



City of Tucson, Arizona
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2005

Prepared by: The Department of Finance,
Accounting Division



Introductory Section



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Comprehensive Annual Financial Report
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CITY OF
TUCSON

FINANCE DEPARTMENT
ADMINISTRATION

December 7, 2005

Citizens of City of Tucson and
Honorable Mayor and Council
City of Tucson, Arizona:

Formal Transmittal

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Tucson, Arizona (City) for the fiscal year ended June 30, 2005, as required by Chapter XXIX of the City Charter. The CAFR was prepared by the City's Accounting Division in accordance with accounting principles generally accepted in the United States of America.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To provide a reasonable basis for making these representations, the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City Charter requires an annual independent audit. The City engaged Heinfeld, Meech, and Company, P.C. to express an opinion on the financial statements based on their audit. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of this report. Heinfeld, Meech, and Company, P.C. also audited the City's federal financial assistance program, complying with the provisions of the Single Audit Act and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes a list of principal officials, the City's organizational chart and this transmittal letter. The financial section includes the independent auditor's report, the management's discussion and analysis (MD&A),

the basic financial statements that include financial statements on a government-wide and fund basis, required supplementary information, and combining statements and individual fund statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

Government Profile

The history of life in the Tucson valley goes back more than 300 years with its founding as a mission site. As the second largest city in the State of Arizona, the City of Tucson was incorporated on February 7, 1887, under the provisions of Article 13, Sections 1 through 6 of the Constitution of Arizona and Title 9 of the Arizona Revised Statutes. The City operates under a Council-Manager form of government. All funds and entities related to the City are controlled by the Mayor and Council and are included in the basic financial statements. These funds and entities provide a full range of services including General Government, Police, Fire, Environmental Services, Transportation, Library, Parks and Recreation, Golf, and Water.

A component unit is a separate legal entity that is included in the reporting entity due to the significance of its financial or operational relationships with the City. The Rio Nuevo Multipurpose Facilities District is presented separately from the City in the basic financial statements. Additional information concerning the City's component units is provided in the notes to the basic financial statements.

Tucson, like all cities in the State of Arizona, is subject to numerous budget and related legal requirements. Article IX, Section 20(1) of the Arizona Constitution sets out limits on the City's legal budget capacity. In general, the Mayor and Council cannot authorize expenditures of local revenues in excess of the expenditure limitation determined annually by the State of Arizona's Economic Estimates Commission. This limitation is based on the City's actual expenditures incurred during 1979-80 adjusted to reflect subsequent inflation and population growth.

ARS 42-17106 requires that no expenditure be made for a purpose not included in the adopted budget. The City of Tucson defines "purpose" as a series of departments organized into the following six program categories: Elected and Official, Neighborhood Services, Environment and Development, Strategic Initiatives, Support Services, and Non-departmental. The Director of Budget and Research and the City Manager approves changes with purpose categories and Mayor and Council approves changes between purposes.

Chapter XIII, Sections 3 and 4 of the Tucson Charter require that on or before the first Monday in May, the City Manager submit to the Mayor and Council an estimate of the revenues required for the next fiscal year, and that on or before the first Monday in June, the City Manager submit his recommended budget for the fiscal year beginning July 1. Beginning July 1 of each fiscal year, the adopted budget is implemented, monitored, and changed within the limits of the law, as necessary. The Budget and Research and Finance Departments are charged with this responsibility.

Assessing Economic Condition

The Arizona economy continues to grow at a measured pace. This growth has been driven in part by a large population growth. This has also been true for Arizona's two largest metropolitan areas, Phoenix and Tucson. Figure 1 illustrates the population growth for Tucson Metropolitan area as compared to the Phoenix Metropolitan area. For Tucson, this population growth has led to above average job growth in the construction, education and health services and the retail

trade. Along with the job growth, personal income has also continued to increase. Next year, this growth rate will continue although at a more sustainable rate. Figures 2 through 4 provide Tucson and Phoenix Metropolitan area comparisons for retail sales, unemployment, and per capita personnel trends.

POPULATION GROWTH
(In Thousands)

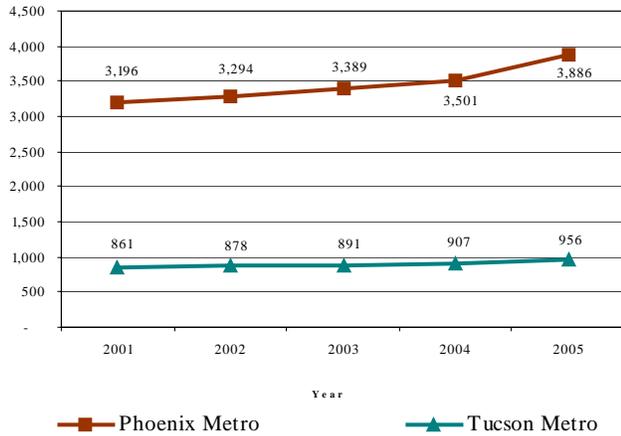


FIGURE 1

AGGREGATE RETAIL SALES
(In Thousands)

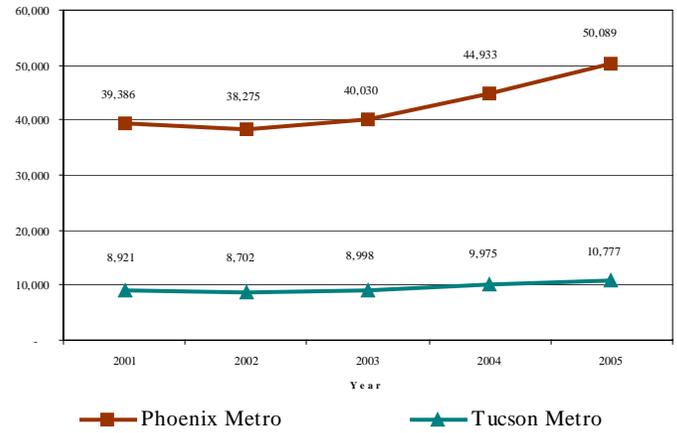


FIGURE 2

UNEMPLOYMENT RATE

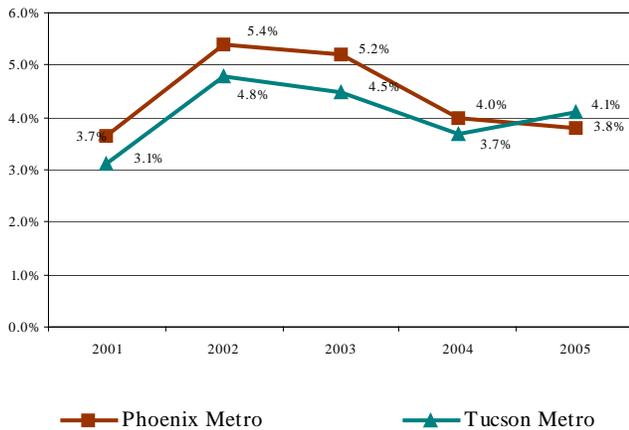


FIGURE 3

PERSONAL INCOME
Per Capita

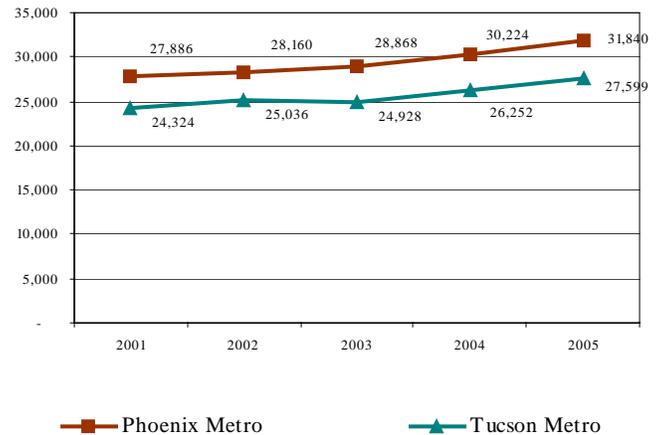


FIGURE 4

The improvement in the economy and the population increases have resulted in significant tax revenue gains for the State of Arizona. However, the City's share of state revenues will have mixed results, beginning in fiscal year 2007, due to mid-decade census update. This includes a projected 17% increase for urban revenue sharing (individual and corporate income tax), minimal change in state shared sales taxes and a 1.3% projected decrease in Highway User Revenue Funds. The 2003 legislative changes made it possible for jurisdictions to update their population estimates. The concern is that the City of Tucson is growing at a slower rate relative to other Arizona cities since State revenue sharing is based on population. The City's share is expected to drop from 12% to 11%. This is a major impetus to continue with our revenue diversification strategies.

The City of Tucson is working several initiatives and policies to improve our financial position. Our primary revenues are city sales tax and State revenues, which are susceptible to economic downturns. We have few choices due to our charter and State law.

Due to very low fund balances in the General Fund, the Mayor and Council adopted a policy to establish an unreserved/undesignated fund balance at 7.5 percent of General Fund expenditures. The plan was to reach this goal by the end of Fiscal Year 2006. However, the goal was achieved at the end of Fiscal Year 2005 with an unreserved/undesignated fund balance of 7.5%.

The City of Tucson's budget operates under a state-imposed expenditure limitation. For Fiscal Year 2007, the City's revenues are projected to cover the costs of services, but the State's expenditure limitation formula would prevent the use of these revenues. On November 8, 2005, city voters approved an Alternative Expenditure Limitation (Home Rule Option) that is determined by the City's annual balance budget. This will take effect for fiscal year 2007.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 23 consecutive years (fiscal years ended 1982 through 2004). We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to GFOA.

A special word of appreciation is due to Joyce Garland, CPA, Financial Manager, Michael Mason, CPA, Accounting Administrator, and to the entire accounting staff who prepared this CAFR:

Jeff Alford, CPA, CGFM	Carla Casem	Vivian Newsheller	Cheryl Van De Beuken
Aaron Williams, CPA	Omar Garcia	Stacie Bird	George Triplett
Silvia A. Navarro	Shane Oman	Marsha Schlanger	
Kayci Cagle	Mario Reyes		

Acknowledgment should also be made for the helpful suggestions received from members of the Mayor and Council, the office of the City Manager, and the willing cooperation of the other operating and staff departments of the City.

Respectfully submitted,


A. Scott Douthitt
Finance Director



City of Tucson Officials



HONORABLE
ROBERT E. WALKUP
MAYOR



JOSÉ J. IBARRA
WARD 1



CAROL W. WEST
WARD 2



KATHLEEN DUNBAR
WARD 3



SHIRLEY C. SCOTT
WARD 4



STEVE LEAL
WARD 5



FRED RONSTADT
WARD 6



MIKE HEIN
CITY MANAGER

Deputy Finance Director
Stacey Lemos

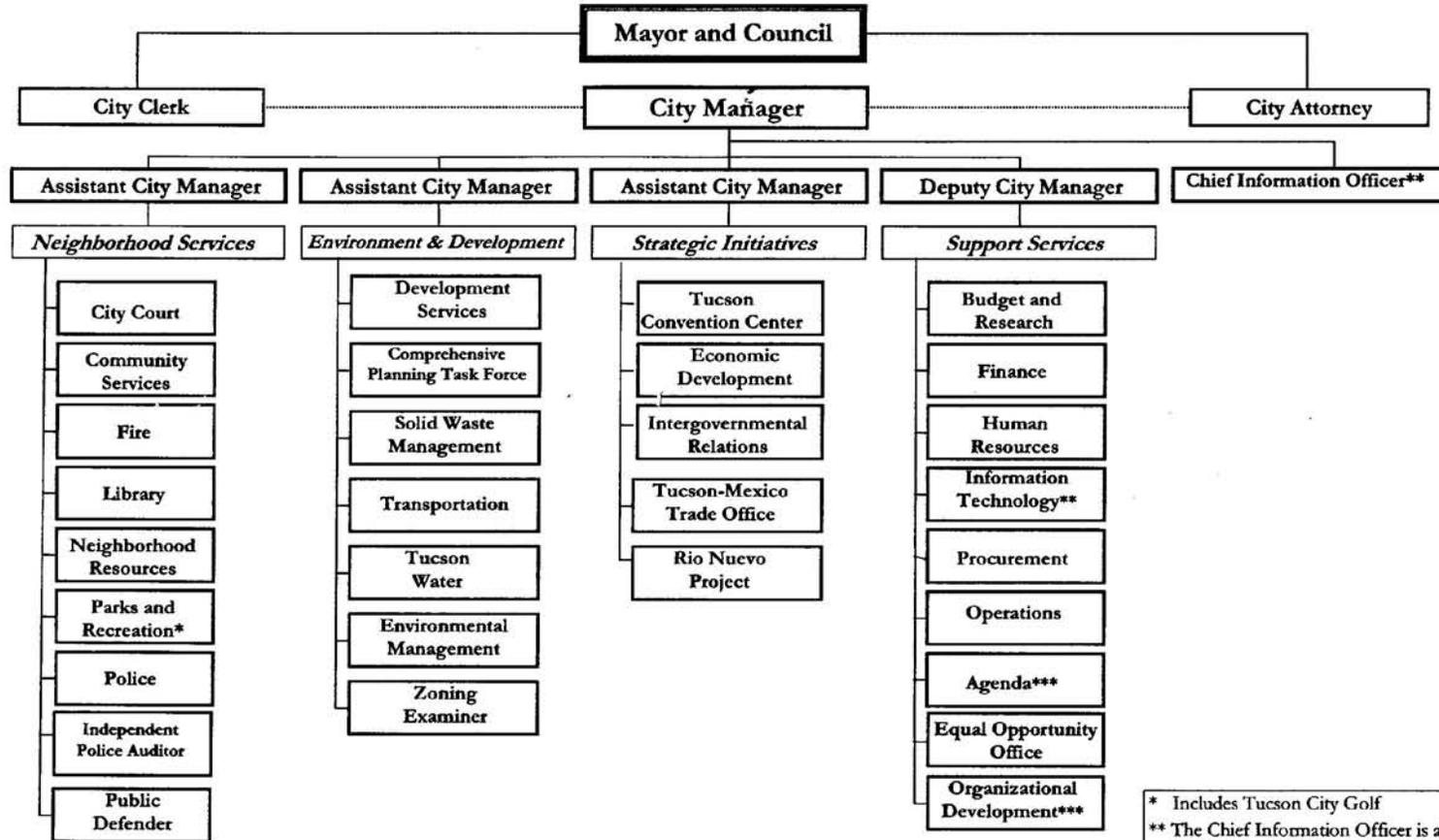
Finance Director
J. Scott Douthitt

Deputy Finance Director
Joe Ladenburg

Accounting Administrator
Michael Mason



**CITY OF TUCSON
ORGANIZATION CHART
FISCAL YEAR 2005**



* Includes Tucson City Golf
 ** The Chief Information Officer is also the Information Technology Director
 *** Budgeted under the City Manager

x

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Tucson,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

Financial Section



Financial
Section





HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tucson, Arizona (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tucson, Arizona, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 and budgetary comparison information on pages 71 and 72 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Heinfeld, Meech & Co., P.C.

