CITY OF SOUTH TUCSON, ARIZONA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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SOUTH TUCSON

THE PUEBLO WITHIN A CITY

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, 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.

Address • 9019 East Bahia Drive Suite 100 • Scottsdale, AZ 85260 | **Phone** • (602) 264-3077 | **Fax** • (602) 265-6241

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, 2017, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 7 through 13, Budgetary Comparison Schedules on pages 58 through 63, Schedule of Proportionate Share of the Net Pension Liability on page 64, Schedule of Changes in the Net Pension Liability and Related Ratios - Agent Pension Plans on pages 65 and 66, Schedule of Pension Contributions on pages 67 and 68, and Schedule of Agent OPEB Plans' Funding Progress on page 70 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 27, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

March 27, 2018

SOUTH
TUCSON

THE PUEBLO WITHIN A CITY

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

As management of the City of South Tucson, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2016-17 as follows.

- The City's total net position of governmental activities decreased by $438,524 to $5.3 million primarily due to additional costs related to pensions.
- General revenues from governmental activities accounted for $4.8 million in revenue, or 57 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for $3.7 million or 43 percent of total governmental activities revenues.
- The City had $9.0 million in expenses related to governmental activities, a decrease of $719,526 or 7 percent from the prior fiscal year.
- Among major funds, the General Fund had $5.4 million in revenues, which primarily consisted of City sales taxes, intergovernmental revenues and the sale of capital assets. The total expenditures of the General Fund were $5.0 million. The General Fund's fund balance increased from $778,936 to $1.1 million.
- The Housing Fund had $2.1 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were $2.2 million.
- The Housing Fund reported a fund balance decrease of $95,342.
- The total expenditures of the Youth Center Operations Fund were $113,001. The Youth Operations Center Fund reported no significant change in fund balance.
- The RICO Fund had $21,593 in revenues which primarily consisted of intergovernmental revenues. Total expenditures of the RICO Fund were $13,870, resulting in a reported a fund balance decrease of $7,723.

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.

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.

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 $5.3 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, 2017 and June 30, 2016.

	Governmental Activities	
	2017	2016
Current and other assets	$ 1,482,942	$ 1,643,941
Capital assets, net	23,081,255	24,109,974
Total assets, net	24,564,197	25,753,915
Deferred outflows of resources	2,372,566	1,528,833
Current liabilities	415,889	850,444
Long-term liabilities	20,484,476	19,760,079
Total liabilities	20,900,365	20,610,523
Deferred inflows of resources	758,821	956,124
Net investment in capital assets	16,453,029	17,290,146
Restricted	839,190	942,514
Unrestricted	(12,014,642)	(12,516,559)
Total net position	$ 5,277,577	$ 5,716,101

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 $434,555 is primarily due to the reduction in accounts payable.
- The increase in deferred outflows of resources in the amount of $843,733 is related to pensions.
- The reduction of $1,028,719 million in capital assets is due to depreciation expense.

Changes in net position. The City's total revenues for the current fiscal year were $8.5 million. The total cost of all programs and services was $9.0 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

Statement of Activities - Governmental Activities

	Year Ended June 30, 2017	2016
Revenues:		
Program revenues:		
Charges for services	$ 677,375	$ 1,012,422
Operating grants and contributions	2,933,315	2,987,723
General revenues:		
Property taxes	52,757	52,102
City sales tax	2,923,049	2,724,478
State shared revenues	1,479,260	1,465,604
Investment income	1,662	189
Sales of capital assets	299,353	12,633
Miscellaneous	81,204	75,570
Total revenues	8,447,975	8,330,721
Expenses:		
General government	1,583,039	2,849,124
Public safety	3,135,688	2,535,896
Highways and streets	1,100,092	1,224,164
Culture and recreation	113,001	114,574
Redevelopment and housing	2,191,576	2,408,440
Economic developments	4,016	14,068
Interest on long-term debt	759,087	459,759
Total expenses	8,886,499	9,606,025
Change in net position	(438,524)	(1,275,304)
Net position, beginning	5,716,101	6,991,405
Net position, ending	$ 5,277,577	$ 5,716,101

- Total government activities revenues increased $178,075 or 2 percent mainly due to the sale of capital assets.

- Charges for services revenues experienced a decrease of $335,047 due to various factors. Among those factors were reduced court fines and fees, the non-recurrence of one-time special refuse fees and non-renewal of the lease agreement with Pima County for building (library) space.
- Sales tax revenue increased $198,571 due to sales tax rate increases.

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	2017 Total Expenses	2017 Net (Expense)/ Revenue	2016 Total Expenses	2016 Net (Expense)/ Revenue
General government	$ 1,583,039	$ (1,248,512)	$ 2,849,124	$ (2,482,423)
Public safety	3,135,688	(2,487,961)	2,535,896	(1,519,380)
Highways and streets	1,100,092	(653,970)	1,224,164	(733,638)
Culture and recreation	113,001	(1)	114,574	97,176
Redevelopment and housing	2,191,576	(122,262)	2,408,440	(493,788)
Economic development	4,016	(4,016)	14,068	(14,068)
Interest on long-term debt	759,087	(759,087)	459,759	(459,759)
Total	$ 8,886,499	$ (5,275,809)	$ 9,606,025	$ (5,605,880)

- Federal and state governments and charges for services subsidized certain governmental programs with revenues of $3.6 million.
- Net cost of governmental activities of $5.3 million was financed by general revenues, which are made up of primarily city sales tax and state shared revenues of $4.8 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of $1,067,053, an increase of $273,555 or 34 percent.

