

CITY OF SOUTH TUCSON, ARIZONA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

CITY OF SOUTH TUCSON, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Reports on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Tucson, Arizona, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 14, Budgetary Comparison Schedules on pages 57 through 61, Schedule of Proportionate Share of the Net Pension Liability on page 62, Schedule of Changes in the Net Pension Liability and Related Ratios - Agent Pension Plan on pages 63 through 64, Schedule of Pension Contributions on page 66, and Schedule of Agent OPEB Funding Progress on page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

March 30, 2017



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



City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016

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, 2016.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2015-16 as follows.

- The City's total net position of governmental activities decreased by \$1.3 million to \$5.7 million primarily due to depreciation expense.
- General revenues from governmental activities accounted for \$4.3 million in revenue, or 52 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.0 million or 48 percent of total governmental activities revenues.
- The City had \$9.6 million in expenses related to governmental activities, a decrease \$923,087, or 9 percent from the prior fiscal year.
- Among major funds, the General Fund had \$5.0 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues. The total expenditures of the General Fund were \$5.0 million. The General Fund's fund balance increased from \$757,731 to \$778,936.
- The Housing Fund had \$1.8 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were \$1.9 million.
- The total expenditures of the Youth Center Operations Fund were \$114,574. The Youth Operations Center Fund reported a fund balance decrease of \$1,574.
- The RICO Fund had \$207,467 in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the RICO Fund were \$207,281. The RICO Fund reported no significant change in the fund deficit.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016

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

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

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

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Housing, Youth Operations Center, and RICO Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules.

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

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

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$5.7 million at the current fiscal year end.

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

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 1,643,941	\$ 1,755,685
Capital assets, net	<u>24,109,974</u>	<u>25,121,350</u>
Total assets, net	<u>25,753,915</u>	<u>26,877,035</u>
Deferred outflows of resources	<u>1,528,833</u>	<u>1,970,959</u>
Current liabilities	850,444	894,905
Long-term liabilities	<u>19,760,079</u>	<u>20,425,787</u>
Total liabilities	<u>20,610,523</u>	<u>21,320,692</u>
Deferred inflows of resources	<u>956,124</u>	<u>535,897</u>
Net investment in capital assets	17,290,146	18,122,389
Restricted	942,514	1,028,941
Unrestricted	<u>(12,516,559)</u>	<u>(12,159,925)</u>
Total net position	<u>\$ 5,716,101</u>	<u>\$ 6,991,405</u>

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016

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

- The decrease of current liabilities in the amount of \$44,461 primarily due to reduction in accounts payable.
- The reduction of \$1,011,376 million in capital assets is due to depreciation expense.

Changes in net position. The City's total revenues for the current fiscal year were \$8.3 million. The total cost of all programs and services was \$9.6 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

Statement of Activities - Governmental Activities

	Year Ended June 30,	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 1,012,422	\$ 992,831
Operating grants and contributions	2,987,723	2,789,381
General revenues:		
Property taxes	52,102	120,559
City sales tax	2,724,478	2,276,260
State shared revenues	1,465,604	1,438,310
Investment income	189	5,538
Sales of capital assets	12,633	
Miscellaneous	<u>75,570</u>	<u>206,379</u>
Total revenues	<u>8,330,721</u>	<u>7,829,258</u>
Expenses:		
General government	2,849,124	1,791,319
Public safety	2,535,896	4,503,600
Highways and streets	1,224,164	1,189,427
Culture and recreation	114,574	117,939
Redevelopment and housing	2,408,440	2,453,502
Economic developments	14,068	6,893
Interest on long-term debt	<u>459,759</u>	<u>466,432</u>
Total expenses	<u>9,606,025</u>	<u>10,529,112</u>
Change in net position	(1,275,304)	(2,699,854)
Net position, beginning, as restated	<u>6,991,405</u>	<u>9,691,259</u>
Net position, ending	<u>\$ 5,716,101</u>	<u>\$ 6,991,405</u>

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016

- Total governmental activities revenues increased \$501,463, or 6.4 percent mainly due to increased sales tax revenue.
- Operating grants and contributions revenues increased \$198,342 primarily due to federal grant revenues to the South Tucson Police and Fire Departments.
- Miscellaneous revenues decreased \$130,809 primarily due to reduction in rent revenue charged.

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

Governmental Activities	2016		2015	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
General government	\$ 2,849,124	\$ (2,482,423)	\$ 1,791,319	\$ (1,456,720)
Public safety	2,535,896	(1,519,380)	4,503,600	(3,796,223)
Highways and streets	1,224,164	(733,638)	1,189,427	(598,731)
Culture and recreation	114,574	97,176	117,939	206,850
Redevelopment and housing	2,408,440	(493,788)	2,453,502	(628,751)
Economic development	14,068	(14,068)	6,893	(6,893)
Interest on long-term debt	459,759	(459,759)	466,432	(466,432)
Total	<u>\$ 9,606,025</u>	<u>\$ (5,605,880)</u>	<u>\$ 10,529,112</u>	<u>\$ (6,746,900)</u>

- Federal and state governments and charges for services subsidized certain governmental programs with revenues of \$3.4 million.
- Net cost of governmental activities of \$5.6 million was financed by general revenues, which are made up of primarily City sales tax and state shared revenues of \$4.2 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 \$793,498, a decrease of \$67,283 or 7.8 percent.

The General Fund is the principal operating fund of the City. The fund balance did not substantially change this fiscal year.

The fund balance decreased \$73,296 in the Housing Fund to \$164,552 as of fiscal year end. Housing Fund expenditures decreased \$176,590 primarily as a result of completed repair and improvement projects.

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016

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 \$205,880 in City sales tax revenues was due to the decline in retail sales within the City limits.
- The remaining unfavorable variances of \$261,709 were a result of not renewing the lease agreement for library space with Pima County and declining Court Fines and Fees.
- The favorable variance of \$286,645 was due to savings in Personnel Expense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets As of year-end, the City had invested \$24.1 million in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$1,011,376. Total depreciation expense for the current fiscal year was \$1,417,592.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2016 and June 30, 2015.