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

December 7, 2005

Management's Discussion and Analysis



CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

This section of the City's annual financial report presents discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the transmittal letter at the front of the report and the City's financial statements, which immediately follow this section. The MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets of the City exceeded its liabilities by \$1.68 billion (reported as net assets), an increase of \$27.3 million from last year. Governmental activities had a \$11.1 million increase in net assets, while business-type activities had a \$16.2 increase.

Fund Level

- The City's governmental funds reported a combined fund balance of \$172.6 million, an increase of \$22.4 million from last fiscal year. Within the combined fund balance total, \$48.7 million is unreserved, while \$123.8 million is reserved for specific purposes. A significant portion of the unreserved fund balance (\$15.3 million) originates from one of the City's special revenue funds, Highway User Revenue Fund (H.U.R.F.). The Arizona Constitution requires that H.U.R.F. funds be used solely for highway and street purposes.
- The General Fund reported a fund balance of \$98.1 million, which represents a \$24.7 million increase from last year. The unreserved/undesignated balance is \$28.3 million. This represents 7.5% of total general fund expenditures for the fiscal year.
- On a current financial resource basis, revenues raised during the year were \$2.0 million less than budgeted for the General Fund, while expenditures were \$30.4 million less than budgeted.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole (government-wide financial statements) and present a longer-term view of the City's finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Basic Financial Statements

The basic financial statements present two types of statements that reflect different views of the City. The first two statements represent the government-wide financial statements, and they provide short and long-term information about the City's overall financial status. The fund financial statements provide a short-term view of the City's operations at a more detailed level.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Additionally, the statements are followed by a section of Required Supplementary Information that provides a major fund budgetary analysis. The Combining and Individual Fund Schedules show combining statements for nonmajor governmental funds and internal service funds, along with budget to actual comparisons on individual funds.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Figure A below summarizes the structure and contents of the financial statements:

Figure A Major Features of the City's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for City employees
Required financial statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Net Assets Statement of Cash Flows	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets (pg 17) includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities (pg 18) regardless of when cash is received or paid. These two statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, is one way to measure financial health, or position. Increasing net assets show improvement in position, while decreasing net assets indicate deterioration. To assess the overall health of the City, additional non-financial factors, such as changes in bond ratings, changes in the City's property tax base, projected business privilege tax collection trends, and the condition of the City's infrastructure, should be considered.

Two activities exist in the government-wide financial statements. The first activity, governmental, represents most of the City's basic services such as police, fire, transportation or parks. Business privilege taxes, property taxes, state revenue sharing, and grants finance most of these activities. The second activity, business-type, represents those areas in which the City charges fees to customers to help cover the costs of certain services it provides. The City's enterprise funds, Tucson Water Utility, Environmental Services Utility, and Golf Course, are considered business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds by focusing on the most significant or "major" funds rather than the City as a whole. Funds are accounting entities that the City uses to track specific funding sources and expenditures/expenses for particular programs. Some funds are required by State law or by bond covenants, while Mayor and Council set up other funds for management purposes.

There are three types of fund financial statements: governmental, proprietary, and fiduciary. As described below, the governmental fund statements use a different accounting approach from the proprietary and fiduciary statements.

- *Governmental fund statements* disclose how general government services, such as police and parks and recreation, were financed in the short-term as well as what remains for future expenditures. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities, reported in the government-wide financial statements, and governmental funds is provided in a reconciliation following the respective fund financial statements. Reconciling items include: converting fund capital expenditures to capital assets, reducing long-term debt by debt service principal expenditures, and increasing long-term debt by bond/lease proceeds.
- *Proprietary fund statements* contain funds from fees charged to customers for services provided by the City and are reported in the same manner as the government-wide financial statements. Because both types of statements utilize the full accrual basis of accounting, the total enterprise column on the Statement of Net Assets and the Statement of Changes in Net Assets provides the same, but more detailed, financial information as the business-type activity columns in the government-wide financial statements. In addition, a Statement of Cash Flows is provided. Internal service funds are combined into a single column on these statements, and they are reported as part of governmental activities in the government-wide financial statements.
- *Fiduciary fund statements* represent funds for which the City acts as a trustee, and like the proprietary funds, they also use the full accrual basis of accounting. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The combined net assets for the primary government increased 1.65% over the course of the year to \$1.68 billion. Governmental activities contributed to 40.6% of this increase, while business-type activities contributed 59.4%. As shown in Table B-1 below, the largest component of net assets represents the City's investment in capital assets (i.e., land, buildings, equipment and infrastructure), net of accumulated depreciation and related debt. The second largest component of net assets represents restricted net assets, the use of which is restricted by external sources such as debt covenants, enabling legislation or grant stipulations. The final component of net assets is unrestricted. The City has a deficit balance in Business Type Activities primarily due to incurring liabilities, such as compensated absences, and environmental and solid waste mandates, with no corresponding assets.

Table B-1
City of Tucson
Statement of Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Current and Other Assets	\$ 320,277,323	\$ 295,033,729	\$ 117,201,523	\$ 86,717,704	\$ 437,478,846	\$ 381,751,433
Capital Assets	1,460,774,434	1,404,163,300	975,556,549	956,550,916	2,436,330,983	2,360,714,216
Total Assets	<u>1,781,051,757</u>	<u>1,699,197,029</u>	<u>1,092,758,072</u>	<u>1,043,268,620</u>	<u>2,873,809,829</u>	<u>2,742,465,649</u>
Current and Other Liabilities	156,289,297	142,458,055	49,232,621	51,446,452	205,521,918	193,904,507
Long-term Debt Outstanding	525,592,968	468,651,196	467,662,108	432,176,047	993,255,076	900,827,243
Total Liabilities	<u>681,882,265</u>	<u>611,109,251</u>	<u>516,894,729</u>	<u>483,622,499</u>	<u>1,198,776,994</u>	<u>1,094,731,750</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	998,221,324	998,966,917	594,423,874	576,958,002	1,592,645,198	1,575,924,919
Restricted	82,813,522	69,416,688	9,013,682	2,670,658	91,827,204	72,087,346
Unrestricted (Deficit)	18,134,646	19,704,173	(27,574,213)	(19,982,539)	(9,439,567)	(278,366)
Total net assets	<u>\$ 1,099,169,492</u>	<u>\$ 1,088,087,778</u>	<u>\$ 575,863,343</u>	<u>\$ 559,646,121</u>	<u>\$ 1,675,032,835</u>	<u>\$ 1,647,733,899</u>

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Table B-2, below, shows condensed financial information derived from the government-wide Statement of Activities (pg 18) and reflects how the City's net assets changed during the course of the fiscal year:

Table B-2
City of Tucson
Change in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for Services	\$ 93,414,087	86,991,199	\$ 155,834,538	\$ 124,071,913	\$ 249,248,625	\$ 211,063,112
Operating Grants and Contributions	127,785,107	96,836,225			127,785,107	96,836,225
Capital Grants and Contributions	26,158,108	74,014,269	15,396,024	11,889,083	41,554,132	85,903,352
Total Program Revenues	<u>247,357,302</u>	<u>257,841,693</u>	<u>171,230,562</u>	<u>135,960,996</u>	<u>418,587,864</u>	<u>393,802,689</u>
General Revenues:						
Taxes:						
Property Taxes	30,203,848	27,329,989			30,203,848	27,329,989
Business Privilege Taxes	183,102,463	177,117,183			183,102,463	177,117,183
Public Utility Taxes	7,654,851	7,887,631			7,654,851	7,887,631
Transient Occupancy Taxes	10,768,492	9,145,965			10,768,492	9,145,965
Occupational Taxes	2,098,216	2,049,759			2,098,216	2,049,759
Liquor Taxes	740,742	713,674			740,742	713,674
Unrestricted Grants and Contributions	114,662,691	106,317,054			114,662,691	106,317,054
Investment Income (Loss)	2,605,029	1,037,894	2,902,021	705,809	5,507,050	1,743,703
Miscellaneous	7,100,302	5,782,790			7,100,302	5,782,790
Total General Revenues	<u>358,936,634</u>	<u>337,381,939</u>	<u>2,902,021</u>	<u>705,809</u>	<u>361,838,655</u>	<u>338,087,748</u>
Total Revenues	<u>606,293,936</u>	<u>595,223,632</u>	<u>174,132,583</u>	<u>136,666,805</u>	<u>780,426,519</u>	<u>731,890,437</u>
Expenses						
Elected and Official	15,418,836	15,724,295			15,418,836	15,724,295
Support Services	58,587,923	42,465,015			58,587,923	42,465,015
Neighborhood Services	337,049,181	295,870,113			337,049,181	295,870,113
Environment and Development	131,039,748	149,983,180			131,039,748	149,983,180
Strategic Initiatives	14,039,464	13,359,186			14,039,464	13,359,186
Non-Departmental	12,788,223	10,439,491			12,788,223	10,439,491
Interest on Long-term Debt	22,270,724	23,701,247			22,270,724	23,701,247
Fiscal Agent and Other	46,301	32,158			46,301	32,158
Environmental Services			39,464,082	-	39,464,082	-
Golf			10,064,093	9,323,864	10,064,093	9,323,864
Water			112,359,007	104,427,551	112,359,007	104,427,551
Total Expenses	<u>591,240,400</u>	<u>551,574,685</u>	<u>161,887,182</u>	<u>113,751,415</u>	<u>753,127,582</u>	<u>665,326,100</u>
Changes in Net Assets before transfers	15,053,536	43,648,947	12,245,401	22,915,390	27,298,937	66,564,337
Transfers	(3,971,822)		3,971,822		-	-
Changes in Net Assets	<u>\$ 11,081,714</u>	<u>\$ 43,648,947</u>	<u>\$ 16,217,223</u>	<u>\$ 22,915,390</u>	<u>\$ 27,298,937</u>	<u>\$ 66,564,337</u>

**CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005**

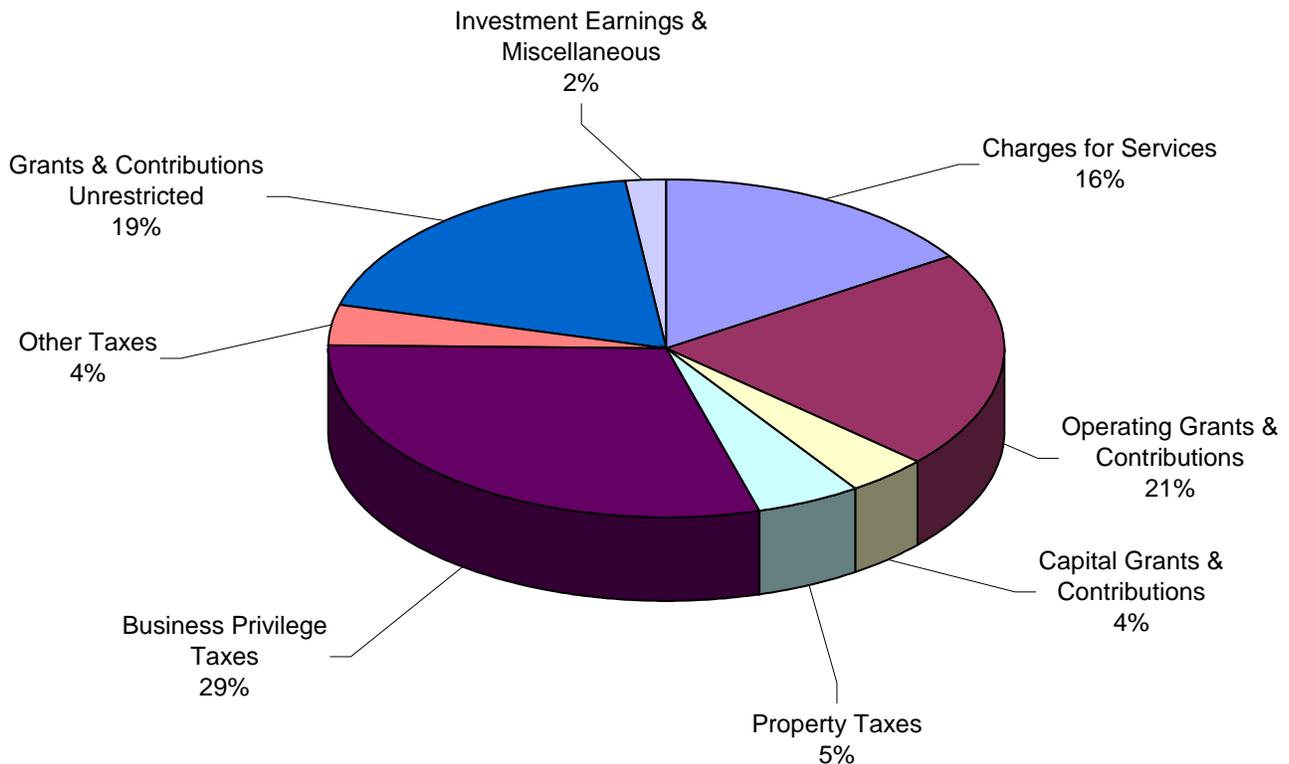
Governmental Activities

Total expenses for governmental activities for Fiscal year 2005 were \$591.2 million. Program revenues, including charges for services and restricted grants or contributions, covered 41.8% of these costs. General revenues covered the remaining 58.2% of governmental costs. Components of general revenues primarily include business privilege taxes, unrestricted grants and contributions, property taxes and investment earnings.

Operating Grants and Contributions increased 32% from fiscal year 2004. The Community Block Development Grant drew \$2.3 million dollars less in fiscal year 2005 based on entitlement monies awarded to the different agencies. Capital Grants and Contributions decreased 64.7% from fiscal year 2004. The Mass Transit Fund had a \$3.0 million dollar decrease due to the completion of the Downtown Intermodal Center. The Miscellaneous Housing Grant Fund decreased \$3.1 million due to the Robert Kennedy Home Revitalization, the South Park Scattered Homes, the South Park Hope IV Streets, and the South Park Wellness Center having expenditures in fiscal year 2004 and not in fiscal year 2005.

