CITY OF SOUTH TUCSON, ARIZONA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

CITY OF SOUTH TUCSON, ARIZONA

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

Table of Contents

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, 2018, 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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the financial statements, for the year ended June 30, 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. Our opinions are not modified with respect to these matters.

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 59 through 64, Schedule of Proportionate Share of the Net Pension/OPEB Liability on page 65, Schedule of Changes in the Net Pension/OPEB Liability and Related Ratios - Agent Plans on pages 66 and 67, Schedule of Pension/OPEB Contributions on pages 68 and 69 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, 2019, 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, 2019

SOUTH TUCSON

THE PUEBLO WITHIN A CITY

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

SOUTH
TUCSON

THE PUEBLO WITHIN A CITY

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, 2018.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2017-18 as follows.

- The City's total net position of governmental activities decreased by 1.5 million to 3.6 million primarily due to depreciation expense.
- General revenues from governmental activities accounted for $4.9 million in revenue, or 58 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for $3.6 million or 42 percent of total governmental activities revenues.
- The City had $10 million in expenses related to governmental activities, an increase of $1.1 million or 13 percent from the prior fiscal year.
- Among major funds, the General Fund had $5.3 million in revenues, which primarily consisted of City sales taxes and intergovernmental revenues. The total expenditures of the General Fund were $4.9 million. The General Fund's fund balance increased from $1.1 million to $1.3 million.
- The Housing Fund had $2 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Housing Fund were $2.1 million.
- The Housing Fund reported a fund balance decrease of $46,829.
- The total expenditures of the Youth Center Operations Fund were $110,141. The Youth Operations Center Fund reported a fund balance increase of $103,626 primarily due to the transfer in of revenue from the General Fund.

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) governmentwide 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.

Governmentwide financial statements. The governmentwide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a privatesector business. The accrual basis of accounting is used for the governmentwide 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 governmentwide 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 financerelated 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 governmentwide financial statements. However, unlike the governmentwide financial statements, governmental fund financial statements use the modified accrual basis of accounting and focus on nearterm 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 nearterm financing requirements.

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the governmentwide 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 governmentwide 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 $3.7 million at the current fiscal year end.

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

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2018 and June 30, 2017.

	Governmental Activities	
	2018	2017
Current and other assets	$ 1,966,263	$ 1,482,942
Capital assets, net	21,922,857	23,081,255
Total assets, net	23,889,120	24,564,197
Deferred outflows of resources	2,037,890	2,372,566
Current liabilities	507,277	415,889
Long-term liabilities	20,960,654	20,484,476
Total liabilities	21,467,931	20,900,365
Deferred inflows of resources	810,714	758,821
Net investment in capital assets	15,498,808	16,453,029
Restricted	761,473	839,190
Unrestricted	(12,611,916)	(12,014,642)
Total net position	$ 3,648,365	$ 5,277,577

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 increase of total liabilities in the amount of $567,566 is primarily due to growth in long term liabilities.
- The reduction of $1.2 million in capital assets is due to depreciation expense.
- The decrease in deferred outflows of resources in the amount of $334,676 is related to pensions.

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 $10.0 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

Statement of Activities - Governmental Activities

	Year Ended June 30, 2018	2017
Revenues:		
Program revenues:		
Charges for services	$ 749,129	$ 677,375
Operating grants and contributions	2,841,544	2,933,315
General revenues:		
Property taxes	55,023	52,757
City sales tax	3,324,508	2,923,049
State shared revenues	1,497,730	1,479,260
Investment income	14,492	1,662
Miscellaneous	26,389	380,557
Total revenues	8,508,815	8,447,975
Expenses:		
General government	1,572,303	1,583,039
Public safety	4,083,815	3,135,688
Highways and streets	1,148,045	1,100,092
Culture and recreation	110,141	113,001
Redevelopment and housing	2,478,811	2,191,576
Economic developments	3,787	4,016
Interest on long-term debt	603,846	759,087
Total expenses	10,000,748	8,886,499
Change in net position	(1,491,933)	(438,524)
Net position, beginning, restated	5,140,298	5,716,101
Net position, ending	$ 3,648,365	$ 5,277,577

- Total miscellaneous revenues decreased $354,168, or 93 percent mainly due to one time and special revenues that did not reoccur.
- Operating grants and contributions revenues decreased $91,771 due to decreased funding to the Housing Authority.
- Sales tax revenues increased $401,459 primarily due to a one-time realignment of the reporting and payment cycle from the Arizona Department of Revenue.

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.

	2018		2017	
Governmental Activities	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
General government	$ 1,572,303	$ (1,257,866)	$ 1,583,039	$ (1,248,512)
Public safety	4,083,815	(3,401,061)	3,135,688	(2,487,961)
Highways and streets	1,148,045	(697,936)	1,100,092	(653,970)
Culture and recreation	110,141	12,371	113,001	(1)
Redevelopment and housing	2,478,811	(457,950)	2,191,576	(122,262)
Economic development	3,787	(3,787)	4,016	(4,016)
Interest on long-term debt	603,846	(603,846)	759,087	(759,087)
Total	$ 10,000,748	$ (6,410,075)	$ 8,886,499	$ (5,275,809)

- Federal and state governments and charges for services subsidized certain governmental programs with revenues of $3.6 million.
- Net cost of governmental activities of $6.4 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 nearterm 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 $1,458,986, an increase of $391,933 or 37 percent.

The General Fund is the principal operating fund of the City. The increase in fund balance of $168,801 from $1.1 million as of fiscal year end was a result of departmental savings and sales tax collections.

