funded with intergovernmental revenues.

#### NOTE 7 – REVENUE BONDS PAYABLE

Revenue bonds currently outstanding are as follows.

	Original Amount Issued	Interest Rate	Maturity	Outstanding Principal June 30, 2011
Governmental activities:				
Excise Tax Revenue Bond,				
Series 2007A and 2007B	\$ 7,905,000	4.10-5.95%	7/1/2013-37	\$ 7,905,000
Total				\$ 7,905,000

<u>Pledged revenues – governmental activities.</u> The City has pledged future excise taxes and state shared revenues to repay outstanding revenue bonds of \$7.9 million as of June 30, 2011. Proceeds from the original bond issuances provided financing for (1) the refund of certain excise tax revenue bonds issued by South Tucson Municipal Property Corporation on behalf of the City of South Tucson, Arizona, (2) to finance public works and other City vehicles and equipment, (3) to fund a debt service reserve requirement for the Series 2007 Obligations, and (4) pay costs of execution and delivery of the Series 2007 Obligations. The bonds are paid solely from the City's excise taxes and state shared revenues and are payable through 2037. The total principal and interest to be paid on the bonds is \$16.1 million. The current total excise taxes and state shared revenues were \$3.5 million and the total principal and interest paid on the bonds was \$470,850, or 15% of gross revenues.

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

		Governmental Activities			
Year ending June 3	30:	Principal	Interest		
	2012	\$	\$	470,850	
	2013	130,000		470,850	
	2014	140,000		462,888	
	2015	145,000		454,312	
	2016	155,000		445,431	
	2017-21	935,000		2,072,194	
	2022-26	1,260,000		1,748,181	
	2027-31	1,700,000		1,311,469	
	2032-36	2,290,000		723,163	
	2037-38	1,150,000		57,500	
Total		\$ 7,905,000	\$	8,216,838	

# **NOTE 8 – OBLIGATIONS UNDER LEASES**

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

The assets acquired through capital leases that meet the City's capitalization threshold are as follows.

	vernmental activities
Asset:	
Vehicles, furniture and equipment	\$ 307,436
Less: Accumulated depreciation	163,576
Total	\$ 143,860

The future minimum lease obligations and the net present value of these minimum lease payments at year end were as follows.

Year Ending June 30:	Governmental Activities			
2012	\$	41,488		
2013		18,194		
Total minimum lease payments		59,682		
Less: amount representing interest		2,786		
Present value of minimum lease payments	\$	56,896		
Due within one year	\$	39,023		

# NOTE 8 – OBLIGATIONS UNDER LEASES (Concl'd)

**Operating Leases** – The City leases office equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases totaled \$11,689 for the current fiscal year. The future minimum rental payments required under the operating leases at year end were as follows.

Year Ending June 30:	
2012	\$ 10,484
2013	10,484
2014	10,484
2015	6,649
2016	375
Total minimum payments required	\$ 38,476

# **NOTE 9 – OTHER COMMITMENTS**

The City has a long-term 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. The City of Tucson, Arizona has determined 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 total determined amount of billings to the City outstanding at fiscal year end is \$772,742. The City also has a long-term agreement with the Pima County Sheriff's Department for inmate housing in the amount of \$1,521,931.

# NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Revenue bonds payable	\$ 7,905,000	\$	\$	\$ 7,905,000	\$
Deferred bond discount	(871,684)		32,285	(839,399)	
Net bonds payable	7,033,316			7,065,601	
Obligations under capital leases	102,366		45,470	56,896	39,023
Compensated absences payable	266,440		55,560	210,880	114,062
Other commitments	1,843,696	451,454	477	2,294,673	
Governmental activity long-term liabilities	\$ 9,245,818	\$ 451,454	\$ 101,507	\$ 9,628,050	\$ 153,085

#### NOTE 11 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows.

#### Due to/from other funds:

		Due from						
		Non-Major						
	General	Governmental						
Due to	Fund	Funds	Total					
Housing	\$ 17,112	\$ 459,873	\$ 476,985					
LTAF	526,030		526,030					
Flood Control	216,660		216,660					
Total	\$ 759,802	\$ 459,873	\$ 1,219,675					

At year end, several funds had negative cash balances in the pooled cash accounts. Negative cash on deposit was reduced by interfund borrowing with other funds. The balances will be paid back over the next two to five years as the City implements the deficit reduction measures discussed in Note 2.