The following chart depicts both program and general revenues generated by governmental activities for fiscal year 2005:

**Governmental Activities-Revenue Sources
For the Fiscal Year Ended June 30, 2005**



CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

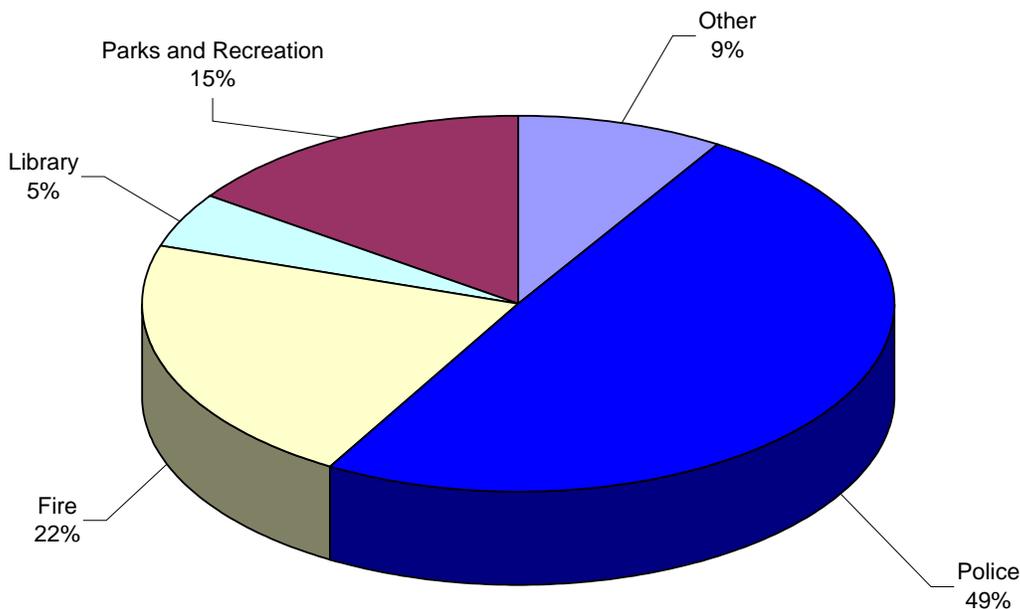
Net expenses, program revenues less expenses, generated from governmental activities are presented by function in Table B-3 below to illustrate how much support each function receives from the City's general revenues:

Table B-3
City of Tucson
Net Expense/Revenue - Governmental Activities

Function	2005		2004	
	Net Exp/Rev	Percentage	Net Expense	Percentage
Elected and Official	\$ (14,637,970)	4%	\$ (15,261,077)	5%
Support Services	(26,827,590)	8%	(24,593,142)	8%
Neighborhood Services	(239,181,212)	70%	(193,915,623)	66%
Environment and Development	(23,548,521)	7%	(37,793,063)	13%
Strategic Initiatives	(10,542,681)	3%	(10,246,430)	3%
Non-Departmental	(6,828,099)	2%	11,809,748	-4%
Interest on Long-term Debt	(22,270,724)	6%	(23,701,247)	8%
Fiscal Agent Fees and Other	(46,301)	0%	(32,158)	0%
Total Net Expense	\$ (343,883,098)	100%	\$ (293,732,992)	100%

Neighborhood Services represents a significant portion (70%) of the total net expense for governmental activities. The following chart illustrates the departmental composition of net expense for Neighborhood Services:

Neighborhood Services-Net Expenses/Revenues by Department
For Fiscal Year ended June 30, 2005



CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Police, Fire, Parks and Recreation, and Library are major governmental activities within the Neighborhood Services function that are being funded by City general revenues.

Business-type Activities

The Water Utility Fund, the Environmental Service Fund, and the Golf Course Fund are the City's business-type activities. The Water Utility Fund and the Environmental Service Fund are major funds for the City and have a major impact on the change in net assets for this activity.

On July 1, 2005 Mayor and Council approved a residential refuse collection fee and the Environmental Services Fund was restated from a Special Revenue Fund (Governmental) to an Enterprise Fund (Business-type). The net assets for business-type activities increased by \$16.2 million during the fiscal year.

Environmental Revenues

- Total program revenues increased in fiscal year 2005. Due to the new residential refuse fee there was a \$18 million dollar increase in charges for services. New residential fees range from \$14 to \$34 per residence, depending on the number and size of the refuse containers.

Environmental Expenses

- Total operating expenses increased \$10 million dollars. An increase in labor cost due to cost of living, merits, and increased hours worked explains \$1.9 million. Fleet service charges and equipment purchases account for another \$1.6 million. Due to the change from a governmental fund to an enterprise fund with it's own depreciable assets, Environmental Services had \$7.3 million in depreciation expense.

Water Revenues

- Total program revenues decreased in fiscal year 2005. In fiscal year 2004 operating revenue was \$114.5 million and in fiscal year 2005 it is \$111.3. This decrease is due to a reclassification of a revenue account. In fiscal year 2004 the System Equity Fee was recorded under Charges for Services, while in fiscal year 2005 it has been moved to Capital Contribution in non-operating revenues.

Water Expenses

- Total operating expenses increased in fiscal year 2005. The increase in expenses is due partly to an increase in labor cost of \$3.2 million (cost of living and merit increases) and \$2 million maintenance and enhancements of existing water systems.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City had one major governmental fund in fiscal year 2005, the General Fund. General Fund expenditures increased 19.3% from last fiscal year.

Revenues in the General Fund increased 10.4%. This includes increase in miscellaneous fees for Development Services, Parks and Recreation, and City Courts. The unreserved portion of fund balance increase is primarily due to the conversion of the Environmental Services fund to a self-supporting business-type activity. This allowed \$18.4 reserved for environmental mandates to increase the unreserved fund balance.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

General Fund Revenues

- Business privilege taxes increased \$2.3 million and Property taxes increased \$4.5 million, each a major revenue source for the City. The growth in these revenue sources from the prior fiscal year shows an upturn in the economy.
- A new local use tax from last fiscal year increased \$1.6 million dollars. This taxes major purchase made outside the Tucson City limits.
- Beginning in fiscal year 2005, Parks and Transportation billable charges automatically creates Accounts Receivable and Revenue once the expenditure hits. The timely accounting of these revenues explains this \$2.9 million dollar increase.
- In fiscal year 2005 Facilities Management, Communications, Architecture and Engineering began charging other departments for services performed. This resulted in a new revenue source for the General Fund. For the fiscal year the revenue generated by charging other funds was \$15 million dollars.
- On July 6, 2005, Pima County acted to preserve the A-7 Ranch (a.k.a. Bellotta Ranch) by purchasing it from the City for \$1.9 million dollars.
- A \$28.9 dollar increase in Other Financing Sources is largely due to the issuance of Certificates of Participation for the lease purchase of certain real property and improvements thereto. Specifically the Pennington Garage, the Police Substation, and the Train Depot.

General Fund Expenditures

- General Fund expenditures increased \$60.8 million dollars. Personal Services represents the majority of the increase. This is due to the City covering the rising pension and employee health cost. Cost of living and merit increases were also given in fiscal year 2005.

General Fund Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. The budgetary comparison schedule for the General Fund (pg 71) shows the original budget, the final budget, and actual revenues and expenditures for the fiscal year.

The variance between the budgeted amounts for total revenues is \$2.0 million.

- The negative variance of \$8.8 million for Other Agencies revenues is due to a \$4.8 million underestimate of revenues from the State for auto lieu tax, sales tax, and income tax. The economy did better than anticipated so actual revenues were higher than budgeted. Transportation's adopted budget included \$5.0 million of revenue that was not available to spend in fiscal year 2005 because the actual costs were incurred in fiscal year 2004. Delays in project expenditures created an \$8.6 million variance because intergovernmental agreements could not be billed.
- Charges for Services had a positive variance of \$12.3 million. The largest portion of this variance (\$15.2 million) is due to the difference of budget treatment and accounting for Facilities Management, Communications, Architecture and Engineering. In the budget the expenditures and revenues net to zero and no revenue is budgeted for these departments.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

The variance between the final budget and the actual budget for expenditures is \$30.4 million.

- Support Services had a negative variance of \$12.4 million. This variance is due to the difference of budget and accounting treatment for Facilities Management, Communications, Architecture and Engineering Departments. In the budget the expenditures and revenues net to zero and no revenue is budgeted for these departments.
- Environment and Development had a positive variance of \$7.8 million. The revised budget for Transportation maintenance expenditures were frozen because the budget capacity was not needed for fiscal year 2005. The actual expenditures were incurred in fiscal year 2004. Transportation did not complete spending of funds for their Road Recovery Program creating a \$2 million variance.
- The positive variance of \$27 million in capital projects is due to project delays. The funds were primarily unspent were in the Parks, Transportation and Information Technology Departments.

The variances between total other financing sources (uses) final budget and actual was \$7.3 million.

- The primary variance is in the transfers to other funds. \$4.4 million of subsidies to the Mass Transit Fund were not needed because more expenditures were grant eligible than anticipated. The subsidies for the Library, Public Safety Training Academy and Tucson Convention Center increased \$2.2 million more than was anticipated.
- An unbudgeted transfer of \$1.6 million was made to the Environmental Services fund to cover the first month of operations due to delays in assessing the fee.
- An unbudgeted transfer of \$2.8 million was transferred to the bond funds for a taxable acquisition that was subsequently covered with certificates of participation.
- Unbudgeted transfers of \$3.8 million in capital assets were transferred from the General Fund to the Fleet Services Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table provides details regarding capital assets as of June 30, 2005 and June 30, 2004. Additional information regarding capital assets can be found in Note 7 on page 54.

Table B-4
City of Tucson
Capital Assets Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Land	\$ 625,774,275	\$ 620,260,731	\$ 55,730,118	\$ 57,860,728	\$ 681,504,393	\$ 678,121,459
Buildings and Improvements	217,428,870	219,854,939	102,074,118	107,013,872	319,502,988	326,868,811
Equipment	62,217,076	59,819,647	23,256,978	27,031,351	85,474,054	86,850,998
Infrastructure	364,856,897	363,099,622	640,438,280	625,905,805	1,005,295,177	989,005,427
Construction in Progress	190,497,316	141,128,362	153,167,335	138,667,756	343,664,651	279,796,118
Total Capital Assets	\$ 1,460,774,434	\$ 1,404,163,301	\$ 974,666,829	\$ 956,479,512	\$ 2,435,441,263	\$ 2,360,642,813

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Governmental Activities

Significant capital asset additions for governmental activities for the fiscal year include:

- Additions in public infrastructure improvements totaled \$17.5 million. Infrastructure improvements include streets, sidewalks, street lighting, traffic signals and drainage. Additions to land include a \$6.3 million increase to right-of-way.
- \$9.4 million was spent in fiscal year 2005 for the construction of the Pennington Street Garage. The 750-space garage is a solar-powered and fully automated 24-hour facility and will open in fiscal year 2006.
- The Fire Department spent \$2.5 million on a new station, Fire Station 21, that will open in 2006.
- A helicopter, ambulances, and other equipment were purchased in fiscal year 2005 through capital leases in the amount of \$1.64 million. \$3.9 million of capital lease proceeds was used to purchase vehicles for Fleet Services. Twenty-seven buses were purchased this year for \$2.3 million.
- A new web based financial software system was added in fiscal year 2005 for \$1.95 million.
- Other significant capital projects that were capitalized (expenditures may be in previous years) in fiscal year 2005 include the Santa Rosa Center upgrade for \$2.45 million and the Jacobs Park Pool replacement for \$1.4 million.

Business-type Activities

Business-type activities had a net increase of \$18.2 million in capital assets during the fiscal year; most of this increase originates from the water utility. Tucson Water has a five-year capital program, which provides for the construction, expansion, and replacement of both potable and reclaimed water systems. During the fiscal year, \$14.5 million of the net increase in capital assets was incurred in the distribution and collection systems.

At the conversion of Environmental Services from a governmental fund to an Enterprise (Business-type), on July 1, 2005, the beginning balance for the Governmental and Business Type capital assets, net of depreciation has been restated. The total restated amount from the conversion was \$33.1 million.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Long-term Debt

The following table illustrates the City's long-term debt as of June 30, 2005 and June 30, 2004. Additional information regarding long-term debt can be found in Notes 8 through 12 starting on page 55.

Table B-5
City of Tucson
Long-term Debt

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
General Obligation Debt	\$ 248,797,183	\$ 239,790,152	\$ 42,386,887	\$ 34,661,430	\$ 291,184,070	\$ 274,451,582
Street & Highway Revenue Bonds	153,515,000	156,475,000			153,515,000	156,475,000
Certificates of Participation	89,875,000	43,335,000	4,320,000	4,625,000	94,195,000	47,960,000
Federal Highway Loan	1,300,000	2,100,000			1,300,000	2,100,000
Special Assessment Bonds	3,575,600	4,028,500			3,575,600	4,028,500
Water Revenue Bonds			388,324,735	364,700,668	388,324,735	364,700,668
Deferred Amount on Refundings and Premiums	5,256,885	1,373,406	376,019	(1,048,501)	5,632,904	324,905
Landfill Closure/Post Closure Costs			42,535,670	47,211,999	42,535,670	47,211,999
Contracts/Capital Leases Payable	4,661,279	850,084	3,049,416	3,232,481	7,710,695	4,082,565
Compensated Absences	28,051,169	25,614,453	4,637,854	4,510,697	32,689,023	30,125,150
Claims and Judgments	45,064,770	39,712,642			45,064,770	39,712,642
Total	\$ 580,096,886	\$ 513,279,237	\$ 485,630,581	\$ 457,893,774	\$ 1,065,727,467	\$ 971,173,011

As shown in Table B-5, outstanding debt for the City totaled \$1 billion with 54.4% attributed to governmental activities and the remaining 45.6% attributed to business-type activities. The following information describes significant changes in long-term debt for the fiscal year:

- In governmental activities, the City issued \$17.9 million in general obligation bonds and \$6 million in street and highway user revenue bonds during fiscal year 2005. The general obligation bonds will fund improvements for parks, libraries, street lighting, sidewalks, drainage facilities, and public safety. The street and highway user revenue bonds will be used to improve, construct, and maintain City streets.
- In business-type activities, the Water Infrastructure Finance Authority of Arizona (WIFA) approved a new \$3.0 million low-interest loan for Tucson Water projects. WIFA funding is used to finance improvements to the drinking water systems that would normally be funded by selling water revenue bonds at market rates. The City issued \$31.7 million in water system revenue bonded debt during fiscal year 2005. This funding is used to finance water system improvements.
- The City took advantage of lower interest rates during the fiscal year with several refundings. In governmental activities, the debt scheduled after July 1, 2005 of the 1997 GO Bonds, the 1998 GO Bonds, the 1999 GO Bonds, the 2000-A GO Bond were partially or completely retired with a \$34.2 million refunding, saving the City in \$1.07 million in gross debt obligation. The City issued another \$21.7 million refunding to retire all or partial debt scheduled after July 1, 2005 of the 1995 Refunding GO Bonds, the 1994-C GO Bonds, and the 1999 GO Bonds. This refunding saved the City \$1.4 million in gross debt service obligation. The City also issued \$39.9 Jr. Streets and Highway User Revenue Bonds to retire all or partial debt scheduled after July 1, 2005 of the 1198 Jr. S&H Bonds, the 2000 Jr. S&H Bonds, the 2001 Jr. S&H Bonds and the 1997 SR. S&H Bonds. Saving the City \$1.26 million in gross debt service obligation.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

- In business-type activities, the Water Utility took advantage of lower interest rates with one refunding. The City issued a \$55.1 million refunding partially or completely retiring the debt scheduled after July 1, 2005 for the 1994-B Water System Revenue Bond (WSR Bond), the 1994-C WSR Bond, the 1994-D WSR Bond, the 2000-A WSR Bond, and the 2000-C WSR Bond. This refunding saved the City \$3.1 million in gross debt service obligation.
- Proceeds from lease purchase contracts and Certificates of Participation increased \$55.9 million. This included \$40.5 million towards Pennington Garage, Police Substation, Streets, and the Train Depot. \$11.2 million was used for apparatus replacement, fire mobile data terminals, police helicopters, and Starr Pass. The remaining \$4.2 million was used for vehicle purchases.