	Governmental Activities	
	2016	2015
Capital assets - non-depreciable	\$ 315,962	\$ 315,962
Capital assets - depreciable, net	23,794,012	24,805,388
Total capital assets, net	\$ 24,109,974	\$ 25,121,350

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

Debt Administration At year end, the City had \$7.8 million in long-term debt outstanding, excluding net pension liabilities, claims and judgment payables and compensated absences. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2016 and June 30, 2015.

	Governmental Activities	
	2016	2015
Revenue bonds payable	\$ 6,657,020	\$ 6,779,738
Obligations under capital leases	162,808	219,223
Other commitments	984,560	984,560
Total	\$ 7,804,388	\$ 7,983,521

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

City of South Tucson, Arizona
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016

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 2016-17. The most significant factors affecting the subsequent year's budget are:

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



BASIC FINANCIAL STATEMENTS

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 657,012
Accounts receivable	15,004
Due from governmental entities	331,888
Inventory	5,106
Prepaid items	26,644
Restricted investments	603,982
Restricted cash held by other governments	4,305
Capital assets, not being depreciated	315,962
Capital assets, being depreciated, net	<u>23,794,012</u>
Total assets	<u>25,753,915</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	<u>1,528,833</u>
 <u>LIABILITIES</u>	
Accounts payable	614,388
Accrued payroll and employee benefits	195,255
Customer deposits	36,885
Unearned revenue	3,916
Noncurrent liabilities:	
Due within one year	574,797
Due in more than one year	<u>19,185,282</u>
Total liabilities	<u>20,610,523</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows related to pensions	<u>956,124</u>
 <u>NET POSITION</u>	
Net investment in capital assets	17,290,146
Restricted for:	
Public safety	65,217
Highways and streets	108,763
Redevelopment housing	164,552
Debt service	603,982
Unrestricted (deficit)	<u>(12,516,559)</u>
Total net position	<u>\$ 5,716,101</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 2,849,124	\$ 346,658	\$ 20,043	\$ (2,482,423)
Public safety	2,535,896	177,636	838,880	(1,519,380)
Highways and streets	1,224,164		490,526	(733,638)
Culture and recreation	114,574	98,750	113,000	97,176
Redevelopment and housing	2,408,440	389,378	1,525,274	(493,788)
Economic development	14,068			(14,068)
Interest on long-term debt	459,759			(459,759)
Total governmental activities	\$ 9,606,025	\$ 1,012,422	\$ 2,987,723	(5,605,880)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				52,102
City sales taxes				2,724,478
State shared sales tax				533,513
State shared vehicle license tax				236,534
Urban revenue sharing				695,557
Investment earnings				189
Gains on disposal of capital assets				12,633
Miscellaneous				75,570
Total general revenues				4,330,576
Change in net position				(1,275,304)
Net position, July 1, 2015				6,991,405
Net position, June 30, 2016				\$ 5,716,101

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Youth Operations Center Fund</u>
<u>ASSETS</u>			
Cash and investments	\$ 303,019	\$ 287,615	
Investments - restricted	603,982		
Cash held by other governments			
Accounts receivable	15,004		
Due from governmental entities	214,523		
Due from other funds	198,267		
Inventory		5,106	
Prepaid items		26,644	
Total assets	<u>\$ 1,334,795</u>	<u>\$ 319,365</u>	<u> </u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 401,054	\$ 100,142	\$ 50,671
Accrued payroll and employee benefits	153,999	17,786	
Due to other funds			50,095
Customer deposits		36,885	
Unearned revenue	806		
Total liabilities	<u>555,859</u>	<u>154,813</u>	<u>100,766</u>
Fund balances (deficits):			
Nonspendable		31,750	
Restricted	603,982	132,802	
Unassigned	174,954		(100,766)
Total fund balances (deficits)	<u>778,936</u>	<u>164,552</u>	<u>(100,766)</u>
Total liabilities and fund balances	<u>\$ 1,334,795</u>	<u>\$ 319,365</u>	<u>\$ </u>

See accompanying notes to financial statements.

RICO Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$ 66,378	\$ 657,012
		603,982
\$ 4,305		4,305
		15,004
	117,365	331,888
		198,267
		5,106
		<u>26,644</u>
<u>\$ 4,305</u>	<u>\$ 183,743</u>	<u>\$ 1,842,208</u>
\$ 13,179	\$ 49,341	\$ 614,387
	23,470	195,255
148,172		198,267
		36,885
	<u>3,110</u>	<u>3,916</u>
<u>161,351</u>	<u>75,921</u>	<u>1,048,710</u>
		31,750
	173,980	910,764
<u>(157,046)</u>	<u>(66,158)</u>	<u>(149,016)</u>
<u>(157,046)</u>	<u>107,822</u>	<u>793,498</u>
<u>\$ 4,305</u>	<u>\$ 183,743</u>	<u>\$ 1,842,208</u>



CITY OF SOUTH TUCSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Fund balances - total governmental funds \$ 793,498

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

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

Governmental capital assets	\$ 47,593,544	
Less accumulated depreciation	<u>(23,483,570)</u>	24,109,974

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		572,708
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Some liabilities, including bonds and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.