The fund balance decreased $46,829 in the Housing Fund to $22,381 as of fiscal year end. Housing Fund expenditures decreased $108,603 from prior year due to completion of capital projects.

Fund balances in Youth Operations Center and RICO (non-major governmental funds) increased by a combined $250,089 due to revenue transfers in from the General Fund.

BUDGETARY HIGHLIGHTS

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

- The favorable variance of $375,553 in City sales tax revenues was due to a realignment of the reporting and payment cycle from the Arizona Department of Revenue.
- An unfavorable variance of $30,352 in revenues was a result of declining court fines and fees.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets As of year end, the City had invested $21.9 million in capital assets, net of accumulated depreciation. This amount represents a net decrease of $1.1 million. 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, 2018 and June 30, 2017.

	Governmental Activities	
	2018	2017
Capital assets - non-depreciable	$ 315,962	$ 315,962
Capital assets - depreciable, net	21,606,895	22,765,293
Total capital assets, net	$ 21,922,857	$ 23,081,255

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

Debt Administration At year end, the City had $7.1 million in longterm debt outstanding, excluding net pension liabilities and claims and judgment payables. The following table presents a summary of the City's outstanding longterm debt for the fiscal years ended June 30, 2018 and June 30, 2017.

	Governmental Activities	
	2018	2017
Revenue bonds payable	$ 6,381,587	$ 6,524,302
Obligations under capital leases	42,462	103,924
Other commitments	682,598	715,420
Total	$ 7,106,647	$ 7,343,646

Additional information on the City's long-term debt can be found in Notes 7 through 8.

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 2017-18. 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, 2018

	Governmental Activities
ASSETS	
Cash and investments	$ 683,373
Accounts receivable	57,758
Due from governmental entities	566,211
Inventory	7,790
Prepaid items	26,388
Restricted investments	608,758
Restricted cash held by other governments	15,985
Capital assets, not being depreciated	315,962
Capital assets, being depreciated, net	21,606,895
Total assets	23,889,120
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	2,037,890
LIABILITIES	
Accounts payable	369,956
Accrued payroll and employee benefits	82,601
Customer deposits	32,009
Unearned revenue	22,711
Noncurrent liabilities:	
Due within one year	399,529
Due in more than one year	20,561,125
Total liabilities	21,467,931
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	810,714
NET POSITION	
Net investment in capital assets	15,498,808
Restricted for:	
Public safety	30,336
Highways and streets	99,998
Redevelopment housing	22,381
Debt service	608,758
Unrestricted (deficit)	(12,611,916)
Total net position	$ 3,648,365

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
General government	$ 1,572,303	$ 313,095	$ 1,342	$ (1,257,866)
Public safety	4,083,815	90,834	591,920	(3,401,061)
Highways and streets	1,148,045		450,109	(697,936)
Culture and recreation	110,141	9,512	113,000	12,371
Redevelopment and housing	2,478,811	335,688	1,685,173	(457,950)
Economic development	3,787			(3,787)
Interest on long-term debt	603,846			(603,846)
Total governmental activities	$ 10,000,748	$ 749,129	$ 2,841,544	(6,410,075)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	55,023
City sales taxes	3,324,508
State shared sales tax	542,226
State shared vehicle license tax	250,414
Urban revenue sharing	705,090
Investment earnings	14,492
Miscellaneous	26,389
Total general revenues	4,918,142
Change in net position	(1,491,933)
Net position, July 1, 2017, restated	5,140,298
Net position, June 30, 2018	$ 3,648,365

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Housing Fund	Youth Operations Center Fund
ASSETS			
Cash and investments	$ 554,743	$ 24,640	$ 60,307
Investments - restricted	608,758		
Cash held by other governments			
Accounts receivable	11,690	7,805	
Due from governmental entities	435,966		
Due from other funds		34,296	
Inventory		7,790	
Prepaid items		26,388	
Total assets	$ 1,611,157	$ 100,919	$ 60,307
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 215,011	$ 40,747	$ 57,448
Accrued payroll and employee benefits	63,934	6,718	
Due to other funds	34,296		
Customer deposits	936	31,073	
Unearned revenue	6,377		
Total liabilities	320,554	78,538	57,448
Fund balances (deficits):			
Nonspendable		34,178	
Restricted	608,758		2,859
Unassigned	681,845	(11,797)	
Total fund balances (deficits)	1,290,603	22,381	2,859
Total liabilities and fund balances	$ 1,611,157	$ 100,919	$ 60,307

See accompanying notes to financial statements.

Grants Fund	Non-Major Governmental Funds	Total Governmental Funds
$ 23,757	$ 19,926	$ 683,373
		608,758
	15,985	15,985
65,457		84,952
12,085	90,966	539,017
		34,296
		7,790
		26,388
$ 101,299	$ 126,877	$ 2,000,559
$ 50,838	$ 5,912	$ 369,956
3,791	8,158	82,601
		34,296
		32,009
16,334		22,711
70,963	14,070	541,573
		34,178
30,336	112,807	754,760
		670,048
30,336	112,807	1,458,986
$ 101,299	$ 126,877	$ 2,000,559

CITY OF SOUTH TUCSON, ARIZONA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

Fund balances - total governmental funds		$ 1,458,986
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	$ 48,042,456	
Less accumulated depreciation	(26,119,599)	21,922,857
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		1,227,176
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	165,117	
Net pension liabilities	13,643,890	
Revenue bonds payable	6,381,587	
Capital leases	42,462	
Claims and judgments	45,000	
Other commitments	682,598	(20,960,654)
Net position of governmental activities		$ 3,648,365