**Interfund transfers** – An Interfund transfer of \$470,850 was made by the City to move resources generated by City sales taxes to the Debt Service Fund for payment of bond interest.

# **NOTE 12 – PRIOR PERIOD ADJUSTMENTS**

The July 1, 2010, government-wide net assets and the fund balance of the governmental funds do not agree to the prior year financial statements due to correction of errors and reclassification of fund balances in accordance with GASB Statement No. 54 as follows:

	2	Statement of Activities	General Fund	Housing Fund	Flood Control Fund	Grants Fund	lon-Major overnmental Funds
Net Assets/Fund balance, June 30, 2010, as previously reported Correction of cumulative errors Reclassification of funds	\$	25,934,761 (171,984)	\$ (546,064) 1,090,429 4,591	\$ 885,838 (11,165)	\$ 155,278 155,000	\$ 192,950 874	\$ 128,171 (181,645) (4,591)
Net Assets/Fund balance, July 1, 2010, as restated	\$	25,762,777	\$ 548,956	\$ 874,673	\$ 310,278	\$ 193,824	\$ (58,065)

# NOTE 13 – CONTINGENT LIABILITIES

**Lawsuits** – The City is a defendant in a number of lawsuits as of June 30, 2011. It is the opinion of management and City counsel that the amount of losses resulting from these litigations at June 30, 2011, would not be material to the financial position of the City.

#### NOTE 14 – RISK MANAGEMENT

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

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

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

# NOTE 15 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

<u>**Plan Descriptions**</u> – The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

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

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

The *Public Safety Personnel Retirement System* (PSPRS) administers agent multipleemployer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a fivemember board, known as The Fund Manager and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan. The reports are also available on their websites at www.azasrs.gov and www.psprs.com.

ASRS	<u>PSPRS</u>
3300 N. Central Ave.	3010 E. Camelback Road Suite 200
Phoenix, AZ 85012-0250	Phoenix, AZ 85016
(602) 240-2200 or (800) 621-3778	(602) 255-5575

**<u>Funding policy</u>** – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

*Cost-sharing plan* – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent for retirement and 0.25 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 9.85 percent (9.01 percent for retirement and 0.59 percent for health insurance premiums, and 0.25 percent for long-term disability) of the members' annual covered payroll.

The City's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows.

			Heal	th Benefit	Long-Term	
	Retirement		Supplement		Disability	
	Fund			Fund	Fund	
Years ended June 30,						
2011	\$	102,247	\$	6,695	\$	2,837
2010		98,557		7,799		4,756
2009		121,494		14,598		7,592

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

*Agent plan* – For the current fiscal year, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rates of 50.26 percent and 21.13 percent for police and fire, respectively. Additional information related to both the police and fire PSPRS agent plans follows.

<u>Actuarial methods and assumptions</u> – The contribution requirements for the current fiscal year were established by the June 30, 2009 actuarial valuations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The required schedule of funding programs which follows provides multi-year trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected Unit Credit
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5% - 8.5%
Includes inflation at	5.5%
Amortization method	Level percent-of-pay closed
Remaining amortization	27 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market