The General Fund is the principal operating fund of the City. The increase in fund balance of $342,866 from $778,936 as of fiscal year end was a result of the sale of capital assets.

The fund balance decreased $95,342 in the Housing Fund to $69,210 as of fiscal year end. Housing Fund expenditures increased $248,864 primarily related to the cost of maintenance, repairs and capital projects.

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 $94,686 in City sales tax revenues was due to the decline in retail sales within the city limits.
- The remaining unfavorable variance of $141,348 in revenues was a result of suspending local licensing for residential rental activity, declining court fines and fees and unrealized special event sponsorships and donations as it did not take place.
- A favorable variance of $576,922 in expenditures was primarily due to credits issued on incarceration and animal care fees for prior years. Such credits were related to the non-cash sale of building (library) space to Pima County. The favorable variance was also a result of savings in Personnel Expense.
- The favorable variance of $453,000 listed under other financing sources was due to the sale of capital assets; specifically, the sale of building (library) space to Pima County.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets As of year-end, the City had invested $23 million in capital assets, net of accumulated depreciation. This amount represents a net decrease of $1,028,719. Total depreciation expense for the current fiscal year was $1.4 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2017 and June 30, 2016.

	Governmental Activities	
	2017	2016
Capital assets - non-depreciable	$ 315,962	$ 315,962
Capital assets - depreciable, net	22,765,293	23,794,012
Total capital assets, net	$ 23,081,255	$ 24.109.974

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

Debt Administration At year end, the City had $7.3 million in long-term debt outstanding, excluding net pension liabilities and claims and judgment payables. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2017 and June 30, 2016.

	Governmental Activities	
	2017	2016
Revenue bonds payable	$ 6,524,302	$ 6,657,020
Obligations under capital leases	103,924	162,808
Other commitments	715,420	984,560
Total	$ 7,343,646	$ 7,804,388

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

City management considered many factors in the process of developing the operating budget for the fiscal year 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, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 452,384
Accounts receivable	22,016
Due from governmental entities	349,949
Inventory	7,790
Prepaid items	43,285
Restricted investments	604,618
Restricted cash held by other governments	2,900
Capital assets, not being depreciated	315,962
Capital assets, being depreciated, net	22,765,293
Total assets	24,564,197
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	2,372,566
LIABILITIES	
Accounts payable	315,176
Accrued payroll and employee benefits	67,068
Customer deposits	29,947
Unearned revenue	3,698
Noncurrent liabilities:	
Due within one year	514,622
Due in more than one year	19,969,854
Total liabilities	20,900,365
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	758,821
NET POSITION	
Net investment in capital assets	16,453,029
Restricted for:	
Public safety	63,682
Highways and streets	124,560
Redevelopment housing	46,330
Debt service	604,618
Unrestricted (deficit)	(12,014,642)
Total net position	$ 5,277,577

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:				
General government	$ 1,583,039	$ 320,830	$ 13,697	$ (1,248,512)
Public safety	3,135,688	121,174	526,553	(2,487,961)
Highways and streets	1,100,092		446,122	(653,970)
Culture and recreation	113,001		113,000	(1)
Redevelopment and housing	2,191,576	235,371	1,833,943	(122,262)
Economic development	4,016			(4,016)
Interest on long-term debt	759,087			(759,087)
Total governmental activities	$ 8,886,499	$ 677,375	$ 2,933,315	(5,275,809)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	52,757
City sales taxes	2,923,049
State shared sales tax	522,541
State shared vehicle license tax	243,550
Urban revenue sharing	713,169
Investment earnings	1,662
Gains on disposal of capital assets	299,353
Miscellaneous	81,204
Total general revenues	4,837,285
Change in net position	(438,524)
Net position, July 1, 2016	5,716,101
Net position, June 30, 2017	$ 5,277,577

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	General Fund	Housing Fund	Youth Operations Center Fund
ASSETS			
Cash and investments	$ 327,426	$ 48,872	
Investments - restricted	604,618		
Cash held by other governments			
Accounts receivable	18,856	3,160	
Due from governmental entities	260,192	4,645	
Due from other funds	198,606	39,365	
Inventory		7,790	
Prepaid items	16,897	26,388	
Total assets	$ 1,426,595	$ 130,220	$
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 210,892	$ 26,502	$ 54,384
Accrued payroll and employee benefits	53,539	5,558	
Due to other funds	39,365		46,383
Customer deposits	997	28,950	
Unearned revenue			
Total liabilities	304,793	61,010	100,767
Fund balances (deficits):			
Nonspendable	16,897	34,178	
Restricted	604,618		
Unassigned	500,287	35,032	(100,767)
Total fund balances (deficits)	1,121,802	69,210	(100,767)
Total liabilities and fund balances	$ 1,426,595	$ 130,220	$

See accompanying notes to financial statements.