Compensated absences	210,045	
Net pension liabilities	11,610,646	
Revenue bonds payable	6,657,020	
Capital leases	162,808	
Claims and judgments	135,000	
Other commitments	<u>984,560</u>	<u>(19,760,079)</u>

Net position of governmental activities		\$ <u><u>5,716,101</u></u>
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See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Youth Operations Center Fund</u>
REVENUES			
City sales taxes	\$ 2,724,478		
Property taxes	52,102		
Licenses and permits	346,658		
Intergovernmental	1,465,604	\$ 1,525,274	\$ 113,000
Charges for services	173,288		
Fines and forfeits	177,636		
Investment earnings	111	78	
Rents		304,673	
Miscellaneous	<u>98,423</u>	<u>10,167</u>	
Total revenues	5,038,300	1,840,192	113,000
EXPENDITURES			
Current:			
General government	1,446,922		
Public safety	2,760,181		
Highways and streets	154,893		
Culture and recreation			114,574
Redevelopment and housing		1,913,488	
Economic development			
Capital outlay	30,413		
Debt service:			
Principal retirement	171,874		
Interest and fiscal charges	<u>452,812</u>		
Total expenditures	<u>5,017,095</u>	<u>1,913,488</u>	<u>114,574</u>
Excess (deficiency) of revenues over (under) expenditures	<u>21,205</u>	<u>(73,296)</u>	<u>(1,574)</u>
Net change in fund balances	21,205	(73,296)	(1,574)
Fund balances (deficits), July 1, 2015	<u>757,731</u>	<u>237,848</u>	<u>(99,192)</u>
Fund balances (deficits), June 30, 2016	<u>\$ 778,936</u>	<u>\$ 164,552</u>	<u>\$ (100,766)</u>

See accompanying notes to financial statements.

<u>RICO Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
		\$ 2,724,478
		52,102
		346,658
\$ 207,467	\$ 1,141,982	4,453,327
		173,288
		177,636
		189
		304,673
	<u>10,147</u>	<u>118,737</u>
<u>207,467</u>	<u>1,152,129</u>	<u>8,351,088</u>
	579	1,447,501
145,088	188,666	3,093,935
	437,919	592,812
		114,574
	215,601	2,129,089
	14,068	14,068
6,717	309,100	346,230
48,529		220,403
<u>6,947</u>		<u>459,759</u>
<u>207,281</u>	<u>1,165,933</u>	<u>8,418,371</u>
<u>186</u>	<u>(13,804)</u>	<u>(67,283)</u>
186	(13,804)	(67,283)
<u>(157,232)</u>	<u>121,626</u>	<u>860,781</u>
<u>\$ (157,046)</u>	<u>\$ 107,822</u>	<u>\$ 793,498</u>

CITY OF SOUTH TUCSON, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$ (67,283)

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

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

Capital outlay	\$ 426,583	
Depreciation expense	<u>(1,417,592)</u>	(991,009)

In the statement of activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold. (20,367)

Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities. (475,388)

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

Capital leases	56,415	
Revenue bond payable	<u>155,000</u>	211,415

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

Amortization of bond discount	(32,282)	
Claims and judgments	115,000	
Compensated absences	<u>(15,390)</u>	<u>67,328</u>

Change in net position of governmental activities \$ (1,275,304)

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	\$ <u>107,492</u>
Total assets	<u>107,492</u>
NET POSITION	
Held in trust	\$ <u>107,492</u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016

	Pension Trust
ADDITIONS:	
Contributions	\$ <u>31,087</u>
Total additions	<u>31,087</u>
DEDUCTIONS:	
Benefits	<u>19,114</u>
Total deductions	<u>19,114</u>
Change in net position	11,973
Net position, July 1, 2015	<u>95,519</u>
Net position, June 30, 2016	\$ <u><u>107,492</u></u>

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Financial Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as deferred revenue on the governmental fund financial statements. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The City reports the following major governmental funds.

General Fund - This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

Housing Fund - This fund accounts for the operations of the City's public housing program.

Youth Operations Center Fund - This fund accounts for activities of the City for the John A. Valenzuela Youth Center to guide and empower community youth through recreational and educational programs.

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

Additionally, the City reports the following fund type:

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

D. Cash and Investments

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

E. Investment Earnings

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

F. Receivables and Payables

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

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Tax Calendar

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

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

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

H. Inventory

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

I. Prepaid Items

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

J. Capital Assets

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

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

K. Compensated Absences

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

L. Long-term Obligations

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

M. Interfund Activity

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

N. Estimates

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

CITY OF SOUTH TUCSON, ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Deferred Outflows and Inflows of Resources

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

P. Pensions

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

	Deficit
Major Funds:	
Youth Operations Center	100,766
RICO	157,046
Nonmajor:	
CDBG	66,158

The deficits arose because of operations during the year and prior years. Deficit balances are a result of accumulated expenditures that are expected to be reimbursed at their completion by the corresponding funding source.

Excess Expenditures Over Budget - At June 30, 2016, the City had expenditures in funds that exceeded the budgets; however, this does not constitute a violation of any legal provisions.

NOTE 3 - FUND BALANCE CLASSIFICATIONS

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - FUND BALANCE CLASSIFICATIONS (CONTINUED)

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

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

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

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

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

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Youth Operations Fund</u>	<u>RICO Fund</u>	<u>Non-major Governmental Fund</u>
Fund Balances:					
Nonspendable:					
Inventory		\$ 5,106			
Prepaid items		26,644			
Restricted:					
Public safety					\$ 65,217
Highways and streets					108,763
Redevelopment and housing		132,802			
Debt service	\$ 603,982				
Unassigned	<u>174,954</u>		<u>\$ (100,766)</u>	<u>\$ (157,046)</u>	<u>(66,158)</u>
Total fund balances	<u>\$ 778,936</u>	<u>\$ 164,552</u>	<u>\$ (100,766)</u>	<u>\$ (157,046)</u>	<u>\$ 107,822</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - CASH AND INVESTMENTS

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

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned. As of June 30, 2016, the carrying amount of deposits was \$764,504 and the bank balance was \$819,124. As of June 30, 2016, the City's deposits were fully insured by the Federal Deposit Insurance Corporation or collateralized by the Arizona State Treasurer pooled collateral program.

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

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

Investment Type	Maturities	Fair Value
U.S. Treasuries	Less than one year	\$ 603,982
State Treasurer's investment pool 5		26,282
Total		\$ 630,264

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

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

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows.