Bond Ratings

Table B-6 illustrates previous and current bond ratings for Fiscal year 2005:

Table B-6
City of Tucson
Fiscal Year 2005 Bond Ratings

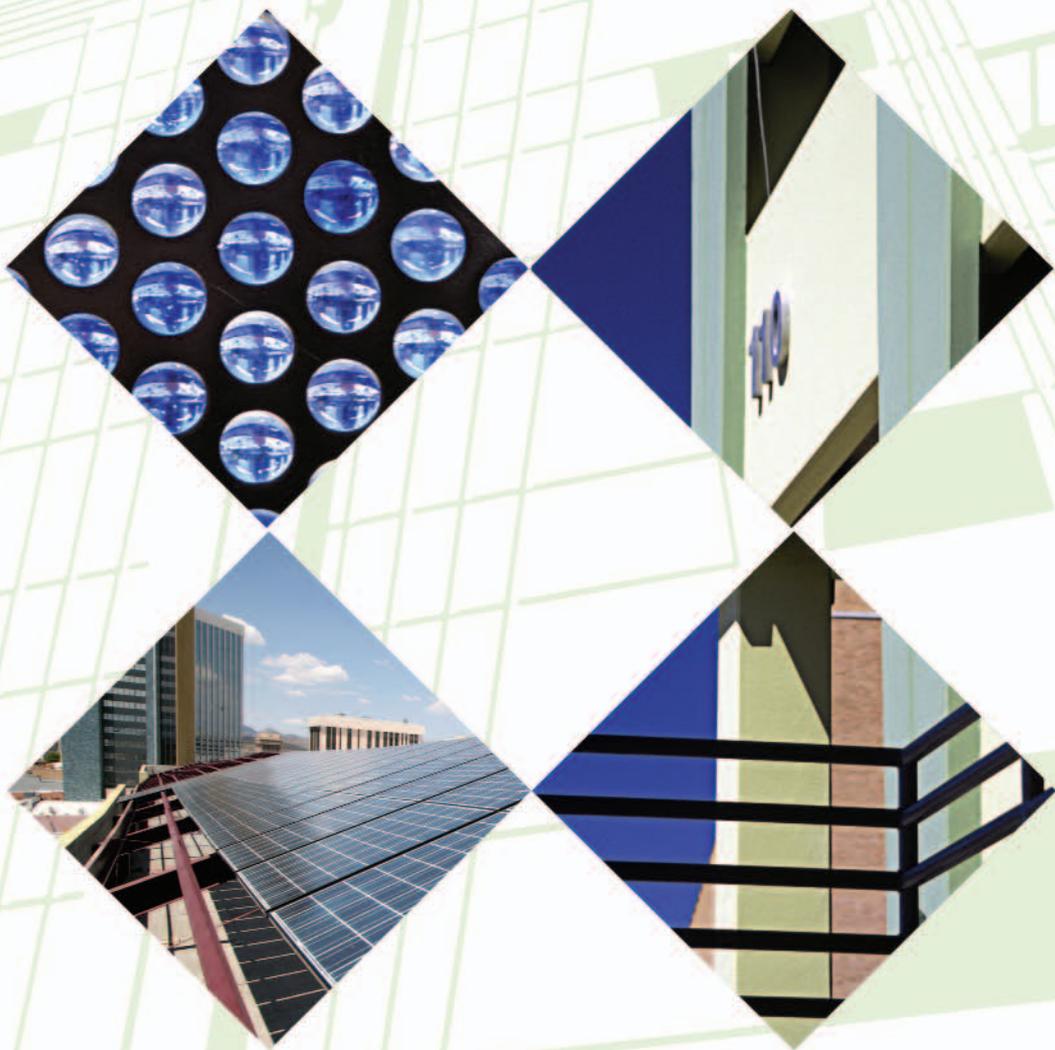
Type of Bond:	Moody's Rating		Standard and Poors Rating		Fitch Rating	
	Previous	Current	Previous	Current	Previous	Current
General Obligation Bonds	Aa3	Aa3	AA	AA	N/R	AA
Street & Highway User Revenue Bonds						
Senior Lien	A1	A1	A+	A+	N/R	AA-
Junior Lien	A2	A2	A	A	N/R	A+
Water System Revenue Bonds						
Senior Lien	Aa3	Aa3	A+	A+	AA	AA
Junior Lien	N/R	N/R	N/R	N/R	N/R	N/R
Certificates of Participation	A1	A1	AA	AA-	AA-	AA-
Rio Nuevo Multipurpose Facilities District	Aa3	Aa3	AA-	AA-	N/R	N/R

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Accounting Division, 255 W. Alameda, Tucson, Arizona 85701, (520) 791-4561, www.cityoftucson.org.



Basic Financial Statements



**CITY OF TUCSON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Primary Government			Component Unit
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Rio Nuevo</u>
<u>ASSETS</u>				
Current assets:				
Pooled Cash and Investments	\$ 69,019,264	\$ 32,648,205	\$ 101,667,469	\$
Cash and Investments - Restricted		43,149,199	43,149,199	
Cash and Investments with Fiscal Agent - Restricted	55,428,202	17,688,470	73,116,672	
Taxes Receivable, Net	42,149,964		42,149,964	2,307,681
Accounts Receivable, Net	37,734,429	18,541,309	56,275,738	8,734
Special Assessments Receivable	3,474,061		3,474,061	
Due from Other Agencies	8,575,817	48,553	8,624,370	
Interest Receivable	788,590	187,310	975,900	
Inventories	1,983,786	374,149	2,357,935	
Other Assets	4,759,060		4,759,060	566,289
Other Assets - Restricted	18,698,382	541,801	19,240,183	1,511,767
Total current assets	<u>242,611,555</u>	<u>113,178,996</u>	<u>355,790,551</u>	<u>4,394,471</u>
Noncurrent assets:				
Long Term Investments	1,068,261		1,068,261	
Long Term Accounts Receivable	11,126,310	1,376,912	12,503,222	
Long Term Notes Receivable	61,309,500		61,309,500	
Deferred Charges	4,161,697	2,645,615	6,807,312	359,226
Land and Construction in Progress	816,271,591	208,897,453	1,025,169,044	20,989,661
Other Capital Assets, Net	644,502,843	765,769,376	1,410,272,219	27,335,244
Goodwill, Net		163,978	163,978	
Water Rights, Net		725,742	725,742	
Total noncurrent assets	<u>1,538,440,202</u>	<u>979,579,076</u>	<u>2,518,019,278</u>	<u>48,684,131</u>
Total assets	<u>1,781,051,757</u>	<u>1,092,758,072</u>	<u>2,873,809,829</u>	<u>53,078,602</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts Payable	28,409,717	6,044,943	34,454,660	39,316
Accrued Payroll Liabilities	5,000,062	818,835	5,818,897	10,193
Accrued Interest Payable	14,555	14,699	29,254	23,914
Due to Other Agencies	472,909	1,055,286	1,528,195	244,929
Refundable Deposits	7,399,734	2,823,935	10,223,669	
Liabilities Payable from Restricted Assets	25,875,864	20,480,301	46,356,165	
Deferred Revenue	34,612,538	26,149	34,638,687	
Current portion of Long Term Liabilities	54,503,918	17,968,473	72,472,391	2,665,000
Total current liabilities	<u>156,289,297</u>	<u>49,232,621</u>	<u>205,521,918</u>	<u>2,983,352</u>
Noncurrent liabilities:				
Notes and Loans Payable				14,577,549
Long Term Liabilities	525,592,968	467,662,108	993,255,076	19,463,566
Total non-current liabilities	<u>525,592,968</u>	<u>467,662,108</u>	<u>993,255,076</u>	<u>34,041,115</u>
Total liabilities	<u>681,882,265</u>	<u>516,894,729</u>	<u>1,198,776,994</u>	<u>37,024,467</u>
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	998,221,324	594,423,874	1,592,645,198	26,555,565
Restricted for:				
Debt Service	14,273,336	994,202	15,267,538	
Capital	28,522,281	8,019,480	36,541,761	1,511,768
Grants and Entitlements	14,973,775		14,973,775	
Self Insurance Mandates	18,619,069		18,619,069	
Transportation	3,542,301		3,542,301	
Other Purposes	2,733,158		2,733,158	
Permanent Endowments:				
Expendable	7,146		7,146	
Unexpendable	142,456		142,456	
Unrestricted	18,134,646	(27,574,213)	(9,439,567)	(12,013,198)
Total net assets	<u>\$ 1,099,169,492</u>	<u>\$ 575,863,343</u>	<u>\$1,675,032,835</u>	<u>\$ 16,054,135</u>

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

**CITY OF TUCSON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental activities:				
Elected and Official	\$ 15,418,836	\$ 346,333	\$ 434,533	\$
Support Services	58,587,923	31,699,633	60,700	
Neighborhood Services	337,049,181	30,438,190	63,902,486	3,527,293
Environment and Development	131,039,748	27,275,045	62,555,867	17,660,315
Strategic Initiatives	14,039,464	3,328,561	168,222	
Non-Departmental	12,788,223	326,325	663,299	4,970,500
Interest	22,270,724			
Fiscal Agent Fees and Other	46,301			
Total governmental activities	<u>591,240,400</u>	<u>93,414,087</u>	<u>127,785,107</u>	<u>26,158,108</u>
Business-type activities:				
Environmental Services	39,464,082	35,506,968		237,555
Golf	10,064,093	8,980,101		841,000
Water	112,359,007	111,347,469		14,317,469
Total business-type activities	<u>161,887,182</u>	<u>155,834,538</u>		<u>15,396,024</u>
Total primary government	<u>\$ 753,127,582</u>	<u>\$ 249,248,625</u>	<u>\$127,785,107</u>	<u>\$ 41,554,132</u>
Component Unit:				
Rio Nuevo	<u>\$ 3,896,873</u>	<u>\$ 3,788,163</u>		

General revenues:

Taxes:

- Property Taxes
- Business Privilege Taxes
- Public Utility Taxes
- Transient Occupancy Taxes
- Occupational Taxes
- Liquor Taxes

Unrestricted Grants and Contributions

Contributions from City of Tucson

Investment Income (Loss)

Miscellaneous

Transfers

Total general revenues and transfers

Changes in net assets

Net assets, beginning of year, restated

Net assets, end of year

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Totals	Rio Nuevo
\$ (14,637,970)	\$	\$ (14,637,970)	
(26,827,590)		(26,827,590)	
(239,181,212)		(239,181,212)	
(23,548,521)		(23,548,521)	
(10,542,681)		(10,542,681)	
(6,828,099)		(6,828,099)	
(22,270,724)		(22,270,724)	
(46,301)		(46,301)	
<u>(343,883,098)</u>		<u>(343,883,098)</u>	
	(3,719,559)	(3,719,559)	
	(242,992)	(242,992)	
	13,305,931	13,305,931	
	<u>9,343,380</u>	<u>9,343,380</u>	
<u>\$ (343,883,098)</u>	<u>\$ 9,343,380</u>	<u>\$ (334,539,718)</u>	
			<u>\$ (108,710)</u>
30,203,848		30,203,848	
183,102,463		183,102,463	8,655,986
7,654,851		7,654,851	
10,768,492		10,768,492	
2,098,216		2,098,216	
740,742		740,742	
114,662,691		114,662,691	
			400,000
2,605,029	2,902,021	5,507,050	(3,460)
7,100,302		7,100,302	
(3,971,822)	3,971,822		
<u>354,964,812</u>	<u>6,873,843</u>	<u>361,838,655</u>	<u>9,052,526</u>
11,081,714	16,217,223	27,298,937	8,943,816
<u>1,088,087,778</u>	<u>559,646,120</u>	<u>1,647,733,898</u>	<u>7,110,319</u>
<u>\$1,099,169,492</u>	<u>\$575,863,343</u>	<u>\$1,675,032,835</u>	<u>\$ 16,054,135</u>

CITY OF TUCSON, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Pooled Cash and Investments	\$ 3,442,557	\$ 62,139,133	\$ 65,581,690
Cash/Investments with Fiscal Agent	24,843,838	30,584,364	55,428,202
Long Term Investments		1,068,261	1,068,261
Taxes Receivable - Current	42,149,964		42,149,964
Accounts Receivable, Net	14,333,076	12,137,101	26,470,177
Special Assessments Receivable		3,474,061	3,474,061
Notes and Loans Receivable	18,963,638	42,345,862	61,309,500
Advances to Other Funds	7,180,590		7,180,590
Due from Other Agencies	8,044,252	531,565	8,575,817
Interfund Receivable	21,713,112	6,838,635	28,551,747
Grants and Entitlements Receivable		22,169,637	22,169,637
Interest Receivable	88,645	235,388	324,033
Inventories	1,983,786		1,983,786
Other Assets	34,287	4,724,773	4,759,060
Total assets	\$ 142,777,745	\$ 186,248,780	\$ 329,026,525
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts Payable	\$ 12,759,915	\$ 10,550,663	\$ 23,310,578
Accrued Payroll Liabilities	3,805,256	1,095,322	4,900,578
Advances from Other Funds		7,180,590	7,180,590
Interfund Payable	6,838,635	21,713,112	28,551,747
Due to Other Agencies		472,032	472,032
Refundable Deposits	5,578,098	1,821,438	7,399,536
Bonds and Interest Payable, including Special Assessments		25,875,864	25,875,864
Deferred Revenue	15,734,349	43,043,152	58,777,501
Total liabilities	44,716,253	111,752,173	156,468,426
Fund balances (deficits):			
Reserved for Debt Service	3,272,423	7,244,409	10,516,832
Reserved for Capital Improvements	23,573,238	44,790,048	68,363,286
Reserved for Advances and Deposits	23,670,882	13,170	23,684,052
Reserved for Inventories	1,983,786		1,983,786
Reserve for Other Purposes	2,491,303	16,797,576	19,288,879
Unreserved:			
Undesignated	28,315,663		28,315,663
Designated	14,754,197		14,754,197
Unreserved reported in:			
Special revenue funds		9,331,994	9,331,994
Capital projects funds		(3,680,590)	(3,680,590)
Total fund balances	98,061,492	74,496,607	172,558,099
Total liabilities and fund balances	\$ 142,777,745	\$ 186,248,780	\$ 329,026,525