**Trend Information** – Information for the agent plans as of most recent actuarial valuations follows.

Police (Retirement):			
Year Ended	Annual Pension	Percentage of APC	Net Pension
<u>June 30,</u>	Cost (APC)	Contributed	<b>Obligation</b>
2011	\$318,993	100%	-0-
2010	184,698	100%	-0-
2009	214,122	100%	-0-
Fire (Retirement):			
Year Ended	Annual Pension	Percentage of APC	Net Pension
<u>June 30,</u>	Cost (APC)	Contributed	<b>Obligation</b>
2011	\$98,581	100%	-0-
2010	75,417	100%	-0-
2009	81,900	100%	-0-

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

Police (Healthcare):			
Year Ended	Annual Pension	Percentage of APC	Net Pension
<u>June 30,</u>	Cost (APC)	Contributed	<b>Obligation</b>
2011	\$12,190	100%	-0-
2010	12,841	100%	-0-
2009	14,374	100%	-0-
Fire (Healthcare):			
Year Ended	Annual Pension	Percentage of APC	Net Pension
<u>June 30,</u>	Cost (APC)	Contributed	<b>Obligation</b>
2011	\$10,023	100%	-0-
2010	8,442	100%	-0-
2009	7,585	100%	-0-

**Funding Progress** – An analysis of funding progress for each of the agent plans as of June 30, 2011 follows.

#### **Police (Retirement):**

	Actuarial	Actuarial	Overfunded		Annual	Unfunded Liability
Valuation	Value of	Accrued	(Underfunded)	Funded	Covered	as Percentage of
Date	Plan Assets	Liability	Liability	Ratio	Payroll	Covered Payroll
<u>June 30,</u>	<u>(a)</u>	<u>(b)</u>	<u>(a-b)</u>	<u>(a/b)</u>	(c)	([a-b]/c)
2011	\$760,097	\$6,385,381	\$(5,625,284)	11.9%	\$602,907	(933.0)%
2010	940,687	5,647,619	(4,706,932)	16.7%	583,794	(806.3)%
2009	785,105	5,284,880	(4,499,775)	14.9%	592,026	(760.1)%

Fire (Retire	ment):					
	Actuarial	Actuarial	Overfunded		Annual	Unfunded Liability
Valuation	Value of	Accrued	(Underfunded)	Funded	Covered	as Percentage of
Date	Plan Assets	Liability	Liability	Ratio	Payroll	Covered Payroll
<u>June 30,</u>	<u>(a)</u>	<u>(b)</u>	<u>(a-b)</u>	<u>(a/b)</u>	(c)	([a-b]/c)
2011	\$1,889,998	\$2,671,759	\$(781,761)	70.7%	\$358,674	(218.0)%
2010	1,802,114	2,441,338	(639,224)	73.8%	359,650	(177.7)%
2009	1,734,370	2,402,274	(667,904)	72.2%	461,783	(144.6)%

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

Police (Healt Valuation Date June 30,	hcare): Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Overfunded (Underfunded) Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2011	- 0 -	\$182,387	\$(182,387)	0.0%	\$602,907	(30.25)%
2010	- 0 -	142,763	(142,763)	0.0%	583,794	(24.45)%
2009	- 0 -	125,373	(125,373)	0.0%	592,026	(21.18)%
Fire (Health	,					
Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Overfunded (Underfunded) Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2011	- 0 -	\$121,684	\$(121,684)	0.0%	\$358,674	(33.93)%
2010	- 0 -	105,574	(105,574)	0.0%	359,650	(29.35)%
2009	- 0 -	97,690	(97,690)	0.0%	461,783	(21.15)%