RICO Fund	Non-Major Governmental Funds	Total Governmental Funds
	$ 76,086	$ 452,384
		604,618
$ 2,900		2,900
		22,016
	85,112	349,949
		237,971
		7,790
		43,285
$ 2,900	$ 161,198	$ 1,720,913
	$ 23,398	$ 315,176
	7,971	67,068
$ 152,223		237,971
		29,947
	3,698	3,698
152,223	35,067	653,860
	188,242	239,317
		604,618
(149,323)	(62,111)	223,118
(149,323)	126,131	1,067,053
$ 2,900	$ 161,198	$ 1,720,913

CITY OF SOUTH TUCSON, ARIZONA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

Fund balances - total governmental funds		$ 1,067,053
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	$ 47,807,843	
Less accumulated depreciation	(24,726,588)	23,081,255
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		1,613,745
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	180,422	
Net pension liabilities	12,771,408	
Revenue bonds payable	6,524,302	
Capital leases	103,924	
Claims and judgments	189,000	
Other commitments	715,420	(20,484,476)
Net position of governmental activities		$ 5,277,577

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2017

	General Fund	Housing Fund	Youth Operations Center Fund
REVENUES			
City sales taxes	$ 2,923,049		
Property taxes	52,757		
Licenses and permits	320,830		
Intergovernmental	1,479,260	$ 1,833,943	$ 113,000
Charges for services	2,468		
Fines and forfeits	115,924		
Investment earnings	1,498	164	
Rents		224,114	
Miscellaneous	82,037	8,789	
Total revenues	4,977,823	2,067,010	113,000
EXPENDITURES			
Current:			
General government	1,441,059		
Public safety	2,570,557		
Highways and streets	91,686		
Culture and recreation			113,001
Redevelopment and housing		2,162,352	
Economic development			
Capital outlay	15,554		
Debt service:			
Principal retirement	498,688		
Interest and fiscal charges	470,413		
Total expenditures	5,087,957	2,162,352	113,001
Excess (deficiency) of revenues over (under) expenditures	(110,134)	(95,342)	(1)
OTHER FINANCING SOURCES (USES)			
Sales of capital assets	453,000		
Total other financing sources (uses)	453,000		
Net change in fund balances	342,866	(95,342)	(1)
Fund balances (deficits), July 1, 2016	778,936	164,552	(100,766)
Fund balances (deficits), June 30, 2017	$ 1,121,802	$ 69,210	$ (100,767)

See accompanying notes to financial statements.

RICO Fund	Non-major Governmental Funds	Total Governmental Funds
		$ 2,923,049
		52,757
		320,830
$ 21,593	$ 964,779	4,412,575
		2,468
		115,924
		1,662
		224,114
	4,417	95,243
21,593	969,196	8,148,622
	578	1,441,637
	318,251	2,888,808
	409,535	501,221
		113,001
	153,612	2,315,964
	4,016	4,016
	64,895	80,449
12,460		511,148
1,410		471,823
13,870	950,887	8,328,067
7,723	18,309	(179,445)
		453,000
		453,000
7,723	18,309	273,555
(157,046)	107,822	793,498
$ (149,323)	$ 126,131	$ 1,067,053

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, 2017

Net change in fund balances - total governmental funds		$ 273,555
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	$ 538,906	
Depreciation expense	(1,413,978)	(875,072)
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.		(393,097)
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.		119,725
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	58,884	
Other commitments	269,140	
Revenue bond payable	165,000	493,024
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	(54,000)	
Compensated absences	29,623	(56,659)
Change in net position of governmental activities		$ (438,524)

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Pension Trust
ASSETS	
Cash and cash equivalents	$ 125,435
Total assets	125,435
NET POSITION	
Held in trust	$ 125,435

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2017

		Pension Trust
ADDITIONS:		
Contributions	$	33,145
Total additions		33,145
DEDUCTIONS:		
Benefits		15,202
Total deductions		15,202
Change in net position		17,943
Net position, July 1, 2016		107,492
Net position, June 30, 2017	$	125,435

See accompanying notes to financial statements.

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.

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

<u>Government-wide Financial Statements</u> **-** 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.

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

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

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.

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.

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:

Assets	Years
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.

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

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

	Deficit
Major Funds:	
Youth Operations Center	$ 100,767
RICO	149,323
Nonmajor:	
CDBG	62,111

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.

<u>Excess Expenditures Over Budget</u> - At June 30, 2017, 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.

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.

	General Fund	Housing Fund	Youth Operations Fund	RICO Fund	Non-major Governmental Fund
Fund Balances:					
Nonspendable:					
Inventory		$ 7,790			
Prepaid items	$ 16,897	26,388			
Restricted:					
Public safety					$ 63,682
Highways and streets					124,560
Redevelopment and housing		35,032			
Debt service	604,618				
Unassigned	500,287		$ (100,767)	$ (149,323)	(62,111)
Total fund balances	$ 1,121,802	$ 69,210	$ (100,767)	$ (149,323)	$ 126,131

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, 2017, the carrying amount of deposits was $551,285 and the bank balance was $778,985. As of June 30, 2017, 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	$ 604,618
State Treasurer's investment pool 5		26,534
Total		$ 631,152

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/Sl+ by Standard and Poor's at year end.

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows.