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

CITY OF TUCSON, ARIZONA
Reconciliation of the Balance Sheet for
Governmental Funds to the Statement of Net Assets
June 30, 2005

Total Governmental Fund Balances (page 20)		\$ 172,558,099
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. These assets consist of:		
Capital Assets Net of Accumulated Depreciation		1,438,867,706
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		
		4,161,697
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. These liabilities consist of:		
Bonds and Notes Payable	(412,444,668)	
Capital Leases	(94,472,378)	
Compensated Absences	(28,051,169)	
Total Long-term Liabilities	(534,968,215)	
Interest payable on long-term debt is not reported in governmental funds.		
		(13,836)
Deferred revenue is shown in the governmental statements, because it will not be available as a current financial resource. Since this revenue is earned, it is recognized in the government-wide statements.		
		24,164,963
Internal service funds' assets and liabilities are included in the Statement of Net Assets since they primarily support the governmental activities.		
		(5,600,922)
Net Assets of Governmental Activities (page 17)		\$ 1,099,169,492

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

CITY OF TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 211,795,324	\$ 21,274,250	\$ 233,069,574
Licenses and Permits	18,593,626	908,798	19,502,424
Fines and Forfeitures	10,341,491	1,216,870	11,558,361
Use of Money and Property	2,621,347	3,283,583	5,904,930
Federal Grants and Contributions		70,681,079	70,681,079
Other Agencies	126,372,735	69,638,196	196,010,931
Charges for Services	39,266,187	16,461,320	55,727,507
Special Assessments		863,322	863,322
Miscellaneous	4,564,314	2,785,180	7,349,494
Total revenues	<u>413,555,024</u>	<u>187,112,598</u>	<u>600,667,622</u>
Expenditures:			
Current -			
Elected and Official	14,622,301	313,819	14,936,120
Support Services	53,927,885	40,546	53,968,431
Neighborhood Services	229,908,518	81,115,494	311,024,012
Environment and Development	17,844,265	85,666,475	103,510,740
Strategic Initiatives	2,457,817	10,839,519	13,297,336
Non-Departmental	11,502,112	474,713	11,976,825
Capital Outlay	3,432,523	5,411,497	8,844,020
Capital Projects	34,699,532	52,027,944	86,727,476
Debt service -			
Principal	4,214,239	18,177,114	22,391,353
Interest	2,834,308	19,436,416	22,270,724
Fiscal Agent Fees and Other	23,598	22,703	46,301
Issuance Cost of Debt	997,378	1,366,394	2,363,772
Total expenditures	<u>376,464,476</u>	<u>274,892,634</u>	<u>651,357,110</u>
Excess (deficiency) of revenues over expenditures	<u>37,090,548</u>	<u>(87,780,036)</u>	<u>(50,689,488)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds		109,719,606	109,719,606
Lease Purchase and Contracts Proceeds	44,784,153	11,124,130	55,908,283
Premium on Issuance of Debt	1,332,519	6,722,376	8,054,895
Transfers from Other Funds	2,726,435	62,579,246	65,305,681
Payment to Refunded Bond Escrow Agent	(1,465,000)	(90,978,595)	(92,443,595)
Transfers to Other Funds	(59,769,496)	(13,646,437)	(73,415,933)
Total other financing sources (uses)	<u>(12,391,389)</u>	<u>85,520,326</u>	<u>73,128,937</u>
Changes in fund balances	<u>24,699,159</u>	<u>(2,259,710)</u>	<u>22,439,449</u>
Fund balances, beginning of year	73,362,333	76,756,317	150,118,650
Fund balances, end of year	<u>\$ 98,061,492</u>	<u>\$ 74,496,607</u>	<u>\$ 172,558,099</u>

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

CITY OF TUCSON, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds (page 22)		\$ 22,439,449
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:</p>		
Capital Expenditures	95,571,496	
Depreciation Expense	<u>(37,979,936)</u>	57,591,560
<p>Only gains or losses on sale of capital assets are reported in the Statement of Activities, whereas total proceeds are recorded in the governmental funds. The change in net assets differs by the the cost of the assets sold.</p>		
Proceeds on the sale of an asset	(6,410,028)	
Gain on the sale of an asset	3,031,232	
Loss on the sale of an asset	<u>(2,271,861)</u>	(5,650,657)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		8,140,812
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments:</p>		
Debt Proceeds	(165,627,889)	
Repayment of Debt Principal	<u>22,391,353</u>	(143,236,536)
<p>Refunding of debt is an expenditure in the governmental funds. However, these expenditures represent a reduction of a liability on the Statement of Net Assets.</p>		
Extinguishment of Debt	88,497,575	
Payment of Refunded Bond Escrow	<u>3,946,020</u>	92,443,595
<p>Issuance costs are deferred in the Statement of Assets and amortized over the life of the debt. In the governmental funds, they represent an expenditure. The following amount represents the amount by which issuance costs exceeded amortization expenses.</p>		
Issuance Costs	2,363,772	
Amortization of Issuance Costs	<u>(252,411)</u>	2,111,361
<p>Accrued interest expense is not recorded in the governmental funds. The following amount represents the amount by which the premium on debt exceeds a discount, accrued interest expense and the amortization of the premium:</p>		
Premium on Issuance of Debt	(8,054,895)	
Accrued Interest Expense	(4,560)	
Amortization of Premium on Debt	<u>225,395</u>	(7,834,060)
<p>Governmental funds do not recognize the changes in long-term debt:</p>		
Change in Compensated Absences Liability		(2,436,712)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet services, to individual funds. The net revenue (expense) of the internal service funds is reported within governmental activities.</p>		
		(12,487,098)
Change in Net Assets of Governmental Activities (page 19)		<u>\$ 11,081,714</u>

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

**CITY OF TUCSON, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005**

Enterprise Funds

	Environmental Services	Water Utility Fund	Non-Major Enterprise Fund	Total	Governmental Activities: Internal Service Funds
ASSETS					
Current assets:					
Pooled Cash and Investments	\$ 2,708,946	\$ 27,728,342	\$ 2,210,917	\$ 32,648,205	\$ 3,437,574
Cash and Investments - Restricted	7,912,011	35,237,188		43,149,199	
Cash and Investments with Fiscal Agent - Restricted	853,145	16,773,007	62,318	17,688,470	
Accounts Receivable, Net Due from Other Agencies	2,910,047	15,627,166	4,096	18,541,309	220,925
Interest Receivable	48,553			48,553	
Inventories	6,004	179,974	1,332	187,310	464,557
Other Assets - Restricted		122,308	251,841	374,149	
		541,801		541,801	18,698,382
Total current assets	14,438,706	96,209,786	2,530,504	113,178,996	22,821,438
Noncurrent assets:					
Long Term Accounts Receivable		1,376,912		1,376,912	
Deferred Charges	164,924	2,422,724	57,967	2,645,615	
Land and Construction in Progress	10,229,518	192,680,790	5,987,145	208,897,453	30,242
Other Capital Assets, Net	16,521,589	737,354,243	11,893,544	765,769,376	21,876,486
Goodwill, Net		159,079	4,899	163,978	
Water Rights, Net		725,742		725,742	
Total noncurrent assets	26,916,031	934,719,490	17,943,555	979,579,076	21,906,728
Total assets	41,354,737	1,030,929,276	20,474,059	1,092,758,072	44,728,166
LIABILITIES					
Current liabilities:					
Accounts Payable	1,200,978	4,531,997	311,968	6,044,943	5,099,139
Accrued Payroll Liabilities	215,226	543,171	60,438	818,835	99,484
Accrued Interest Payable	14,699			14,699	719
Due to Other Agencies	2,234	1,041,960	11,092	1,055,286	877
Refundable Deposits	28,904	2,795,031		2,823,935	198
Current Portion of Bonds Payable		11,083,842		11,083,842	
Current Portion of Contracts Payable	1,264,071	115,661	320,000	1,699,732	24,711
Current Portion of Claims Payable					10,029,456
Current Portion of Compensated Absences	632,826	1,896,492	85,068	2,614,386	
Liabilities Payable from Restricted Assets	853,146	19,627,155		20,480,301	
Deferred Revenue		5,000	21,149	26,149	
Current portion of Long Term Liabilities	2,570,513			2,570,513	
Total current liabilities	6,782,597	41,640,309	809,715	49,232,621	15,254,584
Noncurrent liabilities:					
Bonds Payable	41,888,811	378,284,018		420,172,829	
Contracts Payable	1,185,875	483,809	3,830,970	5,500,654	39,190
Claims Payable					35,035,314
Compensated Absences	608,641	1,296,667	118,160	2,023,468	
Long Term Liabilities	39,965,157			39,965,157	
Total non-current liabilities	83,648,484	380,064,494	3,949,130	467,662,108	35,074,504
Total liabilities	90,431,081	421,704,803	4,758,845	516,894,729	50,329,088
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	3,949,080	576,713,350	13,761,444	594,423,874	21,842,827
Restricted for Debt Service	853,145	141,057		994,202	
Restricted for Capital	7,912,011	45,151	62,318	8,019,480	79,313
Restricted for Other Purposes					18,619,069
Unrestricted	(61,790,580)	32,324,915	1,891,452	(27,574,213)	(46,142,131)
Total net assets	\$ (49,076,344)	\$ 609,224,473	\$ 15,715,214	\$ 575,863,343	\$ (5,600,922)

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

CITY OF TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds				Governmental Activities: Internal Service Funds
	Environmental Services	Water Utility Fund	Non-Major Enterprise Fund	Total	
Operating revenues:					
Charges for Services	\$ 34,013,740	\$ 109,618,367	\$ 8,980,101	\$ 152,612,208	\$ 35,444,992
Other Agencies	88,829			88,829	
Miscellaneous	1,493,228	1,729,102		3,222,330	203,950
Total operating revenues	<u>35,595,797</u>	<u>111,347,469</u>	<u>8,980,101</u>	<u>155,923,367</u>	<u>35,648,942</u>
Operating expenses:					
Personal Services	14,647,718	30,512,627	4,240,148	49,400,493	6,544,355
Contractual Services	11,929,285	35,771,356	2,292,217	49,992,858	6,580,373
Commodities	3,754,384	7,585,807	2,244,656	13,584,847	9,915,634
Cost of Goods Sold			342,848	342,848	
Benefits and Claims					24,419,951
Depreciation	7,306,145	19,911,030	658,720	27,875,895	5,550,132
Total operating expenses	<u>37,637,532</u>	<u>93,780,820</u>	<u>9,778,589</u>	<u>141,196,941</u>	<u>53,010,445</u>
Operating income (loss)	<u>(2,041,735)</u>	<u>17,566,649</u>	<u>(798,488)</u>	<u>14,726,426</u>	<u>(17,361,503)</u>
Nonoperating revenues (expenses):					
Investment Income	43,671	1,174,078	34,892	1,252,641	365,762
Gain (Loss) on Sale of Property/Equipment	70,489	436,283	1,142,608	1,649,380	373,623
Federal Grants and Contributions	81,638	9,982		91,620	
Other Agencies			841,000	841,000	
Interest Expense	(1,806,732)	(17,992,230)	(280,235)	(20,079,197)	(3,410)
Amortization of Cost Issuance	(19,818)	(108,206)	(5,269)	(133,293)	
Other Nonoperating Income (Expenses)	(477,751)	(477,751)		(477,751)	
Total nonoperating revenues (expenses)	<u>(1,630,752)</u>	<u>(16,957,844)</u>	<u>1,732,996</u>	<u>(16,855,600)</u>	<u>735,975</u>
Income (loss) before capital contributions and transfers	<u>(3,672,487)</u>	<u>608,805</u>	<u>934,508</u>	<u>(2,129,174)</u>	<u>(16,625,528)</u>
Capital Contributions	67,088	14,307,487		14,374,575	
Transfers In	6,269,535			6,269,535	4,366,854
Transfers Out	(2,292,713)	(5,000)		(2,297,713)	(228,424)
Changes in net assets	<u>371,423</u>	<u>14,911,292</u>	<u>934,508</u>	<u>16,217,223</u>	<u>(12,487,098)</u>
Total net assets, beginning of year, as restated	<u>(49,447,767)</u>	<u>594,313,181</u>	<u>14,780,706</u>	<u>559,646,120</u>	<u>6,886,176</u>
Total net assets, end of year	<u>\$ (49,076,344)</u>	<u>\$ 609,224,473</u>	<u>\$ 15,715,214</u>	<u>\$ 575,863,343</u>	<u>\$ (5,600,922)</u>