<u>Governmental activities:</u>	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 315,962	<u> </u>	<u> </u>	\$ 315,962
Total capital assets not being depreciated	<u>315,962</u>	<u> </u>	<u> </u>	<u>315,962</u>
Capital assets being depreciated:				
Land improvements	2,970,748			2,970,748
Buildings and improvements	12,310,789	\$ 119,549		12,430,338
Infrastructure	28,556,406			28,556,406
Machinery, equipment and vehicles	<u>4,165,003</u>	<u>307,034</u>	\$ <u>(1,151,947)</u>	<u>3,320,090</u>
Total capital assets being depreciated	<u>48,002,946</u>	<u>426,583</u>	<u>(1,151,947)</u>	<u>47,277,582</u>
Less accumulated depreciation for:				
Land improvements	(1,302,339)	(56,125)		(1,358,464)
Buildings and improvements	(7,183,113)	(355,279)		(7,538,392)
Infrastructure	(11,407,164)	(818,985)		(12,226,149)
Machinery, equipment and vehicles	<u>(3,304,942)</u>	<u>(187,203)</u>	<u>1,131,580</u>	<u>(2,360,565)</u>
Total accumulated depreciation	<u>(23,197,558)</u>	<u>(1,417,592)</u>	<u>1,131,580</u>	<u>(23,483,570)</u>
Total capital assets being depreciated, net	<u>24,805,388</u>	<u>(991,009)</u>	<u>(20,367)</u>	<u>23,794,012</u>
Governmental activities capital assets, net	<u>\$ 25,121,350</u>	<u>\$ (991,009)</u>	<u>\$ (20,367)</u>	<u>\$ 24,109,974</u>

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

Governmental activities:	
General government	\$ 323,359
Public safety	188,457
Highways and streets	624,921
Redevelopment and housing	<u>280,855</u>
Total depreciation expense - governmental activities	<u>\$ 1,417,592</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2016:

<u>Governmental activities:</u>	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due Within 1 Year</u>
Revenue bonds payable	\$ 7,490,000		\$ (155,000)	\$ 7,335,000	\$ 165,000
Deferred bond discount	<u>(710,262)</u>		<u>32,282</u>	<u>(677,980)</u>	
Net bonds payable	6,779,738		(122,718)	6,657,020	165,000
Capital leases payable	219,223		(56,415)	162,808	58,884
Compensated absences payable	194,655	\$ 130,711	(115,321)	210,045	120,549
Net pension liabilities	11,997,611		(386,965)	11,610,646	
Claims and judgments	250,000		(115,000)	135,000	45,000
Other commitments	<u>984,560</u>			<u>984,560</u>	<u>185,364</u>
Governmental activities long-term liabilities	<u>\$ 20,425,787</u>	<u>\$ 130,711</u>	<u>\$ (796,419)</u>	<u>\$ 19,760,079</u>	<u>\$ 574,797</u>

Revenue bonds currently outstanding are as follows:

	<u>Original Amount Issued</u>	<u>Interest Rate</u>	<u>Remaining Maturities</u>	<u>Outstanding Principle June 30, 2016</u>	<u>Due Within One Year</u>
Governmental activities: Excise Tax Revenue Bond, Series 2007A and 2007B	\$ 7,905,000	4.10-4.95%	7/1/16-37	<u>\$ 7,335,000</u>	<u>\$ 165,000</u>
Total				<u>\$ 7,335,000</u>	<u>\$ 165,000</u>

The City has pledged future excise taxes and state shared revenues to repay outstanding revenue bonds of \$7.3 million as of June 30, 2016. Proceeds from the original bond issuances provided financing for (1) the refund of certain excise tax revenue bonds issued by South Tucson Municipal Property Corporation on behalf of the City of South Tucson, Arizona, (2) to finance public works and other City vehicles and equipment, (3) to fund a debt service reserve requirement for the Series 2007 Obligations, and (4) pay costs of execution and delivery of the Series 2007 Obligations. The bonds are payable through 2037. The total principal and interest to be paid on the bonds is \$13.2 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 \$600,431, or 17% of gross revenues.

Other commitments are composed of a long-term agreement with the Pima County Sheriff's department for service fees and interest charges for housing prisoners. In October 2013, Pima County and the City entered into a settlement agreement whereby \$806,155 of fees and interest charges were forgiven. The remaining balance of \$984,560 will be paid over a 10 year period, with interest at 1.5% per annum.

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - LONG-TERM DEBT (CONTINUED)

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

Year ending June 30:	Governmental Activities			
	Bond Payable		Other Commitment	
	Principal	Interest	Principal	Interest
2017	\$ 165,000	\$ 435,937	\$ 185,364	\$ 28,157
2018	175,000	425,831	94,773	11,988
2019	185,000	415,113	96,194	10,566
2020	200,000	403,781	97,637	9,124
2021	210,000	391,531	99,102	7,659
2022-26	1,260,000	1,748,181	411,490	15,546
2027-31	1,700,000	1,311,469		
2032-36	2,290,000	723,163		
2037	1,150,000	57,500		
Total	<u>\$ 7,335,000</u>	<u>\$ 5,912,506</u>	<u>\$ 984,560</u>	<u>\$ 83,040</u>

NOTE 7 - OBLIGATIONS UNDER LEASES

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Vehicles and equipment	\$ 296,125
Less: Accumulated depreciation	<u>(90,000)</u>
Carrying value	<u>\$ 206,125</u>

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2016, were as follows:

Year ending June 30:	
2017	\$ 64,722
2018	64,722
2019	<u>43,148</u>
Total minimum payments required	172,592
Less amount representing interest	<u>(9,784)</u>
Present value of minimum lease payments	<u>\$ 162,808</u>

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - OBLIGATIONS UNDER LEASES (CONTINUED)

Operating Leases - The City leases office equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases totaled \$6,649 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:		
	2017	9,298
	2018	9,298
	2019	<u>9,298</u>
Total minimum payments required		<u>\$ 27,894</u>

NOTE 8 - INTERFUND BALANCES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016, is listed below.