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2018

	General Fund	Housing Fund	Youth Operations Center Fund
REVENUES			
City sales taxes	$ 3,324,508		
Property taxes	55,023		
Licenses and permits	313,095		
Intergovernmental	1,497,730	$ 1,685,173	$ 113,000
Charges for services	11,948		
Fines and forfeits	89,648		
Investment earnings	14,319	173	
Rents		317,861	
Miscellaneous	33,154	3,713	
Total revenues	5,339,425	2,006,920	113,000
EXPENDITURES			
Current:			
General government	1,350,946		
Public safety	2,538,186		
Highways and streets	95,529		
Culture and recreation			110,141
Redevelopment and housing		2,053,749	
Economic development			
Capital outlay	68,579		
Debt service:			
Principal retirement	392,649		
Interest and fiscal charges	447,659		
Total expenditures	4,893,548	2,053,749	110,141
Excess (deficiency) of revenues over (under) expenditures	445,877	(46,829)	2,859
OTHER FINANCING SOURCES (USES)			
Transfers in	688,702		100,767
Transfers out	(965,778)		
Total other financing sources (uses)	(277,076)		100,767
Net change in fund balances	168,801	(46,829)	103,626
Fund balances (deficits), July 1, 2017	1,121,802	69,210	(100,767)
Fund balances (deficits), June 30, 2018	$ 1,290,603	$ 22,381	$ 2,859

See accompanying notes to financial statements.

Grants Fund	Non-major Governmental Funds	Total Governmental Funds
		$ 3,324,508
		55,023
		313,095
$ 472,295	$ 687,626	4,455,824
		11,948
		89,648
		14,492
		317,861
	6,099	42,966
472,295	693,725	8,625,365
		1,350,946
315,347	14,213	2,867,746
	452,580	548,109
		110,141
	224,033	2,277,782
	3,787	3,787
155,169	10,865	234,613
		392,649
		447,659
470,516	705,478	8,233,432
1,779	(11,753)	391,933
27,728	211,433	1,028,630
(62,852)		(1,028,630)
(35,124)	211,433	
(33,345)	199,680	391,933
63,681	(86,873)	1,067,053
$ 30,336	$ 112,807	$ 1,458,986

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, 2018

Net change in fund balances - total governmental funds		$ 391,933
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	$ 234,613	
Depreciation expense	(1,393,011)	(1,158,398)
Pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension/OPEB liability is measured a year before the City's report date. Pension/OPEB expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.		
Pension/OPEB contributions	576,497	
Pension/OPEB expense	(1,698,269)	(1,121,772)
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	61,462	
Other commitments	32,822	
Revenue bond payable	175,000	269,284
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	(32,285)	
Claims and judgments	144,000	
Compensated absences	15,305	127,020
Change in net position of governmental activities		$(1,491,933)

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Pension Trust
ASSETS	
Cash and cash equivalents	$ 95,787
Total assets	95,787
NET POSITION	
Held in trust	$ 95,787

See accompanying notes to financial statements.

CITY OF SOUTH TUCSON, ARIZONA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2018

		Pension Trust
ADDITIONS:		
Contributions	$	25,857
Total additions		25,857
DEDUCTIONS:		
Benefits		55,505
Total deductions		55,505
Change in net position		(29,648)
Net position, July 1, 2017		125,435
Net position, June 30, 2018	$	95,787

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.

For the year ended June 30, 2018, the County implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Grants Fund - This fund accounts for various grants program activities.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables and Payables

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

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

G. Property Tax Calendar

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

O. Deferred Outflows and Inflows of Resources

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

P. Post Employment Benefits

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

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*.

	Governmental activities
Net position as previously reported at June 30, 2017	$ 5,277,577
Prior period adjustment - implementation of GASB 75:	
Net OPEB asset (measurement date as of June 30, 2016)	13,383
Net OPEB liability (measurement date of June 30, 2016)	(150,662)
Total prior period adjustment	(137,279)
Net position as restated, July 1, 2017	$ 5,140,298

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Expenditures Over Budget - At June 30, 2018, the City had expenditures in funds that exceeded the budgets; however, this does not constitute a violation of any legal provisions.

NOTE 4 - FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

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	Grants Fund	Non-major Governmental Fund
Fund Balances:					
Nonspendable:					
Inventory		$ 7,790			
Prepaid items		26,388			
Restricted:					
Public safety				$ 30,336	
Highways and streets					$ 99,998
Culture and recreation			$ 2,859		12,809
Debt service	$ 608,758				
Unassigned	681,845	(11,797)			
Total fund balances	$ 1,290,603	$ 22,381	$ 2,859	$ 30,336	$ 112,807

NOTE 5 - 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, 2018, the carrying amount of deposits was $795,145 and the bank balance was $1,031,852. As of June 30, 2018, 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	$ 608,758
State Treasurer's investment pool 5		26,721
Total		$ 635,479

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 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows.

Governmental activities:	July 1, 2017	Increases	Decreases	June 30, 2018
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	12,572,372	$ 92,429		12,664,801
Infrastructure	28,556,406			28,556,406
Machinery, equipment and vehicles	3,392,355	142,184		3,534,539
Total capital assets being depreciated	47,491,881	234,613		47,726,494
Less accumulated depreciation for:				
Land improvements	(1,414,589)	(56,125)		(1,470,714)
Buildings and improvements	(7,729,423)	(360,020)		(8,089,443)
Infrastructure	(13,046,158)	(821,533)		(13,867,691)
Machinery, equipment and vehicles	(2,536,418)	(155,333)		(2,691,751)
Total accumulated depreciation	(24,726,588)	(1,393,011)		(26,119,599)
Total capital assets being depreciated, net	22,765,293	(1,158,398)		21,606,895
Governmental activities capital assets, net	$ 23,081,255	$ (1,158,398)		$ 21,922,857