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

**CITY OF TUCSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

Enterprise Funds

	Environmental Services	Water Utility Fund	Non-Major Enterprise Fund	Total	Governmental Activities: Internal Service Funds
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 32,755,918	\$ 112,533,412	\$ 9,013,489	\$ 154,302,819	\$ 35,676,699
Cash Payments to Suppliers for Goods and Services	(14,666,712)	(42,704,046)	(4,824,877)	(62,195,635)	(32,444,364)
Cash Payments to Employees for Services	(14,597,751)	(30,602,325)	(4,244,947)	(49,445,023)	(6,555,489)
Other Operating Revenues	1,528,417			1,528,417	165,045
Net Cash Provided (Used) by Operating Activities	<u>5,019,872</u>	<u>39,227,041</u>	<u>(56,335)</u>	<u>44,190,578</u>	<u>(3,158,109)</u>
Cash Flows from Noncapital Financing Activities:					
Transfer from Other Funds	1,655,000			1,655,000	
Transfers to Other Funds	(2,845,306)			(2,845,306)	(228,424)
Subsidy from Federal Grant	81,638	9,982		91,620	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,108,668)</u>	<u>9,982</u>		<u>(1,098,686)</u>	<u>(228,424)</u>
Cash Flows from Capital and Related Financing Activities:					
Bond Proceeds	7,370,036	35,364,108		42,734,144	
Transfer of Bond Proceeds from Other Funds	4,614,535			4,614,535	
Acquisition and Construction of Capital Assets	(167,770)	(27,563,584)	(1,429,895)	(29,161,249)	(2,929,840)
Principal Paid on Capital Debt	(1,169,210)	(10,400,113)	(305,000)	(11,874,323)	
Interest Paid on Capital Debt	(1,801,962)	(17,979,728)	(244,015)	(20,025,705)	(23,635)
Landfill Closure Costs	(4,002,824)			(4,002,824)	(11,601)
Fiscal Agent Fees Paid on Capital Debt		(477,750)		(477,750)	
Proceeds from Sale of Assets/Equipment	70,800	427,756	3,491,355	3,989,911	633,262
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>4,913,605</u>	<u>(20,629,311)</u>	<u>1,512,445</u>	<u>(14,203,261)</u>	<u>(2,331,814)</u>
Cash Flows from Investing Activities:					
Interest on Investments	17,127	1,638,218	37,269	1,692,614	377,185
Proceeds from Sale of Investments					1,801,513
Net Cash Provided (Used) by Investing Activities	<u>17,127</u>	<u>1,638,218</u>	<u>37,269</u>	<u>1,692,614</u>	<u>2,178,698</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>8,841,936</u>	<u>20,245,930</u>	<u>1,493,379</u>	<u>30,581,245</u>	<u>(3,539,649)</u>
Cash and Cash Equivalents - July 1	<u>1,779,021</u>	<u>42,719,600</u>	<u>717,538</u>	<u>45,216,159</u>	<u>6,977,223</u>
Cash and Cash Equivalents - June 30	<u>\$ 10,620,957</u>	<u>\$ 62,965,530</u>	<u>\$ 2,210,917</u>	<u>\$ 75,797,404</u>	<u>\$ 3,437,574</u>

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

**CITY OF TUCSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

Enterprise Funds

	Environmental Services	Water Utility Fund	Non-Major Enterprise Fund	Total	Governmental Activities: Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income	\$ (2,041,735)	\$ 17,566,649	\$ (798,488)	\$ 14,726,426	\$ (17,361,503)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation/Goodwill Amortization	7,306,145	19,911,030	658,720	27,875,895	5,550,132
Provision for Landfill Closure	673,504			673,504	
Other Adjustments	80,381			80,381	
Decrease (Increase) in Assets:					
Accounts Receivable	(1,790,561)	(1,238,041)	41,086	(2,987,516)	(113,589)
Internal Receivable	441,100			441,100	245,910
Due from Other Agencies	(48,553)	143,700		95,147	62,782
Prepaid Expense		1,505	2,316	3,821	
Inventory		(14,699)	1,637	(13,062)	
Long Term Accounts Receivable		258,095		258,095	
Increase (Decrease) in Liabilities:					
Accounts Payable	900,050	366,218	67,098	1,333,366	4,261,002
Accrued Payroll Liabilities	(29,556)	(127,623)	(6,089)	(163,268)	(11,134)
Accrued Compensated Absences	79,523	37,925		117,448	
Unearned Receipts		(5)		(5)	
Customer/Refundable Deposits	6,171	2,165,894		2,172,065	198
Due to Other Agencies	(4,004)	169,383	(16,208)	149,171	225
Due to Other Funds - Unrestricted	(552,593)	(12,990)		(565,583)	(1,144,260)
Claims and Judgements Payable					5,352,128
Decrease in Other Operating Liabilities			(6,407)	(6,407)	
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,019,872</u>	<u>\$ 39,227,041</u>	<u>\$ (56,335)</u>	<u>\$ 44,190,578</u>	<u>\$ (3,158,109)</u>

Noncash investing, capital and financing activities:

During the year developers contributed water systems valued at \$6,869,239. Other noncash transactions include \$146,003 write off of the Rita Ranch payable. The Water Utility Fund holds a long term promissory note for \$1,500,000 from Starr Pass Resort Developers LLC for the construction of certain water systems on Starr Pass's behalf.

In the Fleet Service Internal Service Fund, City funds contributed vehicles and equipment with a net book value of \$4,366,854.

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

CITY OF TUCSON, ARIZONA
STATEMENT OF FIDUCIARY FUNDS NET ASSETS
JUNE 30, 2005

	<u>Pension Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Pooled Cash and Investments	\$ 1,566,343	\$ 2,815,950
Accounts Receivable, Net		2,924,700
Employer Contributions	837,577	
Employee Contributions	513,342	
Interest Receivable		5,896
Interest and Dividends	2,193,035	
Due from Brokers	4,783,586	
Short-term Investments	5,761,617	
Securities Lending Collateral	47,449,522	
U.S. Government Obligations	113,479,991	
Bonds and Preferred Stocks	44,510,967	
Other Assets		292,330
Common Stocks	284,758,229	
International Investments	81,560,958	
Mutual Funds	74,123,361	
Real Estate	30,232,095	
Other Capital Assets, Net	10,748	
Total assets	<u>691,781,371</u>	<u>\$ 6,038,876</u>
<u>LIABILITIES</u>		
Accounts Payable	504,241	2,799,300
Accrued Payroll Liabilities	3,295	
Due to Other Agencies	48,000	3,239,576
Due to Securities Borrowers	47,449,522	
Due to Brokers	14,286,225	
Refundable Deposits	2,035	
Total liabilities	<u>62,293,318</u>	<u>\$ 6,038,876</u>
<u>NET ASSETS</u>		
Held in trust	<u>\$ 629,488,053</u>	

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

CITY OF TUCSON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2005

	<u>Pension Trust</u>
Additions:	
Employer	\$ 21,423,488
Employees	15,701,987
Other Plans	857,399
Net Increase (Decrease) in Fair Value of Investment	34,285,740
Interest, Dividends and Other Income	17,085,504
Securities Lending Income	1,171,410
Less: Investment Activity Expense	(2,598,968)
Less: Securities Lending Expense	(1,076,589)
Miscellaneous Additions	43,387
Total additions	<u>86,893,358</u>
Deductions:	
Payments to Participants	32,318,565
Refunds and Transfers to Other Plans	5,276,381
Administrative Expense	530,469
Total deductions	<u>38,125,415</u>
Changes in net assets	<u>48,767,943</u>
Net assets, beginning of year	580,720,110
Net assets, end of year	<u><u>\$ 629,488,053</u></u>

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



CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting framework and the most significant accounting principles and practices of the City of Tucson (City) are discussed in subsequent sections of this note. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

These financial statements represent the City and its component units. The component units of the City are discussed below:

The Rio Nuevo Multipurpose Facilities District (District) was created in July 1999 to take advantage of a State law under which the State will provide incremental tax financing to help develop multipurpose facilities in the downtown Tucson area. The District is governed by a Board of Directors appointed by the Mayors and Councils of the Cities of Tucson and South Tucson. Through a weighted-average voting system, the City maintains control of the District. The governing body of the District is not substantially the same as the governing body of the City, and the District will provide revitalization and economic development opportunities in the downtown area of the City. Therefore, the District is included within these basic financial statements as a discretely presented component unit. Separately issued financial statements are not prepared.

The Tucson Supplemental Retirement System (System or TSRS) is a single-employer defined benefit plan established by the City and administered by a seven-member Board of Trustees. Although the system is a separate legal entity and presents separate financial statements, its sole purpose is to provide services exclusively to the City; therefore, it is included as a Pension Trust Fund in these basic financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., Statement of Net Assets and Statement of Activities) report information on all nonfiduciary activities of the primary government. Governmental activities, which are normally supported by taxes and intergovernmental revenues, include all governmental funds, along with internal service funds. Business-type activities, which rely to a significant extent on fees and charges for services, include the enterprise funds and are reported separately from the governmental activities.

The Statement of Net Assets reports the assets and liabilities of the primary government. The net asset section of this statement represents the residual amount of assets less their associated liabilities. The net asset section is divided into three categories. The first category is *Invested in Capital Assets, Net of Related Debt*, which includes all capital assets, net of accumulated depreciation, less any debt outstanding associated with the assets. Capital assets cannot readily be sold and converted into cash. The second category is *Restricted Net Assets*, which includes those assets, net of their related debt, that have a constraint placed on their use. The constraints are either: 1) externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws and regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. The final section is *Unrestricted Net Assets*, and this represents net assets that generally can be used for any purpose. However, they are not necessarily in a spendable form, like cash.

The Statement of Activities shows the degree to which direct expenses of various City functions are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges for services, fines and forfeitures, and licenses and fees, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items, which are not specifically identifiable with a particular function or segment, are reported as general revenues at the bottom of the statement. The general revenues support the net costs of the functions and segments not covered by program revenues.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Separate financial statements are provided for the governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. In general, major individual funds are reported as separate columns in the fund financial statements, while nonmajor funds are displayed in aggregate.

C. Basis of Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The City accounts for the operations of each fund through a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1. Governmental Funds

Major Fund:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Nonmajor Funds:

Special Revenue Funds - These funds and certain other governmental funds are used to account for the proceeds of specific revenue sources (other than proprietary and fiduciary functions) that are restricted to expenditures for specified purposes. This includes federal grants and various City functions such as Tucson Convention Center and Library.

Debt Service Funds - These funds and certain other governmental funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs for General Obligation, Street and Highway, and Special Assessment Bonds.

Capital Project Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by General, Special Revenue, or Proprietary Funds) using proceeds from the sale of General Obligation, Street and Highway, and Special Assessment Bonds.

Permanent Fund - This fund is used to account for non-City contributions legally restricted so that only earnings, and not principal, may be used to finance City programs.

2. Enterprise Funds

These funds are used to account for certain operations that provide services to the general public for a fee. Enterprise funds are required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity; 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges; or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The City has three enterprise funds:

Major Funds:

The Water Utility Fund accounts for the financing and operation of all activities necessary to provide water services to the Tucson metropolitan area. Since the Water Utility is a segment accounted for within an individual fund, no further segment information is presented in these notes.

The Environmental Services Fund accounts for the financing and operation of all activities necessary to provide solid waste services to residential and commercial customers in the Tucson metropolitan area. Since the Environmental Services Fund is a segment accounted for within an individual fund, no further segment information is presented in these notes.

Nonmajor Fund:

The Golf Course Fund accounts for the financing and operation of the City's golf courses, driving ranges, pro shops and clubhouses. Since the Golf Fund is a segment accounted for within an individual fund, no further segment information is presented in these notes.

3. Internal Service Funds

These funds are used to account for the financing of self insurance and motor pool (fleet) services provided to City departments on a cost-reimbursement basis. Because the principal users of the internal service funds are equally divided between governmental and business-type activities, the assets and liabilities of the internal service funds are allocated between the respective columns on the government-wide Statement of Net Assets. The costs of the internal service fund services are spread to the appropriate functions on the government-wide Statement of Activities, and the revenues and expenses within the internal service funds are eliminated from the government-wide financial statements to avoid any "doubling-up" effect of these revenues and expenses.

4. Fiduciary Funds

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Pension Trust and Agency Funds. The Pension Trust Funds, which include the City's pension and deferred compensation plan, are accounted for in essentially the same manner as proprietary funds. Agency Funds, which include collections for payment of medical insurance premiums and Pima County sewer collections, are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

D. Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported on the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary and pension trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 susceptible to accrual (i.e., when they are both "measurable and available"). "Measurable" means that the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when the related liability is incurred. However, principal and interest on long-term debt are recorded as fund liabilities when the payment is due or when amounts have been accumulated in the debt service fund for payment early in the following fiscal year. Certain compensated absences, and claims and judgment expenditures are recorded when payment is due. In general, only matured assets and liabilities are shown on the balance sheets, and unreserved fund balance is considered a measure of "available spendable resources."

Major revenue sources susceptible to accrual are property taxes and special assessments when an enforceable legal claim has arisen, grants and similar items when all eligibility requirements are met, and privilege and other taxes. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

Governmental fund inventories, deposits, and long-term advances receivable do not represent "available spendable resources" and are offset by fund balance reserve accounts.

The City's proprietary funds apply all applicable Financial Accounting Standards Board (FASB) Statements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity. Water connection fees for the Water Utility, established at an amount necessary to recover related costs, are recorded as non-operating revenues.

The City does not currently employ an indirect cost allocation system. The general fund and certain other funds charge service fees to other operating funds to support general services used by the operating funds (like accounting and maintenance). These fees are shown as expenditure credits to prevent the "doubling-up" effect within the funds.

E. Budgetary Information

On June 3, 1980, the voters of the State of Arizona approved an expenditure limitation that is applicable to all local governments. This limitation, based on expenditures of the 1979-80 fiscal year, restricts the growth of expenditures based on a factor of increases in population and inflation. Certain expenditures are held to be excludable. The limitation is set by the State Economic Estimates Commission prior to April 1 of each year for the following fiscal year.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The City, therefore, formulates its annual budget to ensure compliance with the applicable provisions of this limitation. The City uses the following procedures and policies in establishing the budgetary data reflected in the financial statements:

1. On or before the first Monday in June of each year, the City Manager submits to the Mayor and Council a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed operating and capital expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, Mayor and Council legally enact the budget through passage of a resolution. Legal control over the budget derives from State statutes that prohibit the City from exceeding its adopted budget by purpose. Purpose is defined as a series of departments/offices as follows: Elected Officials, Neighborhood Services, Environment and Development, Strategic Initiatives, Support Services and Non-Departmental. Transfers between programs can be made upon Mayor and Council approval.
4. All appropriations lapse at year-end.
5. Supplementary budgetary appropriations would require approval of Mayor and Council; none were necessary during the fiscal year ended June 30, 2005.

F. Encumbrances

The City of Tucson utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. All appropriations lapse on the last day of the fiscal year. Any outstanding commitments that the City intends to honor are re-budgeted in the new fiscal year. At June 30, 2005, the City intended to honor \$69,790,781 of outstanding encumbrances in the new year.

General Fund	\$	24,313,917
Library Fund		94,017
Public Safety Academy		23,970
TEAM/Parkwise Fund		1,964,632
Convention Center Fund		87,535
H.U.R.F. Fund		1,769,916
Civic Contribution Fund		110,528
Human and Community Development Fund		3,137,672
Public Housing Fund		26,680
Miscellaneous Housing Grant Fund		3,393,651
Development Fee Fund		296,433
2000 Street and Highway		932,440
1994 General Obligation		207,955
2000 General Obligation		13,112,616
Other Federal Grants Fund		3,717,023
Non-Federal Grants Fund		551,473
Mass Transit Fund		16,050,323
	\$	69,790,781

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

G. Cash and Cash Equivalents

For purposes of the statements of cash flows, which are prepared for the enterprise and internal service funds, the City considers all highly-liquid investments (including the funds' participation in the investment pool account and appropriate restricted assets) to be cash equivalents. Individual fund investments with an initial maturity of 3 months or less when purchased are considered to be cash equivalents.