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

#### CITY OF SOUTH TUCSON, ARIZONA SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL YEAR ENDED JUNE 30, 2011

		Budgeted Amounts		on-GAAP	Variance with Final Budget Positive		
	Original & Final			Actual	(]	Negative)	
Revenues:							
Property taxes	\$	49,809	\$	59,539	\$	9,730	
City sales taxes		1,752,735		1,664,576		(88,159)	
Licenses and permits		284,200		254,730		(29,470)	
Intergovernmental		1,252,028		1,184,810		(67,218)	
Charges for services		220,289		267,236		46,947	
Fines and forfeits		253,450		377,826		124,376	
Investment income		40,000		21,801		(18,199)	
Miscellaneous		210,000		49,084		(160,916)	
Total revenues		4,062,511		3,879,602		(182,909)	
Expenditures: Current -							
General government		1,148,395		1,101,750		46,645	
Public safety		2,163,131		2,066,821		96,310	
Highways and streets		147,940		370,769		(222,829)	
Capital outlay		30,000		,		30,000	
Debt service -		,				,	
Principal retirement		53,883		45,470		8,413	
Interest and fiscal charges		16,812		17,646		(834)	
Total expenditures		3,560,161		3,602,456		(42,295)	
		, , , , , , , , , , , , , , , , , , ,		, <u>, , , , , , , , , , , , , , , , , , </u>		<u>/</u> /_	
Excess (deficiency) of revenues over expenditures		502,350		277,146		(225,204)	
Other financing sources (uses):							
Transfers out		(470,850)		(470,850)			
Total other financing sources (uses):		(470,850)		(470,850)			
Changes in fund balances		31,500		(193,704)		(225,204)	
Fund balances, beginning of year, as restated				540,137		540,137	
Increase\(decrease) in reserve for prepaid items				(1,137)		(1,137)	
Fund balances, end of year	\$	31,500	\$	345,296	\$	313,796	

See accompanying notes to this schedule.

#### CITY OF SOUTH TUCSON, ARIZONA SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL HOUSING YEAR ENDED JUNE 30, 2011

	Budgeted Amounts				Variance with Final Budget Positive	
	Original & Final		Actual		(Negative)	
Revenues:						
Intergovernmental	\$	2,106,748	\$	1,484,743	\$	(622,005)
Investment income				287		287
Rents		231,000		260,996		29,996
Miscellaneous		17,000		13,221		(3,779)
Total revenues		2,354,748		1,759,247		(595,501)
Expenditures:						
Current -						
Redevelopment and housing		2,350,348		1,779,877		570,471
Total expenditures		2,350,348		1,779,877		570,471
Changes in fund balances		4,400		(20,630)		(25,030)
Fund balances, beginning of year, as restated				874,673		874,673
Fund balances, end of year	\$	4,400	\$	854,043	\$	849,643

#### CITY OF SOUTH TUCSON, ARIZONA SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FLOOD CONTROL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts	Variance with Final Budget Positive		
	Original & Final	Actual	(Negative)	
Revenues:				
Intergovernmental	\$ 230,000	\$ 323,116	\$ 93,116	
Total revenues	230,000	323,116	93,116	
Expenditures: Current -				
Highways and streets	230,000	165,440	64,560	
Total expenditures	230,000	165,440	64,560	
Changes in fund balances		157,676	157,676	
Fund balances, beginning of year, as restated		310,278	310,278	
Fund balances, end of year	\$	\$ 467,954	\$ 467,954	

#### CITY OF SOUTH TUCSON, ARIZONA SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL LTAF YEAR ENDED JUNE 30, 2011

	Budgeted Amounts Original & Final Actual		Variance with Final Budget Positive (Negative)	
Revenues:	Original & Fillar	Actual	(Negative)	
Charges for services	\$ 10,000	\$ 7,995	\$ (2,005)	
Total revenues	10,000	7,995	(2,005)	
Expenditures: Current - Highways and streets Total expenditures	10,000	<u> </u>	4,982	
Changes in fund balances		2,977	2,977	
Fund balances, beginning of year		523,053	523,053	
Fund balances, end of year	\$	\$ 526,030	\$ 526,030	

See accompanying notes to this schedule.