	Due from		
Due to	Youth Operations Center Fund	RICO Fund	Total
General Fund	\$ 50,095	\$ 148,172	\$ 198,267
Total	\$ 50,095	\$ 148,172	\$ 198,267

At year end, several funds had negative cash balances in the pooled cash accounts. Negative cash on deposit was reduced by interfund borrowing with other funds.

NOTE 9 - CONTINGENT LIABILITIES

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

The City is a defendant in a number of lawsuits and claims as of June 30, 2016. It is the opinion of management and the City's legal counsel, reasonable possible and probable losses not covered by insurance from these proceedings total \$135,000 at June 30, 2016.

NOTE 10 - SUBSEQUENT EVENT

In October, 2016, the City sold a portion of its Municipa Complex building for \$450,000 to the Pima County Free Library District which had been leasing the building and using it as a library.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - 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 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the three plans described below and on the following pages. The plans are component units of the State of Arizona. At June 30, 2016, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Government Activities
Net pension liabilities	\$ 11,610,646
Deferred outflows of resources	1,528,833
Deferred inflows of resources	956,124
Pension expense	1,284,619

The City's accrued payroll and employee benefits includes \$40,847 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the City reported \$790,763 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

*With actuarially reduced benefits.

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

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the city to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The City's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-Term Disability Fund
Year ended June 30,		
2016	\$ 5,145	\$ 1,235
2015	6,357	1,293
2014	6,558	2,663

During fiscal year 2016, the City paid for ASRS and OPEB contributions from the General Fund.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Pension Liability - At June 30, 2016, the City reported a liability of \$1,757,071 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015.

The City's reported liability at June 30, 2016, decreased by \$37,191 from the City's prior year liability of \$1,794,262 because of changes in the ASRS' net pension liability and the City's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The City's proportion of the net pension liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The City's proportion measured as of June 30, 2015, was 0.011280 percent, which was a decrease of 0.000846 percent from its proportion measured as of June 30, 2014.

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2016, the City recognized pension expense for ASRS of \$31,930. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 47,947	\$ 92,072
Net difference between projected and actual earnings on pension plan investments		56,310
Changes in proportion and differences between City contributions and proportionate share of contributions		121,219
City contributions subsequent to the measurement date	<u>115,711</u>	
Total	<u>\$ 163,658</u>	<u>\$ 269,601</u>

The \$115,711 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ (100,055)
2018	(112,753)
2019	(49,495)
2020	40,649

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

ASRS	
Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS	Target	Long-Term
Asset Class	Allocation	Arithmetic Real Rate of Return
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi asset	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF SOUTH TUCSON, ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the City’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate - The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7 percent) or one percentage point higher (9 percent) than the current rate:

ASRS	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
The City’s proportionate share of the net pension liability	\$ 2,302,363	\$ 1,757,071	\$ 1,383,367

Pension Plan Fiduciary Net Position - Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System (PSPRS)

Plan descriptions - The City's police and fire employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and a agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the Provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues publicly available financial reports that include their financial statements and required supplementary information for the PSPRS plan. The report is available on the PSPRS website at www.psprs.com.

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Employees Covered by Benefit Terms - At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS - Police	PSPRS - Fire
Inactive employees or beneficiaries currently receiving benefits	14	6
Inactive employees entitled to but not yet receiving benefits	2	1
Active employees	15	3
Total	31	10

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions and Annual OPEB Cost - State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for the PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS - Police	PSPRS - Fire
Active members—Pension City	11.65%	11.65%
Pension	76.57%	66.47%
Health insurance premium benefit	1.48%	0.89%

For the agent plans, the City's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

	PSPRS - Police	PSPRS - Fire
Pension		
Contributions made	\$ 561,770	\$ 144,771
Health Insurance Premium Benefit		
Annual OPEB cost	10,858	1,938
Contributions made	10,858	1,938

During fiscal year 2016, the City paid for PSPRS and OPEB contributions from the General Fund.

Pension Liability - At June 30, 2016, the City reported a net pension liability of \$9,691,996.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2015.

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

PSPRS - Pension	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.0%–8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS Asset Class	Target Allocation	Long-Term Expected Geometric Rate of Return
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

Pension Discount Rate - The discount rate used to measure the PSPRS total pension liability was 7.85 percent.

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net Pension Liability

PSPRS - Police

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at June 30, 2015	\$ 8,143,673	\$ 180,162	\$ 7,963,511
Changes for the year:			
Service cost	125,289		125,289
Interest on the total pension liability	622,567		622,567
Differences between expected and actual experience in the measurement of the pension liability	(700,135)		(700,135)
Contributions—employer		412,532	(412,532)
Contributions—employee		65,326	(65,326)
Net investment income		4,804	(4,804)
Benefit payments, including refunds of employee contributions	(551,060)	(551,060)	
Administrative expense		(354)	354
Other changes		341	(341)
Net changes	<u>(503,339)</u>	<u>(68,411)</u>	<u>(434,928)</u>
Balances at June 30, 2016	<u>\$ 7,640,334</u>	<u>\$ 111,751</u>	<u>\$ 7,528,583</u>

Changes in the Net Pension Liability

PSPRS - Fire

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at June 30, 2015	\$ 3,471,204	\$ 1,412,483	\$ 2,058,721
Changes for the year:			
Service cost	28,968		28,968
Interest on the total pension liability	265,218		265,218
Differences between expected and actual experience in the measurement of the pension liability	(40,483)		(40,483)
Contributions—employer		84,561	(84,561)
Contributions—employee		17,436	(17,436)
Net investment income		49,864	(49,864)
Benefit payments, including refunds of employee contributions	(214,223)	(214,223)	
Administrative expense		(1,594)	1,594
Other changes		(1,256)	1,256
Net changes	<u>39,480</u>	<u>(65,212)</u>	<u>104,692</u>
Balances at June 30, 2016	<u>\$ 3,510,684</u>	<u>\$ 1,347,271</u>	<u>\$ 2,163,413</u>

Sensitivity of the City’s Net Pension Liability to Changes in the Discount Rate - The following table presents the City’s net pension liability calculated using the discount rate noted above, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS - Police:			
Rate	6.85%	7.85%	8.85%
Net pension liability	8,343,700	7,528,583	6,842,713
PSPRS - Fire:			
Rate	6.85%	7.85%	8.85%
Net pension liability	2,567,614	2,163,413	1,826,601

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

Pension Expense - For the year ended June 30, 2016, the City recognized pension expense for PSPRS of \$1,215,641.