Governmental activities:	July 1, 2016	Increases	Decreases	June 30, 2017
Capital assets not being depreciated:				
Land	$ 315,962			$ 315,962
Total capital assets not being depreciated	315,962			315,962
Capital assets being depreciated:				
Land improvements	2,970,748			2,970,748
Buildings and improvements	12,430,338	$ 466,641	$ (324,607)	12,572,372
Infrastructure	28,556,406			28,556,406
Machinery, equipment and vehicles	3,320,090	72,265		3,392,355
Total capital assets being depreciated	47,277,582	538,906	(324,607)	47,491,881
Less accumulated depreciation for:				
Land improvements	(1,358,464)	(56,125)		(1,414,589)
Buildings and improvements	(7,538,392)	(361,991)	170,960	(7,729,423)
Infrastructure	(12,226,149)	(820,009)		(13,046,158)
Machinery, equipment and vehicles	(2,360,565)	(175,853)		(2,536,418)
Total accumulated depreciation	(23,483,570)	(1,413,978)	170,960	(24,726,588)
Total capital assets being depreciated, net	23,794,012	(875,072)	(153,647)	22,765,293
Governmental activities capital assets, net	$ 24,109,974	$ (875,072)	$ (153,647)	$ 23,081,255

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

Governmental activities:	
General government	$ 323,935
Public safety	201,734
Highways and streets	600,742
Redevelopment and housing	287,567
Total depreciation expense - governmental activities	$ 1,413,978

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, 2017:

Governmental activities:	July 1, 2016	Additions	Reductions	June 30, 2017	Due Within 1 Year
Revenue bonds payable	$ 7,335,000		$ (165,000)	$ 7,170,000	$ 175,000
Deferred bond discount	(677,980)		32,282	(645,698)	
Net bonds payable	6,657,020		(132,718)	6,524,302	175,000
Capital leases payable	162,808		(58,884)	103,924	61,461
Compensated absences payable	210,045	$ 77,277	(106,900)	180,422	101,338
Net pension liabilities	11,610,646	1,160,762		12,771,408	
Claims and judgments	135,000	99,000	(45,000)	189,000	144,000
Other commitments	984,560		(269,140)	715,420	32,823
Governmental activities long-term liabilities	$ 19,760,079	$ 1,337,039	$ (612,642)	$ 20,484,476	$ 514,622

Revenue bonds currently outstanding are as follows:

	Original Amount Issued	Interest Rate	Remaining Maturities	Outstanding Principle June 30, 2017	Due Within One Year
Governmental activities:					
Excise Tax Revenue Bond, Series 2007A and 2007B	$ 7,905,000	4.10-4.95%	7/1/16-37	$ 7,170,000	$ 175,000
Total				$ 7,170,000	$ 175,000

The City has pledged future excise taxes and state shared revenues to repay outstanding revenue bonds of $7.3 million as of June 30, 2017. 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 $12.6 million. The current total excise taxes and state shared revenues were $3.8 million and the total principal and interest paid on the bonds was $600,937 or 16% 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. In August 2017, the City revised the agreement to extend repayment of settlement amount, plus interest at the rate of 1.5%, over a 20-year period.

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

NOTE 6 - LONG-TERM DEBT (CONTINUED)

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

	Governmental Activities			
	Bond Payable		Other Commitment	
Year ending June 30:	Principal	Interest	Principal	Interest
2018	$ 175,000	$ 425,831	$ 32,823	$ 10,731
2019	185,000	415,113	33,315	10,239
2020	200,000	403,781	33,814	9,739
2021	210,000	391,531	34,321	9,232
2022	225,000	378,668	34,836	8,717
2023-27	1,335,000	1,671,006	182,178	35,589
2028-32	1,805,000	1,207,343	196,258	21,510
2033-37	3,035,000	583,293	167,875	6,342
Total	$ 7,170,000	$ 5,476,566	$ 715,420	$ 112,099

The City estimated approximately $99,000 of claims and judgments as of June 30, 2017, to refund excess contributions, plus interest, previously made by the City's PSPRS members.

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	(197,417)
Carrying value	$ 98,708

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2017, were as follows:

Year ending June 30:	
2018	$ 64,722
2019	48,300
Total minimum payments required	113,022
Less amount representing interest	(9,098)
Present value of minimum lease payments	$ 103,924

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:	
2018	$ 9,298
2019	9,298
Total minimum payments required	$ 18,596

NOTE 8 - INTERFUND BALANCES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017, is listed below.

	Due from			
Due to	General Fund	Youth Operations Center Fund	RICO Fund	Total
General Fund		$ 152,223	$ 46,383	$ 198,606
Housing Fund	$ 39,365			39,365
Total	$ 39,365	$ 152,223	$ 46,383	$ 237,971

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, 2017. 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 $90,000 at June 30, 2017.

NOTE 10 - SUBSEQUENT EVENT

Subsequent events have been evaluated through March 27, 2018, which was the date the City's financial statements were issued.

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, 2017, 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	$ 12,771,408
Deferred outflows of resources	2,372,566
Deferred inflows of resources	758,821
Pension expense	881,390

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, 2017. Also, the City reported $867,395 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.

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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statue required the city to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 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 Year ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2017	$ 5,681	$ 1,421
2016	5,145	1,235
2015	6,357	1,293

During fiscal year 2017, the City paid for ASRS and OPEB contributions from the General Fund.

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Pension Liability - At June 30, 2017, the City reported a liability of $2,497,013 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The City's reported liability at June 30, 2017, increased by $739,942 from the City's prior year liability of $1,757,071 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, 2016. The City's proportion measured as of June 30, 2017, was 0.015470 percent, which was an increase of 0.00419 percent from its proportion measured as of June 30, 2015.