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

Governmental activities:	
General government	$ 317,773
Public safety	183,243
Highways and streets	600,238
Redevelopment and housing	291,757
Total depreciation expense - governmental activities	$ 1,393,011

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2018:

Governmental activities:	July 1, 2017	Additions	Reductions	June 30, 2018	Due Within 1 Year
Revenue bonds payable	$ 7,170,000		$ (175,000)	$ 6,995,000	$ 185,000
Deferred bond discount	(645,698)		32,285	(613,413)	
Net bonds payable	6,524,302		(142,715)	6,381,587	185,000
Capital leases payable	103,924		(61,462)	42,462	42,462
Compensated absences payable	180,422	$ 84,170	(99,475)	165,117	93,752
Net pension liabilities	12,771,408	872,482		13,643,890	
Claims and judgments	189,000		(144,000)	45,000	45,000
Other commitments	715,420		(32,822)	682,598	33,315
Governmental activities long-term liabilities	$ 20,484,476	$ 956,652	$ (480,474)	$ 20,960,654	$ 399,529

Revenue bonds currently outstanding are as follows:

	Original Amount Issued	Interest Rate	Remaining Maturities	Outstanding Principle June 30, 2018	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	$ 6,995,000	$ 185,000
Total				$ 6,995,000	$ 185,000

The City has pledged future excise taxes and state shared revenues to repay outstanding revenue bonds of $7 million as of June 30, 2018. 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 $3,866,734 and the total principal and interest paid on the bonds was $600,831 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 7 - 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
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	167,876	6,342
Total	$ 6,995,000	$ 5,050,735	$ 682,598	$ 101,368

NOTE 8 - 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	(256,642)
Carrying value	$ 39,483

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2018, were as follows:

Year ending June 30, 2019	$ 43,148
Total minimum payments required	43,148
Less amount representing interest	(686)
Present value of minimum lease payments	$ 42,462

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 $18,895 for the current fiscal year. The future minimum rental payments required under the operating leases at the year end was $18,724 due during the year ending June 30, 2019.

NOTE 9 - INTERFUND BALANCES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018, consisted of $34,296 interfund balance due from General Fund to Housing Fund.

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 10 - 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.

NOTE 11 - SUBSEQUENT EVENT

Subsequent events have been evaluated through March 27, 2019, which was the date the City's financial statements were issued.

NOTE 12 - 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 13 - 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, 2018, the City reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Government Activities
Net pension and OPEB liabilities	$ 13,643,890
Deferred outflows of resources related to pensions and OPEB	2,037,890
Deferred inflows of resources related to pensions and OPEB	810,714
Pension and OPEB expense	1,698,269

The City did not disclose the OPEB plan separately because of its insignificance to the City's financial statements. The City's accrued payroll and employee benefits includes $6,133 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2018. Also, the City reported $576,497 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

A. Arizona State Retirement System

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

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.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Health insurance premium benefits are availaable to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from $150 per month to $260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multipled by a vesting fraction based on completed years of service.

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

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and statue required the city to contribute at the actuarially determined rate of 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. The City's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018, were $102,551, $4,140, and $1,505, respectively.

During fiscal year 2018, the City paid for ASRS and OPEB contributions from the General Fund.

Liability - At June 30, 2018, the City reported a liability of $1,831,619 for its proportionate share of the ASRS' net pension/OPEB liability.

The net asset and net liability was measured as of June 30, 2017. The total liability used to calculate the net asset and net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The City's proportion of the net asset and net liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The City's proportion measured as of June 30, 2017 was 0.01177 percent, which was a decrease of 0.00370 percent from its proportion measured as of June 30, 2016.

The net asset and net liabilities measured as of June 30, 2018, 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 asset and net liabilities as a result of these changes is not known.

Expense - For the year ended June 30, 2018, the City recognized pension expense for ASRS of $37,789.

Deferred Outflows/Inflows of Resources - At June 30, 2018, 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		$ 54,980
Changes of assumptions or other inputs	$ 79,635	54,826
Net difference between projected and actual earnings on pension plan investments	13,164	7,463
Changes in proportion and differences between City contributions and proportionate share of contributions	258,717	422,525
City contributions subsequent to the measurement date	108,196	
Total	$ 459,712	$ 539,794

The $108,196 reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as and increase of the net asset or a reducion of the net liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ending June 30,	
2019	$ (56,718)
2020	(70,503)
2021	(17,010)
2022	(44,047)

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

ASRS	
Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

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, 2012.

The long-term expected rate of return on ASRS plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of 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/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the City's Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 8 percent, as well as what the City's proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (7 percent) or 1 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/OPEB liability	$ 2,368,437	$ 1,831,619	$ 1,382,821

Plan Fiduciary Net Position - Detailed information about the plans' 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 and cost-sharing multiple-employer defined benefit pension plan and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the Provisions of A.R.S. Title 38, Chapter 5, Article 4.

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 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

PSPRS	Initial membership date: Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
Retirement and Disability:		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
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%	1.5% or 2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
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. The adjustments are based on inflation for PSPRS and excess investment earnings for CORP. 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.