Pension Deferred Outflows/Inflows of Resources - At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PSPRS - Police		
Differences between expected and actual experience		\$ 593,573
Changes of assumptions or other inputs	\$ 603,639	
Net difference between projected and actual earnings on pension plan investments	5,172	7,514
City contributions subsequent to the measurement date	<u>572,629</u>	
Total	<u>\$ 1,181,440</u>	<u>\$ 601,087</u>
PSPRS - Fire		
Differences between expected and actual experience	\$ 1,914	\$ 19,461
Changes of assumptions or other inputs	5,948	
Net difference between projected and actual earnings on pension plan investments	45,199	\$ 44,959
City contributions subsequent to the measurement date	<u>98,267</u>	
Total	<u>\$ 151,328</u>	<u>\$ 64,420</u>

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Year ending June 30,	PSPRS - Police	PSPRS - Fire
2017	\$ 101,400	\$ (15,285)
2018	78,415	(3,686)
2019	(173,384)	(3,687)
2020	1,293	11,299

Agent Plan OPEB Trend Information - The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS - Police:			
2016	\$ 10,859	100%	\$ 0
2015	12,897	100%	0
2014	15,279	100%	0
PSPRS - Fire:			
2016	1,298	100%	0
2015	4,946	100%	0
2014	7,931	100%	0

Agent Plan OPEB Actuarial Assumptions - The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plan as understood by the City and plan members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements:

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%–8%
Wage growth	4%

Agent Plan OPEB Funded Status - The following table presents the funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2016.

	PSPRS - Police	PSPRS - Fire
Actuarial value of assets (a)	\$ 104,246	\$ 87,257
Actuarial accrued liability (b)	239,441	67,079
Unfunded actuarial accrued liability (funding excess) (b) – (a)	135,195	(20,178)
Funded ratio (a)/(b)	43.54 %	130.08 %
Annual covered payroll (c)	744,690	105,949
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c)	18.15 %	(19.05)%

The funded status of all the PSPRS health insurance premium benefit plans in the June 30, 2015, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%–8%
Wage growth	4%

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

C. Elected Officials Retirement Plan

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

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

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

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

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

Contribution - State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability. For the year ended June 30, 2016, statute required active EORP members to contribute 13 percent of the members' annual covered payroll and the City to contribute 23.5 percent of active EORP members' annual covered payroll. Also statute required the City to contribute 12.15 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 17.50 percent to EOPR of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the City's required contributions to ASRS and EODCRS for these elected officials and judges. The City's contributions to the pension plan for the year ended June 30, 2016, were \$4,350. No OPEB contributions were required or made for the year ended June 30, 2016.

The City's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

EORP for OPEB	Health Insurance Fund
<u>Year ending June 30,</u>	<u></u>
2016	\$ 0
2015	0
2014	314

During fiscal year 2016, the City paid for EORP pension contributions from the General Fund.

Pension liability - At June 30, 2016, the City reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the City's proportionate share of the State's appropriation for EORP. The amount the City recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the EORP net pension liability	\$ 161,579
State's proportionate share of the EORP net pension liability associated with the City	<u>50,374</u>
Total	<u><u>\$ 211,953</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The City's proportion of the net pension liability, was based on the City's actual contributions to the plan relative to the total of all participating employers' actual contributions for the year ended June 30, 2015. The City's proportion measured as of June 30, 2015 was 0.0206768 percent, which was a decrease of 0.0063326 from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2016, the City recognized pension expense for EORP of \$37,444 and revenue of \$11,840 for the City's proportionate share of the State's appropriation to EORP. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 258	1,799
Changes of assumptions or other inputs	27,074	
Net difference between projected and actual earnings on pension plan investments	980	\$ 19,217
City contributions subsequent to the measurement date	4,095	
Total	\$ 32,407	\$ 21,016

The \$4,095 reported as deferred outflows of resources related to EORP pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ 9,906
2018	(3,428)
2019	81
2020	737

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

EORP	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.25%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The long-term expected rate of return on EORP pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP Asset Class	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

Discount rate - At June 30, 2015, the discount rate used to measure the EORP total pension liability was 4.86 percent, which was a decrease of 0.81 from the discount rate used as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.85 percent was applied to periods of projected benefit payments through the year ended June 30, 2028. A municipal bond rate of 3.80 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 25, 2015, was applied to periods of projected benefit payments after June 30, 2028.

Sensitivity of the City's proportionate share of the EORP net pension liability to changes in the discount rate - The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 4.86 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.86 percent) or one percentage point higher (5.86 percent) than the current rate:

OTHER REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Property taxes	\$ 53,357	\$ 52,102	\$ (1,255)
City sales taxes	2,930,358	2,724,478	(205,880)
License and permits	357,795	346,658	(11,137)
Intergovernmental revenue	1,457,311	1,465,604	8,293
Charges for services	203,890	173,288	(30,602)
Fines and forfeits	300,000	177,636	(122,364)
Investment income		111	111
Miscellaneous	<u>151,000</u>	<u>98,423</u>	<u>(52,577)</u>
Total revenues	<u>5,453,711</u>	<u>5,038,300</u>	<u>(415,411)</u>
EXPENDITURES			
General government:			
Administration		581	(581)
City manager	217,663	145,799	71,864
Mayor and Council	32,421	31,496	925
City clerk	133,290	119,255	14,035
Finance	224,496	148,003	76,493
Information technologies	129,328	115,620	13,708
Planning and zoning		208,316	(208,316)
Public buildings		19,440	(19,440)
Sanitation		59,249	(59,249)
Non-departmental	<u>1,465,787</u>	<u>682,680</u>	<u>783,107</u>
Total general governments	<u>2,202,985</u>	<u>1,530,439</u>	<u>672,546</u>
Public safety:			
Magistrate Court	266,331	248,248	18,083
Fire department	846,350	805,032	41,318
Police department	<u>1,831,834</u>	<u>1,713,046</u>	<u>118,788</u>
Total public safety	<u>2,944,515</u>	<u>2,766,326</u>	<u>178,189</u>
Highways and streets:			
Public works	<u>96,556</u>	<u>95,644</u>	<u>912</u>
Total highways and streets	<u>96,556</u>	<u>95,644</u>	<u>912</u>
Economic development:			
Development services	<u>209,655</u>	<u> </u>	<u>209,655</u>
Total economic development	209,655		209,655
Debt services			
Total expenditures	<u>5,453,711</u>	<u>5,017,095</u>	<u>436,616</u>
Excess (deficiency) of revenues over (under) expenditures		21,205	21,205
Fund balance, beginning of year	<u> </u>	<u>757,731</u>	<u>757,731</u>
Fund balance, end of year	<u>\$ </u>	<u>\$ 778,936</u>	<u>\$ 778,936</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - HOUSING FUND
 YEAR ENDED JUNE 30, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ 1,147,159	\$ 1,525,274	\$ 378,115
Investment income		78	78
Rents	305,110	304,673	(437)
Miscellaneous		<u>10,167</u>	<u>10,167</u>
Total revenues	<u>1,452,269</u>	<u>1,840,192</u>	<u>387,923</u>
EXPENDITURES			
Redevelopment and housing	<u>1,584,333</u>	<u>1,913,488</u>	<u>(329,155)</u>
Total expenditures	<u>1,584,333</u>	<u>1,913,488</u>	<u>(329,155)</u>
Excess (deficiency) of revenues over (under) expenditures	(132,064)	(73,296)	58,768
Fund balance, beginning of year	<u>365,895</u>	<u>237,848</u>	<u>(128,047)</u>
Fund balance, end of year	<u>\$ 233,831</u>	<u>\$ 164,552</u>	<u>\$ (69,279)</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - YOUTH OPERATIONS CENTER FUND
 YEAR ENDED JUNE 30, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>113,000</u>	\$ <u>113,000</u>	\$ _____
Total revenues	<u>113,000</u>	<u>113,000</u>	<u> </u>
EXPENDITURES			
Culture and recreation	<u>113,000</u>	<u>114,574</u>	<u>(1,574)</u>
Total expenditures	<u>113,000</u>	<u>114,574</u>	<u>(1,574)</u>
Excess (deficiency) of revenues over (under) expenditures		(1,574)	(1,574)
Fund balance, beginning of year	<u> </u>	<u>(99,192)</u>	<u>(99,192)</u>
Fund balance, end of year	<u>\$ _____</u>	<u>\$ (100,766)</u>	<u>\$ (100,766)</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - RICO FUND
 YEAR ENDED JUNE 30, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$ <u>185,364</u>	\$ <u>207,467</u>	\$ <u>22,103</u>
Total revenues	<u>185,364</u>	<u>207,467</u>	<u>22,103</u>
EXPENDITURES			
Public safety	185,364	145,088	40,276
Capital outlay		6,717	(6,717)
Debt services		<u>55,476</u>	<u>(55,476)</u>
Total expenditures	<u>185,364</u>	<u>207,281</u>	<u>(21,917)</u>
Excess (deficiency) of revenues over (under) expenditures		186	186
Fund balance, beginning of year		<u>(157,232)</u>	<u>(157,232)</u>
Fund balance, end of year	<u>\$</u>	<u>\$ (157,046)</u>	<u>\$ (157,046)</u>

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
NOTES TO BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2016

Note 1 - Budgetary Basis of Accounting

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

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

Note 2 - Excess Expenditures over Budget

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

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

JUNE 30, 2016

ASRS

	Reporting Fiscal Year (Measurement Date)		
	<u>2016 (2015)</u>	<u>2015 (2014)</u>	<u>2014 through 2007</u>
City's proportion of the net pension liability	0.0113%	0.0121%	Information
City's proportionate share of the net pension liability	\$ 1,757,071	\$ 1,794,262	not available
City's covered payroll	\$ 1,062,705	\$ 1,144,019	
City's proportionate share of the net pension liability as a percentage of its covered payroll	165.34 %	156.84 %	
Plan fiduciary net position as a percentage of the total pension liability	68.35 %	69.49 %	

EORP

	Reporting Fiscal Year (Measurement Date)		
	<u>2016 (2015)</u>	<u>2015 (2014)</u>	<u>2014 through 2007</u>
City's proportion of the net pension liability	0.02068%	0.02700%	Information
City's proportionate share of the net pension liability	\$ 161,579	\$ 181,117	not available
State's proportionate share of the net pension liability associated with the City	<u>50,374</u>	<u>55,532</u>	
Total	<u>\$ 211,953</u>	<u>\$ 236,649</u>	
City's covered payroll	\$ 18,400	\$ 20,160	
City's proportionate share of the net pension liability as a percentage of its covered payroll	1,151.92 %	1,173.85 %	
Plan fiduciary net position as a percentage of the total pension liability	28.32 %	31.91 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS
JUNE 30, 2016