H. Investments

Investments are reported at fair value. The fair value of the pooled investments is based on current market prices. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value.

Interest and dividend income is recognized on the modified accrual basis, except for proprietary funds that are on the accrual basis. Changes in the fair value of investments are recognized as revenue on a monthly basis.

Income from pooled investments is allocated to the individual funds based on each fund's monthly average daily cash balance in relation to the total pooled investments. City management has determined that the investment income related to certain funds should be allocated to the General Fund. This is the case for certain special revenue funds. Income from non-pooled investments is recorded based on the specific investments held by the fund. All other interest income is recorded in the fund that earned the interest.

I. Accounts/Notes Receivable

Accounts Receivable of the major and nonmajor governmental and proprietary funds and fiduciary funds as of June 30, 2005, are reported in the accompanying basic financial statements net of allowance for doubtful accounts, as follows:

		Other Nonmajor					
	General Fund	Governmental Funds	Internal Services Funds	Environmental Services Fund	Water Utility Fund	Non-Major Enterprise Fund	Fiduciary Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accounts Receivable	\$ 15,739,385	\$ 12,763,072	\$ 220,925	\$ 2,990,428	\$ 15,906,700	\$ 4,096	\$ 2,924,700
Less: Allowance for Doubtful Accounts	<u>1,406,309</u>	<u>625,971</u>	<u> </u>	<u>80,381</u>	<u>279,534</u>	<u> </u>	<u> </u>
	<u>\$ 14,333,076</u>	<u>\$ 12,137,101</u>	<u>\$ 220,925</u>	<u>\$ 2,910,047</u>	<u>\$ 15,627,166</u>	<u>\$ 4,096</u>	<u>\$ 2,924,700</u>

The Water Utility Funds' assets and revenues include \$6,671,005 for water sales delivered, but unbilled at June 30, 2005.

The Community Services Department provides many loans to homeowners through Housing and Urban Development financing. The loans are placed on each homeowner's title as a lien against the property naming the City as the lienholder. Dependent upon the homeowner's qualification, an affordability period (from 5 to 20 years) is determined. Each lien is forgiven evenly over the determined affordability period. The City only receives a payoff if a property is sold prior to the end of the affordability period (some sales do not result in payment to the City). Less than 10% of these liens have resulted in payoffs to the City in the past 5 years and have totaled approximately 5% of the original loans. As of June 30, 2005, these loans totaled \$7,214,072. Due to the immateriality and infrequent payoff of these loans, notes receivable are not recorded, and the revenues for such amounts are recorded when payments are received.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

J. Inventories/Prepays

Inventories and prepaid items are reported using the consumption method. Inventories of the governmental and enterprise funds consist primarily of expendable supplies held for consumption. These inventories are maintained on a perpetual system and are primarily valued using the weighted-average cost method, which is not in excess of market. At the time inventories/prepays are consumed, expenditures are recorded in the governmental funds and expenses are recorded in the enterprise funds. In the governmental funds, a reservation of fund balance is established for the inventory amount. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. A reservation of funds is established for prepaid items that are material.

K. Restricted Assets/Liabilities

In accordance with applicable covenants of enterprise fund bond issues or other agreements, appropriate assets and liabilities have been restricted. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

L. Capital Assets

Capital assets, which include property, equipment, buildings, and infrastructure assets (such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems), are depreciated and reported in the applicable governmental or business-type activity columns in the government-wide financial statements. No capital assets or depreciation are shown in the governmental fund financial statements.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimated useful lives for City assets are determined on a variety of methods that include engineering estimates, industry standards, and replacement cycles. Additions subsequent to that date are stated at cost. Donated capital assets are valued at their estimated fair value on the date donated. The capitalization threshold for equipment is \$5,000.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized. Construction of capital assets and improvements are capitalized when the project is completed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives. Land and construction-in-progress are not depreciated.

	<u>Estimated Useful Life (Years)</u>
Buildings and Building Improvements	20-40
Improvements Other Than Buildings	10-40
Wells, Tanks and Improvements	40-100
Machinery and Equipment	3-20

The City's policy is to capitalize interest on proprietary fund capital projects if it is material, based upon the weighted-average interest method. No interest costs have been capitalized during the fiscal year in the Water Utility, Environmental Services, or Golf Course Funds as the amounts were not material. Interest on general government capital projects is not capitalized.

Neither the Water Utility Fund, the Environmental Services Fund, nor the Golf Course Fund levies special assessments to construct or purchase capital assets.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

M. Goodwill and Water Rights

Enterprise fund goodwill is recorded upon acquisition of water companies or golf courses and represents the excess of cost over the fair market value at the time of acquisition. Goodwill is being amortized over forty (40) years on the straight-line method. The total goodwill and the amount amortized at June 30, 2005, were \$1,122,154/\$963,075 and \$65,184/\$60,285 for the Water Utility Fund and Golf Course Fund, respectively.

Water rights are recorded at historical cost and amortized over 40 years using the straight-line method. Total water rights and the amount amortized at June 30, 2005 were \$749,157/\$23,415 for the Water Utility Fund.

N. Long-term Obligations

In the government-wide financial statements and for the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond 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 bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

The amount capitalized under capital leases is the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. When a governmental fund type acquires a capital asset through a capital lease agreement, the acquisition is reflected as an expenditure and other financing source. Capitalized leases of proprietary funds are accounted for entirely within the respective proprietary fund by capitalizing the asset acquired and recording the lease obligation as a liability.

Bonds and other long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Compensated absences are recognized as fund liabilities to the extent the liabilities mature or come due for payment each period in the governmental fund statements. These costs are accrued and reported as liabilities in the Statement of Net Assets.

O. Fund Equity

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

1. In addition to the reserves for inventories, the City has established other reservations of fund balances as follows:

Reserved for Debt Service represents amounts maintained under the provisions of various bond ordinances or amounts reserved for future debt service requirements.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Reserved for Capital represents the following: proceeds from capital lease agreements to be used for various capital projects and other various construction projects in the General Fund (\$23,573,238); funds reserved for equipment purchases and construction projects (\$4,523,908) in the Special Revenue Funds; and bond proceeds reserved for construction projects (\$40,266,140) in the Capital Project Funds.

Reserved for Advances and Deposits represent amounts the City has advanced to or deposited with outside agencies or other funds.

Reserved for Employees' Retirement Benefits represents the equity of the Tucson Supplemental Retirement System (\$559,142,198) and the Deferred Compensation Fund (\$70,345,855), which are reserved for future payments to their respective members.

Reserved for Other Purposes represents amounts reserved for purposes designated by contributors in the special revenue and permanent funds; reserves for grant compliance purposes; reserves for prepaid expenditures in various special revenue funds; and reserves for the following purposes in the General Fund:

City Courts Projects	\$	809,977
Police Projects		532,294
Low Income Housing Maintenance		636,755
Civano		234,026
Information Technology		115,292
Community Resources Center		96,118
Open Spaces		43,785
Communications 911		<u>23,056</u>
Total General Fund Reserved for Other Purposes	\$	<u><u>2,491,303</u></u>

2. The City had the following designations of unreserved fund balance in the General Fund as of June 30, 2005:

Carry Forward Designation	\$	8,213,700
Emergency Communications		4,477,946
Development Services		2,061,598
Neighborhood/Community Reinvestment		<u>953</u>
Total General Fund Designated	\$	<u><u>14,754,197</u></u>

P. Interfund Transactions

Transactions that would be treated as revenue, expenditures or expenses if they involved organizations external to the governmental unit are accounted for as revenue, expenditures or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the Statement of Net Assets as Internal Receivables/Payables. The "doubling-up" effect of internal service fund activity has been removed by adjusting the expenses shown in the various functions within the Statement of Activities.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Q. Donor-Restricted Endowments

The City receives gifts and donations from individuals/organizations to support various City functions. The net appreciation of investments was \$53,829 and is included in restricted net assets as Expendable Permanent Endowments (\$3,118) and as Restricted for Other Purposes (\$50,711). Investment income is expended based on restrictions conveyed in the endowment agreements. If agreements do not stipulate the use of investment income, it is used to cover administrative costs. There are no state laws governing the expenditure of investment income for City donations.

R. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - ACCOUNTING RESTATEMENTS:

On July 1, 2004, the City changed the reporting of the Environmental Service Fund from a special revenue to an enterprise fund. This change resulted in a fund reclassification for governmental activities and business-type activities. The change to the governmental activities resulted in an adjustment to Invested in Capital Assets, Net of Related Debt, in the amount of (\$534,055) and an adjustment to Unrestricted Net Assets of \$48,913,711. The fund reclassification resulted in a decrease (\$2,292,713) to unreserved fund balance in the non-major governmental funds. The change to the business-type activities resulted in an adjustment to Invested in Capital Assets, Net of Related Debt, in the amount of \$7,474,257 and an adjustment to Unrestricted Net Assets of \$56,922,023.

A review of the federal transit authority grants resulted in recognition of prior year revenue for authorized grant expenditures. This resulted in a prior period adjustment to Unrestricted Net Assets in the amount of \$1,896,505.

During a reconciliation of the capital assets within the Government activities, adjustments were required to correct prior year capitalization errors. This resulted in a prior period adjustment to Invested in Capital Assets, Net of Related Debt, in the amount of (\$7,076,830.)

The impact of all the accounting restatements to Governmental activities discussed above is summarized below:

	<u>Governmental Activities:</u>	
	<u>July 1</u>	<u>Restated July 1</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 1,002,677,211	\$ 996,134,436
Restricted For:		
Debt Service	11,200,169	11,200,169
Capital Projects	5,711,957	5,711,957
Housing Programs	9,040,055	9,040,055
Other Purposes	43,313,979	43,313,979
Permanent Endowments		
Expendable	8,072	8,072
Unexpendable	142,456	142,456
Unrestricted (Deficit)	(28,273,562)	22,536,654
Total Net Assets	\$ 1,043,820,337	\$ 1,088,087,778

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 2- ACCOUNTING RESTATEMENTS (Continued):

The impact of the fund reclassification to Business-type activities is summarized below:

	<u>Business-type Activities</u>	
	<u>July 1</u>	Restated <u>July 1</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 569,483,745	\$ 576,958,002
Restricted For:		
Debt Service	31,996	31,996
Capital Projects	2,638,662	2,638,662
Unrestricted (Deficit)	36,939,484	(19,982,540)
Total Net Assets	\$ 609,093,887	\$ 559,646,120

The City implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures, for fiscal year 2005. There was no impact to the financial statements. See financial statement Note 5 Deposits and Investments.

Note 3 - PROPERTY TAX:

Property taxes are levied and collected by the Pima County Treasurer on behalf of the City. Property taxes are levied no later than the third Monday in August and are payable in two installments. Taxes become delinquent after the first business days of November and May, respectively, and a lien against the assessed property attaches if payments are not received by those dates.

The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies: a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may be used only to retire bond indebtedness.

The primary property tax levy is limited to an increase of 2% over the previous year's maximum allowable primary levy, plus an increased dollar amount due to a net gain in property not taxed the previous year. Also, the primary property tax from all taxing jurisdictions for homeowners may not exceed 1% of their homes' market values. If the combined primary property tax (for the City, County, etc.) exceeds 1% of the market value of the homes, the school districts will reduce their rates until the homeowners' aggregate rate is equal to or less than the allowable 1%. The State will then subsidize the school districts for the reduced revenue. This 1% limitation applies to primary property taxes and does not affect the secondary property tax levy.

There is also a control on the assessed value of property for primary tax purposes. The base year for the tax system is fiscal year 1978-79. From this base year, two assessed values evolve. The primary assessed values are controlled by being allowed to grow or increase by no more than 10% a year. The dollar amount of the secondary property tax levy is unlimited, and the actual full cash value of property is used in determining the tax rate.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 4 - INDIVIDUAL FUND DISCLOSURES:

At June 30, 2005, the following funds had deficit fund balances/net assets:

Development Fee Fund	\$ (3,306,894)
Special Assessment Construction Fund	\$ (3,680,590)
Self Insurance Fund	\$ (29,794,105)
Environmental Services Fund	\$ (49,076,344)

The deficit in the Special Assessment Construction Capital Projects Fund is due to the project expenditures being incurred prior to the sale of the bonds. The deficit in the Self Insurance Internal Service Fund will be funded by increases to user charges in future years. The deficit in the Environmental Services Fund will be funded by increases to user charges in future years. The deficit in the Development Fee Fund is due to the construction of a road leading to a school prior to the start of collection for development fees. The deficit will be funded by impact fees collected beginning in Fiscal Year 2006.

Note 5 - DEPOSITS AND INVESTMENTS:

The City maintains an investment pool that is available for use by all City funds. Each fund's portion of this pool is reported on the financial statements as "Pooled Cash and Investments." A single master custodian holds all assets of the investment pool. In addition, certain cash deposits and investments are also held separately by various City funds in separate accounts.

The majority of deposits and investments of the Tucson Supplemental Retirement System (TSRS) Fund and the City of Tucson Employees Voluntary Deferred Compensation Fund are held separately from those of other City funds by a master custodian. However, biweekly contributions to these two funds are held in the investment pool to cover recurring expenditures.

A. Deposits

At year-end, the book value of the City's cash and deposits was \$923,959,016 and the bank balance was \$893,155,919. The difference of \$30,803,097 represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2005. This total bank balance was covered by federal depository insurance or collateral held by the City's agents in the City's name.

Cash with fiscal agents in the General Fund \$24,843,838, the other non-major governmental funds \$30,584,364, and the enterprise funds \$17,688,470 on June 30, 2005, were covered by collateral held in the fiscal agents' trust departments but not in the City's name. Each trust department pledges a pool of collateral against all trust deposits it holds.

B. Investments

For the City investment pool, the City Charter and State Statutes authorize the City to invest in obligations of the U.S. Government, its agencies and instrumentalities, money market funds consisting of the above, repurchase agreements, bank certificates of deposit, commercial paper rated A-1/P-1, corporate bonds and notes rated AAA or AA, and the State of Arizona Local Government Investment Pool. Operating and capital projects funds may be invested for a maximum of 3 years based on projected construction schedules.

The Tucson Supplemental Retirement System (TSRS) and the Deferred Compensation Fund are trusts each governed by separate management boards. The City Code provides that these boards will make investments in accordance with the "prudent person rule" and each board has approved investment policies. The Deferred Compensation Board authorizes investments in U.S. government obligations and agency issues, corporate bonds, real estate, and money market funds.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

The Tucson Supplemental Retirement System Board authorizes domestic and foreign investments including U.S. Government obligations and agency issues, corporate bonds, stocks, real estate, and money market funds. The investment policy also establishes the asset mix and target allocations for each asset class permitted.