#### CITY OF SOUTH TUCSON, ARIZONA SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GRANTS YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Variance with Final Budget Positive	
	Original & Final	Actual	(Negative)	
Revenues:				
Intergovernmental	\$ 2,186,202	\$ 691,580	\$ (1,494,622)	
Total revenues	2,186,202	691,580	(1,494,622)	
Expenditures: Current -				
General government	400.000	216,611	183,389	
Public safety	268,489	202,067	66,422	
Economic development	74,587	69,403	5,184	
Capital outlay	1,373,097	302,387	1,070,710	
Total expenditures	2,116,173	790,468	1,325,705	
Changes in fund balances	70,029	(98,888)	(168,917)	
Fund balances, beginning of year, as restated		193,824	193,824	
Fund balances, end of year	\$ 70,029	\$ 94,936	\$ 24,907	

### CITY OF SOUTH TUCSON, ARIZONA NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2011

# NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the City is prepared on a basis consistent with accounting principles generally accepted in the United States of America with the following exception. A portion of the General Fund activity is budgeted for separately as special revenue funds. Consequently, the following adjustments were necessary to present actual expenditures, fund balance at July 1, 2010, and fund balance at June 30, 2011 on a budgetary basis in order to provide a meaningful comparison.

	Total	Fund Balance,	Fund Balance,	
	Expenditures	June 30, 2011	July 1, 2010	
Statement of Revenues, Expenditures				
and Changes in Fund Balances –				
Governmental Funds	\$ 3,628,144	\$ 340,520	\$ 548,946	
Fiscal year 2010-11 activity budgeted				
as special revenue funds	(25,688)	4,776	(8,819)	
Schedule of Revenues, Expenditures				
and Changes in Fund Balances –				
Budget and Actual – General Fund	\$ 3,602,456	\$ 345,296	\$ 540,137	

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SUPPLEMENTARY INFORMATION

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# **GOVERNMENTAL FUNDS**

# CITY OF SOUTH TUCSON, ARIZONA COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -BUDGET AND ACTUAL NON-MAJOR SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2011

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

	HURF			Youth Operations Center	r
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$ 384,046	\$ 384,046	\$	\$ 56,500	\$ 56,500
	384,046	384,046		56,500	56,500
365,492	281,819	83,673		125,172	(125,172)
365,492	281,819	83,673		125,172	(125,172)
(365,492)	102,227	467,719		(68,672)	(68,672)
	19,538	19,538		29,975	29,975
\$ (365,492)	\$ 121,765	\$ 487,257	\$	\$ (38,697)	\$ (38,697)

# CITY OF SOUTH TUCSON, ARIZONA COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -BUDGET AND ACTUAL NON-MAJOR SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2011

	RICO					
	Budget		Actual			'ariance - Positive Negative)
Revenues:	¢	50 ( (0))	¢ <b>22</b> 0,000		¢	(200 502)
Intergovernmental	\$	526,690	\$	238,098	\$	(288,592)
Contributions and donations Miscellaneous						
Total revenues		526,690		238,098		(288,592)
Total revenues		520,090		238,098		(200,392)
Expenditures:						
Current -						
General government						
Public safety		295,800		132,069		163,731
Highways and streets						
Culture and recreation						
Redevelopment and housing						
Capital outlay		170,890		123,378		47,512
Total expenditures		466,690		255,447		211,243
Changes in fund balances		60,000		(17,349)		(77,349)
Fund balances (deficits), beginning of year, as restated				(122,347)		(122,347)
Fund balances (deficits), end of year	\$	60,000	\$	(139,696)	\$	(199,696)

		JCEF					(	CDBG	
<u> </u>	udget	Actual	Р	uriance - ositive egative)	]	Budget		Actual	'ariance - Positive Negative)
\$	33,000	\$	\$	(33,000)	\$	657,759	\$	349,413	\$ (308,346)
	33,000			(33,000)		657,759		349,413	 (308,346)
	33,000	3,986		29,014					
						553,429		327,745	225,684
	33,000	3,986		29,014		553,429		327,745	 225,684
		(3,986)		(3,986)		104,330		21,668	 (82,662)
		(18,697)		(18,697)				(1,096)	(1,096)
\$		\$ (22,683)	\$	(22,683)	\$	104,330	\$	20,572	\$ (83,758)