Health insurance premium benefits are availaable to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from $150 per month to $260 per month depending on the age of the member and dependents.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Employees Covered by Benefit Terms - At June 30, 2018, the following employees were covered by the agent plans' benefit terms:

	PSPRS - Police	PSPRS - Fire
Inactive employees or beneficiaries currently receiving benefits	7	12
Inactive employees entitled to but not yet receiving benefits	1	1
Active employees	2	12
Total	10	25

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, 2018, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS - Police	PSPRS - Fire
Active members—Pension	7.65%	7.65%
City		
Pension	81.95%	161.32%
Health insurance premium benefit	1.82%	0%

The City’s contributions to the plans for the year ended June 30, 2018, were:

	Pension	Health Insurance Premium Benefit
PSPRS - Police	$ 375,977	$ 22,313
PSPRS - Fire	66,111	0

During fiscal year 2018, the City paid for PSPRS and OPEB contributions from the General Fund.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Liability - At June 30, 2018, the City reported the following assets and liabilities:

	Net Pension (Asset) Liability	Net OPEB (Asset) Liability
PSPRS - Police	$ 8,836,486	$ 120,042
PSPRS - Fire	2,649,059	(40,142)

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating moratlity, withdrawl, disibility, and retirment assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the City's PSPRS net pension liabilities as a result of the refunds is not known.

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

PSPRS - Pension	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5% for pension/not applicable for OPEB
Price inflation	2.5% for pension/not applicable for OPEB
Permanent benefit increase	Included for pension/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The long-term expected rate of return on PSPRS plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.25%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount Rate - At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liability was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rate equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net Pension/OPEB Liability - Changes in the net pension/OPEB liability are as follows for the year ended June 30, 2018:

PSPRS - Police:	Pension Increase (Decrease)			Health Insurance Premium Benefit Increase (Decrease)		
	Total Position Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) – (b)
Balances at June 30, 2017	$ 8,153,598	$ 489,433	$ 7,664,165	$ 239,441	$ 96,128	$ 143,313
Changes for the year:						
Service cost	128,576		128,576	3,481		3,481
Interest on the total liability	595,757		595,757	17,730		17,730
Changes of benefit terms	129,091		129,091	594		594
Differences between expected and actual experience in the measurement of the liability	357,248		357,248	(16,210)		(16,210)
Changes of assumptions or other inputs	549,517		549,517	(8,910)		(8,910)
Contributions—employer		479,505	(479,505)		8,711	(8,711)
Contributions—employee		66,858	(66,858)			
Net investment income		60,059	(60,059)		11,346	(11,346)
Benefit payments, including refunds of employee contributions	(548,916)	(548,916)		(9,563)	(9,563)	
Administrative expense		(931)	931		(101)	101
Other changes		(17,623)	17,623			
Net changes	1,211,273	38,952	1,172,321	(12,878)	10,393	(23,271)
Balances at June 30, 2018	$ 9,364,871	$ 528,385	$ 8,836,486	$ 226,563	$ 106,521	$ 120,042

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

PSPRS - Fire:	Pension Increase (Decrease)			Health Insurance Premium Benefit Increase (Decrease)		
	Total Position Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)	Total Position Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
Balances at June 30, 2017	$ 3,686,026	$ 1,259,090	$ 2,426,936	$ 67,079	$ 80,462	$ (13,383)
Changes for the year:						
Service cost	20,508		20,508	441		441
Interest on the total liability	267,833		267,833	4,930		4,930
Changes of benefit terms	35,564		35,564			
Differences between expected and actual experience in the measurement of the liability	(47,375)		(47,375)	(22,612)		(22,612)
Changes of assumptions or other inputs	168,658		168,658	(338)		(338)
Contributions—employer		74,718	(74,718)			
Contributions—employee		10,114	(10,114)			
Net investment income		139,853	(139,853)		9,262	(9,262)
Benefit payments, including refunds of employee contributions	(250,354)	(250,354)		(3,120)	(3,120)	
Administrative expense		(1,637)	1,637		(82)	82
Other changes		17	(17)			
Net changes	194,834	(27,289)	222,123	(20,699)	6,060	(26,759)
Balances at June 30, 2018	$ 3,880,860	$ 1,231,801	$ 2,649,059	$ 46,380	$ 86,522	$ (40,142)

Sensitivity of the City's Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate - The following table presents the City's net pension/OPEB (asset) liabilities calculated using the discount rate of 7.4 percent, as well as what the City's net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PSPRS - Police:			
Net pension liability	$ 9,926,682	$ 8,836,486	$ 7,930,209
Net OPEB (asset) liability	145,328	120,042	98,863
PSPRS - Fire:			
Net pension liability	3,119,533	2,649,059	2,261,445
Net OPEB (asset) liability	(35,496)	(40,142)	(44,100)

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Expense - For the year ended June 30, 2018, the City recognized the following pension and OPEB expense:

	Pension Expense	OPEB Expense
PSPRS - Police	$ 1,224,712	$ (678)
PSPRS - Fire	396,184	(17,070)

Deferred Outflows/Inflows of Resources - At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

PSPRS - Police	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 420,966	$ 172,171		$ 12,425
Changes of assumptions	558,205			6,830
Net difference between projected and actual earnings on pension plan investments	(5,792)		$ (3,338)	
City contributions subsequent to the measurement date	375,977		22,313	
Total	$ 1,349,356	$ 172,171	$ 18,975	$ 19,255

PSPRS - Fire	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 10,817		$ 6,908
Changes of assumptions	$ 38,511			103
Net difference between projected and actual earnings on pension plan investments	79,238	56,338	$ (2,678)	
City contributions subsequent to the measurement date	66,111			
Total	$ 183,860	$ 67,155	$ (2,678)	$ 7,011

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

	PSPRS - Police		PSPRS - Fire	
Year ending June 30,	Pension	Health	Pension	Health
2019	$ 198,342	$ (6,699)	$ 32,549	$ (7,680)
2020	373,019	(6,699)	19,841	(669)
2021	231,193	(6,699)	8,541	(669)
2022	(1,346)	(2,496)	(10,337)	(671)

C. Elected Officials Retirement Plan

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

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

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

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on 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.