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2017, the City recognized pension expense for ASRS of $277,722. At June 30, 2017, 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	$ 15,174	$ 171,776
Changes in assumptions or other inputs		132,112
Net difference between projected and actual earnings on pension plan investments	270,593	
Changes in proportion and differences between City contributions and proportionate share of contributions	474,315	58,452
City contributions subsequent to the measurement date	124,512	
Total	$ 884,594	$ 362,340

The $124,512 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, 2018. 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,	
2018	$ 48,454
2019	120,040
2020	153,374
2021	75,874

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, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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 8.75 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 Asset Class	Target Allocation	Long-Term Arithmetic Real Rate of Return
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi asset	5%	3.41%
Commodities	2%	3.84%
Total	100%	

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 8.75 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.

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	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
The City's proportionate share of the net pension liability	$ 3,183,882	$ 2,497,013	$ 1,946,295

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 nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the Provisions of A.R.S. Title 38, Chapter 5, Article 4.

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:

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	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees Covered by Benefit Terms - At June 30, 2017, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS - Police	PSPRS - Fire
Inactive employees or beneficiaries currently receiving benefits	14	7
Inactive employees entitled to but not yet receiving benefits	2	1
Active employees	16	2
Total	32	10

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, 2017, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS - Police	PSPRS - Fire
Active members—Pension		
PSPRS members with an initial membership date on or before July 19, 2011		
July 2016 through April 14, 2017	11.65%	11.65%
April 14, 2017 through June 2017	7.65%	7.65%
PSPRS members with an initial membership date after July 19, 2011	11.65%	11.65%
City		
Pension	79.82%	80.89%
Health insurance premium benefit	1.45%	0%

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, 2017, were:

	PSPRS - Police	PSPRS - Fire
Pension		
Contributions made	$ 484,872	$ 74,717
Health Insurance Premium Benefit		
Annual OPEB cost	8,808	-
Contributions made	8,808	-

During fiscal year 2017, the City paid for PSPRS and OPEB contributions from the General Fund.

Pension Liability - At June 30, 2017, the City reported a net pension liability of $10,091,101.

The net pension liability was measured as of June 30, 2016, 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, 2016, reflect the following changes of benefit terms and actuarial assumptions.

* In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments changed the basis for cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

* Law 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
* The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.5 percent for PSPRS.

The net pension liability measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City's net pension liabilities as a result of these changes is not known.

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

PSPRS - Pension	
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
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)

Actuarial assumptions used in the June 30, 2016, 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 7.50 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 arithmetic real rates of return for each major asset class are summarized in the following table:

PSPRS Asset Class	Target Allocation	Long-Term Expected Arithmetic Real 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%	

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Pension Discount Rate - The discount rate used to measure the PSPRS total pension liability was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. 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.

Changes in the Net Pension Liability
PSPRS - Police

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	$ 7,640,334	$ 111,751	$ 7,528,583
Changes for the year:			
Service cost	147,746		147,746
Interest on the total pension liability	584,629		584,629
Change on benefit terms	(276,431)		(276,431)
Differences between expected and actual experience	302,447		302,447
Contributions—employer		599,358	(599,358)
Contributions—employee		91,595	(91,595)
Net investment income		1,149	(1,149)
Change of assumptions	288,288		288,288
Benefit payments, including refunds of employee contributions	(533,415)	(533,415)	
Administrative expense		(565)	565
Other changes		219,560	(219,560)
Net changes	513,264	377,682	135,582
Balances at June 30, 2017	$ 8,153,598	$ 489,433	$ 7,664,165

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net Pension Liability
PSPRS - Fire

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	$ 3,510,684	$ 1,347,271	$ 2,163,413
Changes for the year:			
Service cost	19,410		19,410
Interest on the total pension liability	267,942		267,942
Benefit Changes	(53,755)		(53,755)
Differences between expected and actual experience	38,866		38,866
Contributions—employer		102,548	(102,548)
Contributions—employee		17,377	(17,377)
Net investment income		7,602	(7,602)
Assumption changes	117,102	(214,223)	331,325
Benefit payments, including refunds of employee contributions	(214,223)		(214,223)
Administrative expense		(1,494)	1,494
Other changes		9	(9)
Net changes	175,342	(88,181)	263,523
Balances at June 30, 2017	$ 3,686,026	$ 1,259,090	$ 2,426,936

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:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS - Police:			
Rate	6.50%	7.50%	8.50%
Net pension liability	8,578,843	7,664,165	6,897,365
PSPRS - Fire:			
Rate	6.50%	7.50%	8.50%
Net pension liability	2,857,143	2,426,936	2,069,823

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, 2017, the City recognized pension expense for PSPRS of $578,712.

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Pension Deferred Outflows/Inflows of Resources - At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Police	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 227,567	$ 381,379
Changes of assumptions or other inputs	505,748	
Net difference between projected and actual earnings on pension plan investments	16,791	
City contributions subsequent to the measurement date	484,872	
Total	$ 1,234,978	$ 381,379

PSPRS - Fire	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,566	$
Changes of assumptions or other inputs	52,926	
Net difference between projected and actual earnings on pension plan investments	79,445	$
City contributions subsequent to the measurement date	74,717	
Total	$ 224,654	$

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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PSPRS - Police	PSPRS - Fire
Year ending June 30,		
2018	$ 229,149	$ 85,686
2019	(22,650)	15,193
2020	152,027	30,179
2021	10,201	18,879

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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:			
2017	$ 8,808	100%	$ 0
2016	10,858	100%	0
2015	12,879	100%	0
PSPRS - Fire:			
2017	0	100%	0
2016	1,938	100%	0
2015	4,946	100%	0

Agent Plan OPEB Actuarial Assumptions - The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, 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 2017 contribution requirements:

PSPRS - OPEB Contribution Requirements	
Actuarial valuation date	June 30, 2015
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%

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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, 2017.