### CITY OF SOUTH TUCSON, ARIZONA COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -BUDGET AND ACTUAL NON-MAJOR SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2011

		Explorer Program	
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Contributions and donations		1,700	1,700
Miscellaneous	15,000	10,393	(4,607)
Total revenues	15,000	12,093	(2,907)
Expenditures:			
Current -			
General government	15,000	25,688	(10,688)
Public safety			
Highways and streets			
Culture and recreation			
Redevelopment and housing			
Capital outlay			
Total expenditures	15,000	25,688	(10,688)
Changes in fund balances		(13,595)	(13,595)
Fund balances (deficits), beginning of year, as restated		8,819	8,819
Fund balances (deficits), end of year	\$	\$ (4,776)	\$ (4,776)

			Totals		
Budget		N	Non-GAAP Actual		Variance - Positive Negative)
\$	1,217,449	\$	1,028,057	\$	(189,392)
	15,000		1,700 10,393		1,700 (4,607)
	1,232,449		1,040,150		(192,299)
	48,000		29,674		18,326
	295,800		132,069		163,731
	365,492		281,819		83,673
			125,172		(125,172)
	553,429		327,745		225,684
	170,890		123,378		47,512
	1,433,611		1,019,857		413,754
	(201,162)		20,293		221,455
			144,580		144,580
\$	(201,162)	\$	164,873	\$	366,035

### CITY OF SOUTH TUCSON, ARIZONA SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DEBT SERVICE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts Original & Final	Actual	Variance with Final Budget Positive (Negative)
Expenditures: Debt service -			
Interest and fiscal charges Total expenditures	\$	\$ 470,850 470,850	\$ (470,850) (470,850)
Excess (deficiency) of revenues over expenditures		(470,850)	(470,850)
Other financing sources (uses): Transfers in Total other financing sources (uses):		470,850 470,850	470,850
Changes in fund balances			
Fund balances, beginning of year			
Fund balances, end of year	\$	\$	\$

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### CITY OF SOUTH TUCSON, ARIZONA COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -BUDGET AND ACTUAL ALL CAPITAL PROJECTS FUNDS YEAR ENDED JUNE 30, 2011

	Regional Transportation Authority			
	Budget	Actual	Variance - Positive (Negative)	
Revenues:	\$ 1,050,000	\$ 16,220	\$ (1,033,780)	
Intergovernmental Total revenues	<u>\$ 1,050,000</u> 1,050,000	\$ 16,220 16,220	\$ (1,033,780) (1,033,780)	
Expenditures: Current - Highways and streets Redevelopment and housing Capital outlay	1,050,000	18,484	1,031,516	
Total expenditures	1,050,000	18,484	1,031,516	
Changes in fund balances		(2,264)	(2,264)	
Fund balances (deficits), beginning of year, as restated		(331,930)	(331,930)	
Fund balances (deficits), end of year	\$	\$ (334,194)	\$ (334,194)	

	Revitalization Projects			Youth Art Project	
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 843,000 843,000	\$ 13,209 13,209	\$ (829,791) (829,791)	\$ 50,000 50,000	\$ 14,698 14,698	\$ (35,302) (35,302)
843,000 843,000	23 23 13,186	842,977 842,977 13,186	50,000 50,000	14,698 14,698	35,302 35,302
\$	(196,826)	(196,826)	\$	3,000 \$ 3,000	3,000 \$ 3,000

### CITY OF SOUTH TUCSON, ARIZONA COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -BUDGET AND ACTUAL ALL CAPITAL PROJECTS FUNDS YEAR ENDED JUNE 30, 2011