PSPRS - Police	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability:			
Service cost	\$ 125,289	\$ 119,965	Information
Interest on the total pension liability	622,567	506,492	not available
Changes of benefit terms		320,282	
Differences between expected and actual experience in the measurement of the pension liability	(700,135)	(141,838)	
Changes of assumptions or other inputs	-	1,233,249	
Benefit payments, including refunds of employee contributions	<u>(551,060)</u>	<u>(573,234)</u>	
Net change in total pension liability	(503,339)	1,464,916	
Total pension liability—beginning	<u>8,143,673</u>	<u>6,678,757</u>	
Total pension liability—ending (a)	<u><u>\$ 7,640,334</u></u>	<u><u>\$ 8,143,673</u></u>	
Plan fiduciary net position:			
Contributions—employer	\$ 412,532	\$ 420,896	
Contributions—employee	65,326	66,539	
Net investment income	4,804	30,627	
Benefit payments, including refunds of employee contributions	(551,060)	(573,234)	
Administrative expense	(354)	(247)	
Other changes	<u>341</u>	<u>1,423</u>	
Net change in plan fiduciary net position	(68,411)	(53,996)	
Plan fiduciary net position—beginning	<u>180,162</u>	<u>234,158</u>	
Plan fiduciary net position—ending (b)	<u><u>\$ 111,751</u></u>	<u><u>\$ 180,162</u></u>	
City's net pension liability (asset)—ending (a) – (b)	\$ 7,528,583	\$ 7,963,511	
Plan fiduciary net position as a percentage of the total pension liability	1.46 %	2.21 %	
Covered payroll	\$ 587,388	\$ 646,705	
City's net pension liability (asset) as a percentage of covered payroll	1,281.71 %	1,231.40 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

AGENT PENSION PLANS

JUNE 30, 2016

(CONTINUED)

PSPRS - Fire	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability:			
Service cost	\$ 28,968	\$ 30,423	Information not available
Interest on the total pension liability	265,218	210,418	
Changes of benefit terms	-	92,636	
Differences between expected and actual experience in the measurement of the pension liability	(40,483)	145,266	
Changes of assumptions or other inputs	-	451,472	
Benefit payments, including refunds of employee contributions	<u>(214,223)</u>	<u>(248,574)</u>	
Net change in total pension liability	39,480	681,641	
Total pension liability—beginning	<u>3,471,204</u>	<u>2,789,563</u>	
Total pension liability—ending (a)	<u>\$ 3,510,684</u>	<u>\$ 3,471,204</u>	
Plan fiduciary net position:			
Contributions—employer	\$ 84,561	\$ 44,137	
Contributions—employee	17,436	16,767	
Net investment income	49,864	183,267	
Benefit payments, including refunds of employee contributions	(214,223)	(248,574)	
Administrative expense	(1,594)	(1,476)	
Other changes	<u>(1,256)</u>	<u>-</u>	
Net change in plan fiduciary net position	(65,212)	(5,879)	
Plan fiduciary net position—beginning	<u>1,412,483</u>	<u>1,418,362</u>	
Plan fiduciary net position—ending (b)	<u>\$ 1,347,271</u>	<u>\$ 1,412,483</u>	
City's net pension liability (asset)—ending (a) – (b)	\$ 2,163,413	\$ 2,058,721	
Plan fiduciary net position as a percentage of the total pension liability	38.38 %	40.69 %	
Covered payroll	\$ 158,399	\$ 166,427	
City's net pension liability (asset) as a percentage of covered payroll	1,365.80 %	1,237.01 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2016

ASRS	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 115,711	\$ 113,145	\$ 117,507	Information not available
City's contributions in relation to the statutorily required contribution	<u>115,711</u>	<u>113,145</u>	<u>117,507</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 1,029,098	\$ 1,062,705	\$ 1,144,019	
City's contributions as a percentage of covered payroll	11.24 %	10.65 %	10.27 %	
PSPRS - Police	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 572,629	\$ 412,532	\$ 420,896	Information not available
City's contributions in relation to the actuarially determined contribution	<u>572,629</u>	<u>412,532</u>	<u>420,896</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 746,054	\$ 587,388	\$ 646,705	
City's contributions as a percentage of covered payroll	76.75 %	70.23 %	65.08 %	
PSPRS - Fire	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 98,267	\$ 84,561	\$ 44,137	Information not available
City's contributions in relation to the actuarially determined contribution	<u>98,267</u>	<u>84,561</u>	<u>44,137</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 146,708	\$ 158,399	\$ 166,427	
City's contributions as a percentage of covered payroll	66.98 %	53.38 %	26.52 %	
EORP	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 4,095	\$ 4,350	\$ 6,301	Information not available
City's contributions in relation to the statutorily required contribution	<u>4,095</u>	<u>4,350</u>	<u>6,301</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 19,200	\$ 18,400	\$ 20,160	
City's contributions as a percentage of covered payroll	21.33 %	23.64 %	31.25 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
 NOTES TO PENSION PLAN SCHEDULES
 JUNE 30, 2016

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5%
Wage growth	In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

CITY OF SOUTH TUCSON, ARIZONA
SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
JUNE 30, 2016

Health Insurance Premium Benefit - PSPRS Police:

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b) – (a)	Funded ratio (a)/(b)	Annual covered payroll (c)	UAAL (funding excess) as a percentage of covered payroll (b) – (a)/(c)
6/30/16	\$ 104,246	\$ 239,441	\$ 135,195	43.54 %	\$ 744,690	18.15 %
6/30/15	98,870	181,452	82,582	54.49 %	660,582	12.50 %
6/30/14	88,959	183,010	94,051	48.61 %	642,885	14.63 %

Health Insurance Premium Benefit - PSPRS Fire:

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b) – (a)	Funded ratio (a)/(b)	Annual covered payroll (c)	UAAL (funding excess) as a percentage of covered payroll (b) – (a)/(c)
6/30/16	\$ 87,257	\$ 67,079	\$ (20,178)	130.08 %	\$ 105,949	(19.05)%
6/30/15	84,338	60,841	(23,497)	138.62 %	157,793	(14.89)%
6/30/14	80,966	96,337	15,371	84.04 %	160,129	9.60 %

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS

JUNE 30, 2016

NOTE 1 - FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.