Health insurance premium benefits are availaable to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from $150 per month to $260 per month depending on the age of the member and dependents. For members with 5 to 7 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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, 2018, statute required active EORP members to contribute 7 or 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 and health insurance premium benefit plans for the year ended June 30, 2018, were $3,657 and $243, respectively.

During fiscal year 2018, the City paid for EORP pension contributions from the General Fund.

Liability - At June 30, 2018, 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	$	246,826
State's proportionate share of the EORP net pension liability associated with the City		54,095
Total	$	300,921

The net asset and net liability was measured as of June 30, 2017, and the total liability used to calculate the net asset and net liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for 5-year period ended June 30, 2016, including decreasing the investment rate of return to from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawl, disability, and retirement assumptions. The total pension liability also reflects changes-of-benefit terms for a court decision that increased cost-of-living adjustments for retirees and decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the net pension liability measured as of June 30, 2018, because of refunds of excess member contributions. The change in the City's net pension liability as a result of refunds is not known.

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, 2017. The City's proportion of the net OPEB asset was based on the City's present value of benefits relative to the total of all participating employers' present value of benefits for the year ended June 30, 2017. The City's proportion measured as of June 30, 2017 was 0.02192 percent, which was an increase of 0.0025188 percent from its proportion measured as of June 30, 2016.

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Expense - For the year ended June 30, 2018, the City recognized pension and OPEB expense for EORP of $77,159 and $20,735, respectively, and revenue $19,059 for the City's proportionate share of the State's appropriation to EORP and the designated court fees.

Deferred outflows/inflows of resources - At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

EORP	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 2,315	$ 986	
Investment earnings on pension plan investment				
Changes of assumptions or other inputs	$ 1,637			$ 1,719
Net difference between projected and actual earnings on pension plan investments	10,426		279	
Changes in proportion and differences between city contributions and proportionate share of contributions	11,437	1,294		
City contributions subsequent to the measurement date	3,657		243	
Total	$ 27,157	$ 3,609	$ 1,508	$ 1,719

The amounts reported as deferred outflows of resources related to EORP pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019**.** Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions and OPEB will be recognized as expenses as follows:

Year ending June 30,	Pension	Health Insurance Premium Benefit
2019	$ 16,292	$ 480
2020	3,695	(75)
2021	433	(430)
2022	(529)	(429)

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

EORP	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price Inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on EORP plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

NOTE 13 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount rates - At June 30, 2017, the discount rates used to measure the EORP total pension liability and total OPEB liability was 3.91 percent and 7.4 percent, respectively, which was an increase of 0.23 for pension and a decrease of 0.1 for OPEB from the discount rates used as of June 30, 2016. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the 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 7.4 percent was applied to periods of projected benefit payments through the year ended June 30, 2026. A municipal bond rate of 3.56 percent obtained from the Fidelity 20-year Muncipal GO AA Index as of June 30, 2017, was applied to periods of projected benefit payments after June 30, 2026. The OPEB plan's fiduciary net pension was projected to be avaailable to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of Projected benefit payments to determine the total OPEB liability.

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

EORP	1% Decrease	Current Discount Rate	1% Increase
Rate - Pension	2.91%	3.91%	4.91%
City's proportionate share of the net pension liability	$315,524	$267,107	$227,620
Rate - OPEB	6.4%	7.4%	8.4%
City's proportionate share of the net OPEB (asset)	$(17,579)	$(20,281)	$(22,613)

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2018

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
City sales taxes	$ 2,948,955	$ 3,324,508	$ 375,553
Property taxes	51,580	55,023	3,443
License and permits	306,110	313,095	6,985
Intergovernmental	1,507,620	1,497,730	(9,890)
Charges for services	2,193	11,948	9,755
Fines and forfeits	120,000	89,648	(30,352)
Investment earnings		14,319	14,319
Miscellaneous	49,760	33,154	(16,606)
Total revenues	4,986,218	5,339,425	353,207
EXPENDITURES			
General government:			
City manager	205,628	269,388	(63,760)
Mayor and Council	36,066	30,599	5,467
City clerk	137,628	148,685	(11,057)
Finance	180,273	175,309	4,964
Information technologies	88,564	80,495	8,069
Public buildings	22,162	25,133	(2,971)
Non-departmental	635,576	560,121	75,455
Total general governments	1,305,897	1,289,730	16,167
Public safety:			
Magistrate Court	228,392	233,329	(4,937)
Fire department	677,103	701,091	(23,988)
Police department	1,731,179	1,603,766	127,413
Total public safety	2,636,674	2,538,186	98,488
Highways and streets:			
Public works	93,503	95,529	(2,026)
Total highways and streets	93,503	95,529	(2,026)

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2018

(CONTINUED)

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Economic development:			
Development services	181,855	129,795	52,060
Total economic development	181,855	129,795	52,060
Debt services	768,289	840,308	(72,019)
Total expenditures	4,986,218	4,893,548	92,670
Excess (deficiency) of revenues over (under) expenditures		445,877	445,877
OTHER FINANCING SOURCES (USES)			
Transfer in		688,702	688,702
Transfer out		(965,778)	(965,778)
Total other financing sources (uses)		(277,076)	(277,076)
Net changes in fund balance		168,801	168,801
Fund balance, beginning of year	1,121,802	1,121,802	
Fund balance, end of year	$ 1,121,802	$ 1,290,603	$ 168,801

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA
BUDGETARY COMPARISON SCHEDULE - HOUSING FUND
YEAR ENDED JUNE 30, 2018