		Totals	
	Budget	Actual	Variance - Positive (Negative)
Revenues:	¢ 1.042.000	¢ 44.107	(1,000,072)
Intergovernmental Total revenues	<u>\$ 1,943,000</u> 1,943,000	<u>\$ 44,127</u> 44,127	\$ (1,898,873) (1,898,873)
Expenditures: Current - Highways and streets Redevelopment and housing Capital outlay Total expenditures	1,050,000 843,000 50,000 1,943,000	18,484 23 14,698 33,205	1,031,516 842,977 35,302 1,909,795
Changes in fund balances		10,922	10,922
Fund balances (deficits), beginning of year, as restated		(525,756)	(525,756)
Fund balances (deficits), end of year	\$	\$ (514,834)	\$ (514,834)

## SINGLE AUDIT SECTION

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

Honorable Mayor and Members of the Town Council City of South Tucson, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of South Tucson, Arizona as of and for the year ended June 30, 2011, which collectively comprise City of South Tucson, Arizona's basic financial statements and have issued our report thereon dated March 23, 2012, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, meech & Co., P.C.

HEINFELD, MEECH & CO., P.C. Certified Public Accountants

March 23, 2012





### REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Independent Auditors' Report

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

Compliance

We have audited City of South Tucson, Arizona's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of South Tucson, Arizona's major federal programs for the year ended June 30, 2011. City of South Tucson, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of South Tucson, Arizona's compliance based on our audit.

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

In our opinion, City of South Tucson, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

Management of City of South Tucson, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of South Tucson, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of South Tucson, Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of South Tucson, Arizona as of and for the year ended June 30, 2011, and have issued our report thereon dated March 23, 2012, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of South Tucson, Arizona'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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, meech & Co., P.C.

HEINFELD, MEECH & CO., P.C. Certified Public Accountants

March 23, 2012

#### CITY OF SOUTH TUCSON, ARIZONA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Direct programs:			
Section 8 Housing Choice Vouchers	14.871	N/A	\$ 775,935
Public and Indian Housing	14.850	N/A	852,649
Comprehensive Improvement Assistance Program	14.852	N/A	147,283
Passed through Pima County:			
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-141607-1008	473
Community Development Block Grants/Entitlement Grants	14.218	01-70-S-142544-1009	111,537
Community Development Block Grants/Entitlement Grants Subtotal CFDA Number 14.218	14.218	01-70-S-142547-1010	<u>215,737</u> 327,747
Total U.S. Department of Housing and Urban Development			2,103,614
U.S. Department of Health and Human Services			
Direct programs:			10.10.5
Drug-Free Communities Support Program Grants	93.276	N/A	48,486
Public Health Emergency Preparedness	93.069	01-01-S-139695-0707	1,997
Total U.S. Department of Health and Human Services			50,483
U.S. Department of Homeland Security			
Passed through Arizona Department of Homeland Security:	07.077	555404.04	2 0 2 0
Homeland Security Grant Program	97.067	555424-04	2,939
Homeland Security Grant Program	97.067	777433-03	1,414
Homeland Security Grant Program Homeland Security Grant Program	97.067 97.067	777433-01	67,168 1,721
Homeland Security Grant Program	97.067	SWAZT0398 (2010) SWAZT0398 (2011)	18,538
Total U.S. Department of Homeland Security			91,780
U.S. Department of Commerce			
Direct program:			
Economic Development - Support for Planning Organizations	11.302	07-8705151	69,403
U.S. Department of Justice			
Direct program:			
Public Safety Partnership and Community Policing Grants,	16 710	20000111110020	(1.502
Recovery Act	16.710	2009RKWX0079	61,793
Edward Byrne Memorial Justice Assistance Grant Program Passed through the City of Tucson:	16.738	2010-DJ-BX-1137	4,523
Edward Byrne Memorial Justice Assistance Grant Program Recovery Act- Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-1239	3,522
(JAG) Program/Grants to Units of Local Governments	16.804	2009-SB-B9-2988	55,878
U.S. Enviromental Protection Agency Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements,			
Recovery Act	66.818	2B-00T18701-0	216,611
U.S. Department of Energy			
Passed through Arizona Department of Commerce:			
Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	G032-10-23, 016-10-55	139,556
U.S. Department of Education			
Passed through the Governor's Office of Economic Recovery:			
State Fiscal Stabilization Fund - Government Services,			
Recovery Act	84.397	N/A	50,000
Total Expenditures of Federal Awards			\$ 2,847,163