	PSPRS - Police	PSPRS - Fire
Actuarial value of assets (a)	$ 110,385	$ 89,661
Actuarial accrued liability (b)	226,563	46,380
Unfunded actuarial accrued liability (funding excess) (b) – (a)	116,178	(43,281)
Funded ratio (a)/(b)	48.72 %	193.32 %
Annual covered payroll (c)	561,468	93,860
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c)	20.69 %	- %

The funded status of all the PSPRS health insurance premium benefit plans in the June 30, 2016, 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	20 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	7.50%
Projected salary increases	4%–8%
Wage growth	4%

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:

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

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

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, 2017, statute required active EORP members with an initial membership date on or before July 19, 2011, to contribute 13 percent of the members’ annual covered payroll for July 2016 through April 14, 2017 and 7 percent of the members' annual covered payroll for April 14, 2017 through June 2017. Statute required active EORP members with an initial membership date after July 19, 2011 to contribute 13 percent of the members' annual covered payroll and the City to contribute 23.5 percent of all active EORP members’ annual covered payroll. Also statute required the City to contribute 12.16 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 17.50 percent to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the City's required contributions to ASRS and EODCRS for these elected officials and judges. The City’s contributions to the pension plan for the year ended June 30, 2017, were

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

$3,514. No OPEB contributions were required or made for the year ended June 30, 2017.

During fiscal year 2017, the City paid for EORP pension contributions from the General Fund.

Pension liability - At June 30, 2017, 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	$	183,294
State's proportionate share of the EORP net pension liability associated with the City		37,845
Total	$	221,139

The net pension liability was measured as of June 30, 2016, 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, 2016, reflects a decrease in the investment rate of return actuarial assumption from 7.85 percent to 7.5 percent.

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, 2016. The City's proportion measured as of June 30, 2016 was 0.0194012 percent, which was a decrease of 0.0012756 from its proportion measured as of June 30, 2015.

The collective net pension liability measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City's proportionate share of the collective net pension liability as a result of these changes is not known.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2017, the City recognized pension expense for EORP of $33,390 and revenue of $10,099 for the City's proportionate share of the State's appropriation to EORP. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

EORP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,246	3,447
Investment earnings on pension plan investment	20,579	
Changes of assumptions or other inputs		
Net difference between projected and actual earnings on pension plan investments		$
Changes in proportion and differences between city contributions and proportionate share of contributions		11,655
City contributions subsequent to the measurement date	3,514	
Total	$ 28,339	$ 15,102

The $3,514 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, 2018**.** 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	$ 3,933
2018	3,397
2019	1,543
2020	850

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

EORP	
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Discount rate	7.50%
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, 2016, 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 EORP pension plan investments was determined to be 7.50 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 arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

EORP Asset Class	Target Allocation	Long-Term Expected Arithmetic Real 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%	

Discount rate - At June 30, 2016, the discount rate used to measure the EORP total pension liability was 3.86 percent, which was a decrease of 1.18 from the discount rate used as of June 30, 2015. 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 7.50 percent was applied to periods of projected benefit payments through the year ended June 30, 2027. A municipal bond rate of 2.85 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 30, 2016, was applied to periods of projected benefit payments after June 30, 2027.

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 3.68 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 (2.68percent) or one percentage point higher (4.68 percent) than the current rate:

EORP	1% Decrease (2.68%)	Current Discount Rate (3.68%)	1% Increase (4.68%)
The City's proportionate share of the net pension liability	$ 213,363	$ 183,294	$ 158,194

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2017

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Property taxes	$ 51,580	$ 52,757	$ 1,177
City sales taxes	3,017,735	2,923,049	(94,686)
License and permits	387,451	320,830	(66,621)
Intergovernmental revenue	1,499,881	1,479,260	(20,621)
Charges for services		2,468	2,468
Fines and forfeits	140,000	115,924	(24,076)
Investment income		1,498	1,498
Miscellaneous	117,210	82,037	(35,173)
Total revenues	5,213,857	4,977,823	(236,034)
EXPENDITURES			
General government:			
Administration		3,993	(3,993)
City manager	171,321	201,685	(30,364)
Mayor and Council	37,081	32,071	5,010
City clerk	140,665	133,911	6,754
Finance	173,910	169,368	4,542
Information technologies	91,232	87,497	3,735
Personnel		757	(757)
Planning and zoning		198,436	(198,436)
Public buildings		26,918	(26,918)
Non-departmental	1,417,311	599,962	817,349
Total general governments	2,031,520	1,454,598	576,922
Public safety:			
Magistrate Court	248,552	230,892	17,660
Fire department	820,914	717,446	103,468
Police department	1,807,064	1,623,938	183,126
Total public safety	2,876,530	2,572,276	304,254
Highways and streets:			
Public works	89,587	91,982	(2,395)
Total highways and streets	89,587	91,982	(2,395)

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2017

(CONTINUED)