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Intergovernmental	$ 1,179,295	$ 1,685,173	$ 505,878
Investment earnings		173	173
Rents	56,075	317,861	261,786
Miscellaneous		3,713	3,713
Total revenues	1,235,370	2,006,920	771,550
EXPENDITURES			
Redevelopment and housing	1,252,256	2,053,749	(801,493)
Total expenditures	1,252,256	2,053,749	(801,493)
Excess (deficiency) of revenues over (under) expenditures	(16,886)	(46,829)	(29,943)
Fund balance, beginning of year	69,210	69,210	
Fund balance, end of year	$ 52,324	$ 22,381	$ (29,943)

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - CDBG FUND

YEAR ENDED JUNE 30, 2018

	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	110,141	$ 2,859
Total expenditures	113,000	110,141	2,859
Excess (deficiency) of revenues over (under) expenditures		2,859	2,859
OTHER FINANCING SOURCES (USES)			
Transfer in		100,767	100,767
Total other financing uses		100,767	100,767
Net changes in fund balance		103,626	103,626
Fund balance (deficit), beginning of year	(100,767)	(100,767)	
Fund balance (deficit), end of year	$ (100,767)	$ 2,859	$ 103,626

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

BUDGETARY COMPARISON SCHEDULE - GRANTS FUND

YEAR ENDED JUNE 30, 2018

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Intergovernmental	$ 494,306	$ 472,295	$ (22,011)
Total revenues	494,306	472,295	(22,011)
EXPENDITURES			
Public safety	219,571	315,347	(95,776)
Capital outlay	270,047	155,169	114,878
Total expenditures	489,618	470,516	19,102
Excess (deficiency) of revenues over (under) expenditures	4,688	1,779	(2,909)
OTHER FINANCING SOURCES (USES)			
Transfer in		27,728	27,728
Transfer out		(62,852)	(62,852)
Total other financing uses		(35,124)	(35,124)
Net changes in fund balance	4,688	(33,345)	(38,033)
Fund balance (deficit), beginning of year	63,681	63,681	
Fund balance (deficit), end of year	$ 68,369	$ 30,336	$ (38,033)

See accompanying notes to schedule.

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/OPEB LIABILITY

JUNE 30, 2018

ASRS

	Reporting Fiscal Year (Measurement Date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
City's proportion of the net pension liability	0.01177%	0.01547%	0.0113%	0.0121%	Information
City's proportionate share of the net pension liability	$ 1,831,619	$ 2,497,013	$ 1,757,071	$ 1,794,262	not available
City's covered payroll	$ 1,174,479	$ 1,029,098	$ 1,062,705	$ 1,144,019	
City's proportionate share of the net pension liability as a percentage of its covered payroll	155.95 %	242.64 %	165.34 %	156.84 %	
Plan fiduciary net position as a percentage of the total pension liability	69.92 %	67.06 %	68.35 %	69.49 %	

EORP

	Reporting Fiscal Year (Measurement Date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
City's proportion of the net pension liability	0.0194012%	0.0194012%	0.02068%	0.02700%	Information
City's proportionate share of the net pension liability	$ 246,826	$ 183,294	$ 161,579	$ 181,117	not available
State's proportionate share of the net pension liability associated with the City	54,095	37,845	50,374	55,532	
Total	$ 300,921	$ 221,139	$ 211,953	$ 236,649	
City's covered payroll	$ 17,600	$ 19,200	$ 18,400	$ 20,160	
City's proportionate share of the net pension liability as a percentage of its covered payroll	1,709.78 %	1,151.77 %	1,151.92 %	1,173.85 %	
Plan fiduciary net position as a percentage of the total pension liability	49.21 %	23.42 %	28.32 %	31.91 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF CHANGES IN THE NET PENSION/OPEB LIABILITY AND RELATED RATIOS

- AGENT PLANS

JUNE 30, 2018

PSPRS - Police	Reporting Fiscal Year (Measurement Date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
Total pension liability:					
Service cost	$ 128,576	$ 147,746	$ 125,289	$ 119,965	Information
Interest on the total pension liability	595,757	584,629	622,567	506,492	not available
Changes of benefit terms	129,091	(276,431)	-	320,282	
Differences between expected and actual experience in the measurement of the pension liability	357,248	302,447	(700,135)	(141,838)	
Changes of assumptions or other inputs	549,517	288,288	-	1,233,249	
Benefit payments, including refunds of employee contributions	(548,916)	(533,415)	(551,060)	(573,234)	
Net change in total pension liability	1,211,273	513,264	(503,339)	1,464,916	
Total pension liability—beginning	8,153,598	7,640,334	8,143,673	6,678,757	
Total pension liability—ending (a)	$ 9,364,871	$ 8,153,598	$ 7,640,334	$ 8,143,673	
Plan fiduciary net position:					
Contributions—employer	$ 479,505	$ 599,358	$ 412,532	$ 420,896	
Contributions—employee	66,858	91,595	65,326	66,539	
Net investment income	60,059	1,149	4,804	30,627	
Benefit payments, including refunds of employee contributions	(548,916)	(533,415)	(551,060)	(573,234)	
Administrative expense	(931)	(565)	(354)	(247)	
Other changes	(17,623)	219,560	341	1,423	
Net change in plan fiduciary net position	38,952	377,682	(68,411)	(53,996)	
Plan fiduciary net position—beginning	489,433	111,751	180,162	234,158	
Plan fiduciary net position—ending (b)	$ 528,385	$ 489,433	$ 111,751	$ 180,162	
City’s net pension liability (asset)—ending (a) – (b)	$ 8,836,486	$ 7,664,165	$ 7,528,583	$ 7,963,511	
Plan fiduciary net position as a percentage of the total pension liability	5.64 %	6.00 %	1.46 %	2.21 %	
Covered payroll	$ 647,063	$ 746,054	$ 587,388	$ 646,705	
City’s net pension liability (asset) as a percentage of covered payroll	1,365.63 %	1,027.29 %	1,281.71 %	1,231.40 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF CHANGES IN THE NET PENSION/OPEB LIABILITY AND RELATED RATIOS