### CITY OF SOUTH TUCSON, ARIZONA NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2011

### **NOTE 1 - BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of South Tucson, Arizona and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2011 *Catalog of Federal Domestic Assistance*.

### **NOTE 3 – CLUSTERS OF PROGRAMS**

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

JAG Program Cluster:		
Edward Byrne Memorial Justice Assistance Program	16.738	\$ 8,045
Edward Byrne Memorial Justice Assistance Grant (JAG)		
Program/Grants to Units of Local Governments	16.804	55,878
Total JAG Program Cluster		\$63,923

## SUMMARY OF AUDITORS' RESULTS

### **Financial Statements**

Type of auditor	rs' report issued:	Unqualified	_	
Internal control	over financial reporting:			
•	Material weakness(es) identified?	yes	Х	no
•	Significant deficiency(ies) identified?	X yes		_none reported
Noncompliance	e material to financial statements noted?	yes	X	no
Federal Award	<u>'s</u>			
Internal control	over major programs:			
•	Material weakness(es) identified?	yes	Х	no
•	Significant deficiency(ies) identified?	yes	Х	_none reported
Type of auditor programs:	rs' report issued on compliance for major	Unqualified	_	
•	ngs disclosed that are required to be reported i ith section 510(a) of OMB Circular A-133?	n yes	X	_no
Identification o	f major programs:			
CFDA Number	Name of Federal Program o	or Cluster		
14.850	Public and Indian Housing			
14.871	Section 8 Housing Choice V	Vouchers		
Dollar threshol B programs:	d used to distinguish between Type A and Typ	e \$300,000	_	
Auditee qualifi	ed as low-risk auditee?	yes	Х	no

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

**Reference Number:** 2011-1 **Type of Finding:** Significant deficiency **Description:** Internal Controls Over Financial Reporting

### **CRITERIA**

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

### CONDITION/CONTEXT

The following conditions were noted:

- General ledger closing procedures are not well defined and formally documented resulting in numerous audit adjustments including prior period adjustments.
- The City did not have adequate internal control procedures in place over the Schedule of Expenditures of Federal Awards (SEFA).

### **EFFECT**

The lack of effective accounting controls could result in a material misstatement of the financial statements.

### CAUSE

Limited staff size and limited available resources.

### **RECOMMENDATION**

In order to ensure timely and accurate external financial reporting consistent with GAAP the City should strengthen controls over financial reporting process.

### VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The City's Accounting manual will be updated to include a section dedicated specifically to year end closing procedures.

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

**Reference Number:** 2011-2 **Type of Finding:** Significant deficiency **Description:** Internal Controls Over Receivables/Liabilities

### **CRITERIA**

A properly designed internal control structure requires that specific procedures and policies with respect to creating estimates to reflect the collectible balance of accounts receivable be implemented to meet the financial reporting and operational objectives of the City.

### CONDITION/CONTEXT

The City has accrued significant receivable for which collectability may be in question. An estimation for doubtful accounts has not been made because the City does not have a process in place to make that estimation.

### EFFECT

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

### CAUSE

There is no formal policy to evaluate the collectability of the loans receivable account; therefore, the subsidiary customer accounts have not been monitored or adjusted to properly report collectible balances.

### **RECOMMENDATION**

The City should implement a formal policy to evaluate the collectability of the loans receivable account which is consistent with GAAP.

<u>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS</u> A policy has been drafted and will be presented to Mayor and Council for approval.

## FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.

## **Status of Federal Award Findings and Questioned Costs**

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