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Economic development:			
Development services	216,220		216,220
Total economic development	216,220		216,220
Debt services		969,101	(969,101)
Total expenditures	5,213,857	5,087,957	125,900
Excess (deficiency) of revenues over (under) expenditures		(110,134)	(110,134)
OTHER FINANCING SOURCES (USES)			
Sales of capital assets		453,000	453,000
Total other financing sources (uses)		453,000	453,000
Net changes in fund balance		342,866	342,866
Fund balance, beginning of year		778,936	778,936
Fund balance, end of year	$	$ 1,121,802	$ 1,121,802

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - HOUSING FUND

YEAR ENDED JUNE 30, 2017

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Intergovernmental revenue	$ 1,237,816	$ 1,833,943	$ 596,127
Investment income		164	164
Rents	263,170	224,114	(39,056)
Miscellaneous		8,789	8,789
Total revenues	1,500,986	2,067,010	566,024
EXPENDITURES			
Redevelopment and housing	1,612,396	2,162,352	(549,956)
Total expenditures	1,612,396	2,162,352	(549,956)
Excess (deficiency) of revenues over (under) expenditures	(111,410)	(95,342)	16,068
Fund balance, beginning of year	233,831	164,552	(69,279)
Fund balance, end of year	$ 122,421	$ 69,210	$ (53,211)

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - YOUTH OPERATIONS CENTER FUND

YEAR ENDED JUNE 30, 2017

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Intergovernmental revenue	$ 113,000	$ 113,000	$
Total revenues	113,000	113,000	
EXPENDITURES			
Culture and recreation	113,000	113,001	(1)
Total expenditures	113,000	113,001	(1)
Excess (deficiency) of revenues over (under) expenditures		(1)	(1)
Fund balance (deficit), beginning of year		(100,766)	(100,766)
Fund balance (deficit), end of year	$	$ (100,767)	$ (100,767)

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - RICO FUND

YEAR ENDED JUNE 30, 2017

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Intergovernmental revenue	$ 177,071	$ 21,593	$ (155,478)
Total revenues	177,071	21,593	(155,478)
EXPENDITURES			
Public safety	177,071		177,071
Capital outlay			
Debt services		13,870	(13,870)
Total expenditures	177,071	13,870	163,201
Excess (deficiency) of revenues over (under) expenditures		7,723	7,723
Fund balance (deficit), beginning of year		(157,046)	(157,046)
Fund balance (deficit), end of year	$	$ (149,323)	$ (149,323)

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

NOTES TO BUDGETARY COMPARISON SCHEDULES

JUNE 30, 2017

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 that exceeded the budget; 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, 2017

ASRS

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
City's proportion of the net pension liability	0.01547%	0.0113%	0.0121%	Information
City's proportionate share of the net pension liability	$ 2,497,013	$ 1,757,071	$ 1,794,262	not available
City's covered payroll	$ 1,029,098	$ 1,062,705	$ 1,144,019	
City's proportionate share of the net pension liability as a percentage of its covered payroll	242.64 %	165.34 %	156.84 %	
Plan fiduciary net position as a percentage of the total pension liability	67.06 %	68.35 %	69.49 %	

EORP

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
City's proportion of the net pension liability	0.0194012%	0.02068%	0.02700%	Information
City's proportionate share of the net pension liability	$ 183,294	$ 161,579	$ 181,117	not available
State's proportionate share of the net pension liability associated with the City	37,845	50,374	55,532	
Total	$ 221,139	$ 211,953	$ 236,649	
City's covered payroll	$ 17,600	$ 18,400	$ 20,160	
City's proportionate share of the net pension liability as a percentage of its covered payroll	1,256.47 %	1,151.92 %	1,173.85 %	
Plan fiduciary net position as a percentage of the total pension liability	23.42 %	28.32 %	31.91 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

AGENT PENSION PLANS

JUNE 30, 2017

PSPRS - Police

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
Total pension liability:				
Service cost	$ 147,746	$ 125,289	$ 119,965	Information
Interest on the total pension liability	584,629	622,567	506,492	not available
Changes of benefit terms	(276,431)	-	320,282	
Differences between expected and actual experience in the measurement of the pension liability	302,447	(700,135)	(141,838)	
Changes of assumptions or other inputs	288,288	-	1,233,249	
Benefit payments, including refunds of employee contributions	(533,415)	(551,060)	(573,234)	
Net change in total pension liability	513,264	(503,339)	1,464,916	
Total pension liability—beginning	7,640,334	8,143,673	6,678,757	
Total pension liability—ending (a)	$ 8,153,598	$ 7,640,334	$ 8,143,673	
Plan fiduciary net position:				
Contributions—employer	$ 599,358	$ 412,532	$ 420,896	
Contributions—employee	91,595	65,326	66,539	
Net investment income	1,149	4,804	30,627	
Benefit payments, including refunds of employee contributions	(533,415)	(551,060)	(573,234)	
Administrative expense	(565)	(354)	(247)	
Other changes	219,560	341	1,423	
Net change in plan fiduciary net position	377,682	(68,411)	(53,996)	
Plan fiduciary net position—beginning	111,751	180,162	234,158	
Plan fiduciary net position—ending (b)	$ 489,433	$ 111,751	$ 180,162	
City's net pension liability (asset)—ending (a) – (b)	$ 7,664,165	$ 7,528,583	$ 7,963,511	
Plan fiduciary net position as a percentage of the total pension liability	6.00 %	1.46 %	2.21 %	
Covered payroll	$ 647,063	$ 587,388	$ 646,705	
City's net pension liability (asset) as a percentage of covered payroll	1,184.45 %	1,281.71 %	1,231.40 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS

JUNE 30, 2017

(CONTINUED)

PSPRS - Fire	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2016 (2015)	2014 through 2008
Total pension liability:				
Service cost	$ 19,410	$ 28,968	$ 30,423	Information
Interest on the total pension liability	267,942	265,218	210,418	not available
Changes of benefit terms	(53,755)	-	92,636	
Differences between expected and actual experience in the measurement of the pension liability	38,866	(40,483)	145,266	
Changes of assumptions or other inputs	117,102	-	451,472	
Benefit payments, including refunds of employee contributions	(214,223)	(214,223)	(248,574)	
Net change in total pension liability	175,342	39,480	681,641	
Total pension liability—beginning	3,510,684	3,471,204	2,789,563	
Total pension liability—ending (a)	$ 3,686,026	$ 3,510,684	$ 3,471,204	
Plan fiduciary net position:				
Contributions—employer	$ 102,548	$ 84,561	$ 44,137	
Contributions—employee	17,377	17,436	16,767	
Net investment income	7,602	49,864	183,267	
Benefit payments, including refunds of employee contributions	(214,223)	(214,223)	(248,574)	
Administrative expense	(1,494)	(1,594)	(1,476)	
Other changes	9	(1,256)	-	
Net change in plan fiduciary net position	(88,181)	(65,212)	(5,879)	
Plan fiduciary net position—beginning	1,347,271	1,412,483	1,418,362	
Plan fiduciary net position—ending (b)	$ 1,259,090	$ 1,347,271	$ 1,412,483	
City's net pension liability (asset)—ending (a) – (b)	$ 2,426,936	$ 2,163,413	$ 2,058,721	
Plan fiduciary net position as a percentage of the total pension liability	34.16 %	38.38 %	40.69 %	
Covered payroll	$ 93,860	$ 158,399	$ 166,427	
City's net pension liability (asset) as a percentage of covered payroll	2,585.70 %	1,365.80 %	1,237.01 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF PENSION CONTRIBUTIONS

JUNE 30, 2017

ASRS

	Reporting Fiscal Year				
	2017	2016	2015	2014	2014 through 2007
Statutorily required contribution	$ 124,512	$ 111,657	$ 113,145	$ 117,507	Information not available
City's contributions in relation to the statutorily required contribution	124,512	111,657	113,145	117,507	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	
City's covered payroll	$ 1,174,479	$ 1,029,098	$ 1,062,705	$ 1,144,019	
City's contributions as a percentage of covered payroll	10.60 %	10.85 %	10.65 %	10.27 %	

PSPRS - Police

	Reporting Fiscal Year				
	2017	2016	2015	2014	2014 through 2007
Actuarially determined contribution	$ 484,872	$ 572,629	$ 412,532	$ 420,896	Information not available
City's contributions in relation to the actuarially determined contribution	484,872	572,629	412,532	420,896	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	
City's covered payroll	$ 647,063	$ 746,054	$ 587,388	$ 646,705	
City's contributions as a percentage of covered payroll	74.93 %	76.75 %	70.23 %	65.08 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF PENSION CONTRIBUTIONS

JUNE 30, 2017

PSPRS - Fire

	Reporting Fiscal Year				
	2017	2016	2015	2014	2014 through 2007
Actuarially determined contribution	$ 74,717	$ 98,267	$ 84,561	$ 44,137	Information not available
City's contributions in relation to the actuarially determined contribution	74,717	98,267	84,561	44,137	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	
City's covered payroll	$ 93,860	$ 146,708	$ 158,399	$ 166,427	
City's contributions as a percentage of covered payroll	79.60 %	66.98 %	53.38 %	26.52 %	

EORP

	Reporting Fiscal Year				
	2017	2016	2015	2014	2014 through 2007
Statutorily required contribution	$ 3,514	$ 4,095	$ 4,350	$ 6,301	Information not available
City's contributions in relation to the statutorily required contribution	3,514	4,095	4,350	6,301	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	
City's covered payroll	$ 17,600	$ 19,200	$ 18,400	$ 20,160	
City's contributions as a percentage of covered payroll	19.97 %	21.33 %	23.64 %	31.25 %	

See accompanying notes to schedule.

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 2015 actuarial valuation	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	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% 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)

NOTE 2 - FACTORS THAT AFFECT TRENDS

In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increase and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS's changes in the net pension liability and related ratios. These changes also increased the PSPRS's required contributions beginning in fiscal year 2016 in the schedule of pension contributions.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS

JUNE 30, 2017

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)
6/30/17	$ 110,385	$ 226,563	$ 116,178	48.72 %	$ 561,468	20.69 %
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 %

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)
6/30/17	$ 89,661	$ 46,380	$ (43,281)	193.32 %	$ 93,860	0.00 %
6/30/16	87,257	67,079	(20,178)	130.08 %	157,793	(12.79)%
6/30/15	84,338	60,841	(23,497)	138.62 %	160,129	(14.67)%

See accompanying notes to schedule.

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.

SOUTH
TUCSON

THE PUEBLO WITHIN A CITY