- AGENT PLANS

JUNE 30, 2018

(CONTINUED)

PSPRS - Fire	Reporting Fiscal Year (Measurement Date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2016 (2015)	2014 through 2008
Total pension liability:					
Service cost	$ 20,508	$ 19,410	$ 28,968	$ 30,423	Information
Interest on the total pension liability	267,833	267,942	265,218	210,418	not available
Changes of benefit terms	35,564	(53,755)	-	92,636	
Differences between expected and actual experience in the measurement of the pension liability	(47,375)	38,866	(40,483)	145,266	
Changes of assumptions or other inputs	168,658	117,102	-	451,472	
Benefit payments, including refunds of employee contributions	(250,354)	(214,223)	(214,223)	(248,574)	
Net change in total pension liability	194,834	175,342	39,480	681,641	
Total pension liability—beginning	3,686,026	3,510,684	3,471,204	2,789,563	
Total pension liability—ending (a)	$ 3,880,860	$ 3,686,026	$ 3,510,684	$ 3,471,204	
Plan fiduciary net position:					
Contributions—employer	$ 74,718	$ 102,548	$ 84,561	$ 44,137	
Contributions—employee	10,114	17,377	17,436	16,767	
Net investment income	139,853	7,602	49,864	183,267	
Benefit payments, including refunds of employee contributions	(250,354)	(214,223)	(214,223)	(248,574)	
Administrative expense	(1,637)	(1,494)	(1,594)	(1,476)	
Other changes	17	9	(1,256)	-	
Net change in plan fiduciary net position	(27,289)	(88,181)	(65,212)	(5,879)	
Plan fiduciary net position—beginning	1,259,090	1,347,271	1,412,483	1,418,362	
Plan fiduciary net position—ending (b)	$ 1,231,801	$ 1,259,090	$ 1,347,271	$ 1,412,483	
City’s net pension liability (asset)—ending (a) – (b)	$ 2,649,059	$ 2,426,936	$ 2,163,413	$ 2,058,721	
Plan fiduciary net position as a percentage of the total pension liability	31.74 %	34.16 %	38.38 %	40.69 %	
Covered payroll	$ 93,860	$ 146,708	$ 158,399	$ 166,427	
City’s net pension liability (asset) as a percentage of covered payroll	2,822.35 %	1,654.26 %	1,365.80 %	1,237.01 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF PENSION/OPEB CONTRIBUTIONS

JUNE 30, 2018

ASRS

	Reporting Fiscal Year					
	2018	2017	2016	2015	2014	2013 through 2009
Statutorily required contribution	$ 108,196	$ 124,512	$ 111,657	$ 113,145	$ 117,507	Information not available
City's contributions in relation to the statutorily required contribution	108,196	124,512	111,657	113,145	117,507	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 992,624	$ 1,174,479	$ 1,029,098	$ 1,062,705	$ 1,144,019	
City's contributions as a percentage of covered payroll	10.90 %	10.60 %	10.85 %	10.65 %	10.27 %	

PSPRS - Police

	Reporting Fiscal Year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 375,977	$ 484,872	$ 572,629	$ 412,532	$ 420,896	Information not available
City's contributions in relation to the actuarially determined contribution	375,977	484,872	572,629	412,532	420,896	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 458,788	$ 647,063	$ 746,054	$ 587,388	$ 646,705	
City's contributions as a percentage of covered payroll	81.95 %	74.93 %	76.75 %	70.23 %	65.08 %	

See accompanying notes to schedule.

CITY OF SOUTH TUCSON, ARIZONA

SCHEDULE OF PENSION/OPEB CONTRIBUTIONS

JUNE 30, 2018

PSPRS - Fire

	Reporting Fiscal Year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 66,111	$ 74,717	$ 98,267	$ 84,561	$ 44,137	Information not available
City's contributions in relation to the actuarially determined contribution	66,111	74,717	98,267	84,561	44,137	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 40,981	$ 93,860	$ 146,708	$ 158,399	$ 166,427	
City's contributions as a percentage of covered payroll	161.32 %	79.60 %	66.98 %	53.38 %	26.52 %	

EORP

	Reporting Fiscal Year					
	2018	2017	2016	2015	2014	2013 through 2009
Statutorily required contribution	$ 3,657	$ 3,514	$ 4,095	$ 4,350	$ 6,301	Information not available
City's contributions in relation to the statutorily required contribution	3,657	3,514	4,095	4,350	6,301	
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 30,074	$ 17,600	$ 19,200	$ 18,400	$ 20,160	
City's contributions as a percentage of covered payroll	12.16 %	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-of-pay, closed
Remaining amortization period as of the 2016 actuarial valuation	22 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	PSPRS members with initial membership date before July 1, 2017: In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%. PSPRS members with initial membership on or after July 1, 2017: 7%.
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

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS, and EORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. EORP-required contributions are not based on actuarial valuations, and therefore, these changes did not affect them. Also, the County refunded excess employee contributions to PSPRS and EORP members. PSPRS and EORP allowed the County to reduce its actual employer contributions for the refund amounts. As a result, the County's pension contributions were less than the actuarially or statutorily determined contributions for 2018.

NOTE 3 - OPEB DISCLOSURE

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