Short-term investments for these trusts may be made up of commercial paper, time deposits, guaranteed insurance contracts, money market funds or any other short-term investment fund (STIF) vehicle permitted.

The City's deposits and investments for all funds at fiscal year-end are listed below. These deposits and investments are held by the City or its agents in the City's name and are either insured, registered or collateralized. A portion of these investments are subject to credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk and/or foreign currency risk which are all discussed in the sections that follow.

City of Tucson Deposits and Investments

	Fair Value
U.S. Issues:	
U.S. Treasury Notes & Bonds not on Securities Loan	\$ 23,454,991
U.S. Agency & Other Bonds not on Securities Loan	162,511,639
Corporate Bonds not on Securities Loan	51,543,493
Corporate Stock not on Securities Loan	270,263,394
Non-U.S. Issues:	
International Bonds not on Securities Loan	372,707
International Stock not on Securities Loan	74,432,876
	582,579,100
Investments Held by Broker-Dealers Under	
Securities Loans with Cash Collateral:	
U.S. Treasury Notes & Bonds	12,366,029
U.S. Agency & Other Bonds	9,390,643
U.S. Corporate Bonds	2,983,486
U.S. Stock	14,517,023
International Bonds	144,120
International Stock	6,611,255
	46,012,556
Securities Lending Short-Term Collateral Investment Pool	47,449,522
Money Market Funds/Short-Term Investments	112,759,285
Bond Mutual Funds	74,123,361
Real Estate	30,232,095
	264,564,263
Total Deposits and Investments	\$ 893,155,919

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5-DEPOSITS AND INVESTMENTS (Continued):

C. Credit Risk

As defined by the Governmental Accounting Standards Board (GASB) in Statement 40, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Associated with credit risk is concentration of credit risk and custodial credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The City has the following investment policies governing the City investment pool account that addresses the various credit risks defined above. Investments shall be limited to the following instruments and percentages:

- Obligations of the U.S. Government, its agencies and instrumentalities
- Repurchase agreements whose underlying collateral is commercial paper rated A-1/P-1 with maturities not to exceed 180 days or rated A-2/P-2 with maturities not to exceed 60 days
- Bonds, notes and debentures issued by U.S. corporations rated "AAA" or "AA" by Moody's and Standard & Poors
- Money market funds, CD's, etc., either insured by an agency of the federal government or collateralized by obligations of the U.S. Government, its agencies and instrumentalities or General Obligation municipal bonds rated A or better at 105% of the amount on deposit calculated on market values. The collateral must be held by the Trust department of the financial institution or delivered to the City's agent
- Except for direct obligations of the U.S. Treasury, not more than 25% of the portfolio shall be invested in securities issued by a single agency or instrumentality of the United States. Not more than 5% of the portfolio shall be invested in securities of any other entity
- A minimum of 15% of the portfolio shall be in highly liquid securities
- Not more than 25% of the portfolio shall be invested in corporate bonds, notes and commercial paper

The City's investment pool account had the following credit risk structure as of June 30, 2005:

Investment Type	Credit Rating (1)	Fair Value	Percent of Grand Total
Money Market Funds:			
Wells Fargo Treasury Plus MM	AAA	\$ 65,163,574	43.55%
Corporate Bonds:			
Citigroup Inc. Senior Global Nts	AA3	5,059,350	
Sallie Mae Mid Term Note	A2	4,978,850	
		10,038,200	6.71%
Federal Agency:			
Federal Home Loan Mortgage Corp	AAA	14,408,124	9.63%
Federal Home Loan Bank	AAA	20,357,278	13.61%
Federal Farm Credit Bank	AAA	24,684,400	16.50%
Federal National Mortgage Corp	AAA	14,962,550	10.00%
		74,412,352	
Grand Total		\$ 149,614,126	100.00%

(1) Per Moody's

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5- DEPOSITS AND INVESTMENTS (Continued):

The City also maintains funds in specific accounts outside of the investment pool account to meet certain operational and legal requirements. As of June 30, 2005 these funds consisted of: a U.S. Treasury Note with a fair market value of \$18,586,455, a U.S. Agency Bond with a fair market value of \$1,244,504 and several cash balance accounts totaling \$32,461,598. The City of Tucson banking policy for these cash accounts are consistent with the investment pool account policy described above.

The TSRS fund presently maintains one internally managed and one externally managed fixed income (bond) account, which are exposed to some form of credit risk. The investment policy guidelines for securities purchased for the internally managed fixed income account are as follows:

- With the exception of securities issued by or guaranteed by the U.S. Treasury or U.S. Government agencies and instrumentalities, the maximum position in a single issuer's securities should not exceed 5% of the portfolio's assets at current market value.
- Exposure to corporate bonds should be limited to 50% of the portfolio
- The investment manager is expected to maintain a weighted average bond portfolio quality rating of at least "AA"
- Securities, at the time of purchase, shall be rated no lower than "A3" by Moody's and "A-" by Standard & Poors

The TSRS Board has given the external fixed income manager discretion to invest in a broad array of public and private asset classes, instruments and investment vehicles in order to meet or exceed the agreed upon investment return benchmark. However, the following specific investment policy guidelines pertain to the external fixed income manager:

- The maximum position in a single issuer (excluding obligations of U.S. Government and its Agencies) should not exceed 5% of the portfolio's assets at current market value
- The portfolio should maintain an average quality of a least "A"
- Money market instruments must be rated in one of the two highest categories by a nationally recognized rating agency
- The minimum rating of individual issues should be CCC as rated by Moody's, Standard & Poors or Fitch
- Should an issue be downgraded below the minimum, the manager will determine the appropriate action to be taken

The Deferred Compensation Fund maintains one internally managed fixed income account with an investment policy consistent with the internally managed TSRS fixed income account.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5- DEPOSITS AND INVESTMENTS (Continued):

The TSRS and Deferred Compensation funds had the following credit risk structure as of June 30, 2005:

Fixed Income Accounts
Credit Risk Structure

Tucson Supplemental Retirement System (TSRS)

<u>Investment Type</u>	<u>Holdings</u>	<u>Moody's Average Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Grand Total</u>
Cash and Cash Equivalents:				
Short Term Investment Fund	1	AA3	\$ 1,469,620	
U.S. Treasury Bills - Less than 1 Year	2	AAA	1,051,855	
U.S. Agency Issue - Less than 1 Year	1	AAA	198,357	
Sub Total	<u>4</u>		<u>2,719,832</u>	1.64%
U.S. Treasury Issues	8	AAA	8,015,621	4.83%
U.S. Agency & Other Government Obligations	68	AA1	57,411,362	34.61%
Call Options	2	N/R	25,375	0.01%
U.S. Corporate Bonds:				
CMO Corporate	2	AAA	558,568	
Banks & Finance	16	A2	12,915,904	
Industrials	11	A3	9,558,898	
Utilities	2	BAA1	554,060	
Sub Total	<u>31</u>		<u>23,587,430</u>	14.22%
International Bonds	2	BA2	516,827	0.31%
Fixed Income Swaps	30	N/R	(521,947)	-0.31%
Bond Mutual Funds	4	AAA - B	74,123,360	44.69%
Grand Total	<u>149</u>		<u>\$ 165,877,860</u>	<u>100.00%</u>

Deferred Compensation Fund

<u>Investment Type</u>	<u>Holdings</u>	<u>Moody's Average Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Grand Total</u>
U.S. Treasury Issues	6	AAA	\$ 7,974,440	11.50%
U.S. Agency & Other Government Obligations	33	AAA	41,046,129	59.21%
U.S. Corporate Bonds:				
Banks & Finance	17	A1	15,195,224	
Industrials	6	A3	4,077,697	
Utilities	2	A3	1,024,840	
Sub Total	<u>25</u>		<u>20,297,761</u>	29.29%
Grand Total	<u>64</u>		<u>\$ 69,318,330</u>	<u>100.00%</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

D. Interest Rate Risk

As defined by the Governmental Accounting Standards Board (GASB) in Statement 40, interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. For fixed income securities, there is an inverse relationship between the change in interest rates and their fair value. For example, in a rising interest rate environment the value of fixed income securities will tend to fall by varying degrees depending on the length of their maturities. In general, the value of fixed income securities with a longer duration will tend to decrease more than shorter duration securities in a rising interest rate environment.

The City's investment pool account maintains the following investment policy with regard to interest rate risk.

- Surplus and idle money related to the day-to-day operation of the City may be invested in authorized investments with a final maturity not exceeding two years from the date of investment
- Monies not related to the day-to-day operation of the City may be invested for periods up to three years with maturities base upon anticipated needs
- Not more than 25% of the portfolio shall be invested in securities with a maturity longer than two years
- Not more than 50% of the portfolio shall be invested in securities with a maturity longer than eighteen months

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5 – DEPOSITS AND INVESTMENTS (Continued):

The City's investment pool account had the following maturity structure as of June 30, 2005:

Investment Pool Account				
Maturity Structure				
<u>Investment Type</u>	<u>Maturity Date</u>	<u>Next Call Date (1)</u>	<u>Fair Value</u>	<u>Percent of Grand Total</u>
Money Market Funds:				
Wells Fargo Treasury Plus MM			\$ 65,163,574	43.55%
<u>Due in Less Than 1 Year</u>				
Corporate Bonds:				
Citigroup Inc. Senior Global Nts	12/01/05	B	5,059,350	
Sallie Mae Mid Term Note	12/01/05	B	4,978,850	
			10,038,200	
Federal Agency:				
FFCB Coupon Notes	04/07/06	C	4,932,800	
FHLB Coupon Notes	04/27/06	10/27/05	9,875,000	
FNMA Coupon Notes	06/28/06	B	4,971,900	
			\$ 19,779,700	
				19.93%
<u>Due Between 1 & 2 Years</u>				
Federal Agency:				
FHLB Coupon Notes	06/30/06	B	\$ 4,953,150	
FHLMC Coupon Notes	10/06/06	B	4,541,073	
FHLMC Coupon Notes	12/15/06	B	4,937,500	
FFCB Coupon Notes	12/15/06	B	4,962,500	
FFCB Coupon Notes	04/12/07	C	4,901,550	
FHLMC Coupon Notes	04/27/07	10/27/05	4,929,550	
FFCB Coupon Notes	06/06/07	B	4,921,900	
FFCB Coupon Notes	06/15/07	B	4,965,650	
FHLB Coupon Notes	06/29/07	C	1,307,566	
FHLB Coupon Notes	06/29/07	B	4,221,563	
			\$ 44,642,002	
				29.84%
<u>Due in More Than 2 Years</u>				
Federal Agency:				
FNMA Coupon Notes	09/17/07	C	\$ 4,998,450	
FNMA Coupon Notes	02/25/08	C	4,992,200	
			9,990,650	
				6.68%
Grand Total			\$ 149,614,126	100.00%

- (1) B=Bullet - Not called on designated call date, will run until maturity, unless sold
C=Continuous - Callable anytime after initial call date

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

The TSRS and Deferred Compensation Fund's investment policy regarding interest rate risk for the internally managed fixed income accounts is to limit duration to within two years (plus or minus) to their investment performance benchmark: the Lehman Brothers (LB) Government/Credit Bond Index. For the externally managed fixed income account for the TSRS Fund, the investment policy is to limit duration to within 30% of the custom benchmark which is defined as 70% LB Mortgage Index, 15% LB Credit Index, 15% LB High Yield Index.

The TSRS and Deferred Compensation funds had the following maturity structure as of June 30, 2005:

Fixed Income Accounts
Maturity Structure

Tucson Supplemental Retirement System (TSRS)

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				<u>Total Fair</u>
	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than</u>	
Short Term Investment Fund	\$ 1,469,620				\$ 1,469,620
U.S. Treasury Issues	1,051,855	1,090,080	1,626,169	5,299,372	9,067,476
U.S. Agency & Other Government Obligations	5,212,907	4,398,149	16,502,065	31,496,599	57,609,720
Call Options	25,375				25,375
U.S. Corporate Bonds	3,158,628	10,627,604	4,792,330	5,008,868	23,587,430
International Bonds	144,225	372,602			516,827
Fixed Income Swaps		224,527	(383,072)	(363,402)	(521,947)
Bond Mutual Funds (6.7 yrs weighted average)					74,123,360
Total	\$ 11,062,610	\$ 16,712,962	\$ 22,537,492	\$ 41,441,437	\$ 165,877,861
Average Modified Duration:					
Internal Account	4.95	yrs			
External Account	3.54	yrs			

Deferred Compensation Fund

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				<u>Total Fair</u>
	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than</u>	
U.S. Treasury Issues		\$ 4,987,740	\$ 2,986,700		\$ 7,974,440
U.S. Agency & Other Government Obligations	2,004,478	8,140,890	24,717,756	6,183,005	41,046,129
U.S. Corporate Bonds	3,416,200	14,242,271		2,639,291	20,297,762
Total	\$ 5,420,678	\$ 27,370,901	\$ 27,704,456	\$ 8,822,296	\$ 69,318,331
Average Modified Duration:					
Internal Account	5.23	yrs			

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

E. Foreign Currency Risk

As defined by the Governmental Accounting Standards Board (GASB) in Statement 40, foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The exposure to foreign currency risk is currently limited to some of the investments within the TSRS Fund. The TSRS Board has given the Fund's international equity managers discretion to invest in a broad array of common and preferred stocks, convertibles and warrants of companies headquartered outside of the United States in order to meet or exceed their agreed upon investment return benchmarks. However, the following specific investment policy guidelines pertain to these managers:

- Investments in any single country market should not exceed more than 4 times the weight of the country in the benchmark index or 50% of portfolio assets, whichever is lower.
- If a country has a greater than 50% weight in the index, the maximum exposure to that country in the portfolio may be as high as its weight in the index
- No more than 30% of each manager's portfolio should be invested in "emerging markets" (i.e., markets that are not included in the Morgan Stanley Capital International Europe, Australia and Far East index)
- Managers are permitted to enter into hedging strategies, including cross-currency hedges, using forward currency exchange contracts and currency options
- Derivatives should not be used for the purpose of speculation or for leveraging the portfolio

The TSRS fund had the following foreign currency risk exposure as of June 30, 2005:

Tucson Supplemental Retirement System (TSRS)
Foreign Currency Risk Exposure

<u>Currency</u>	<u>Fair Value (1)</u>	<u>Percent of Total</u>
AUSTRALIAN DOLLAR	\$ 842,456	0.15%
BRITISH POUND STERLING	13,294,825	2.39%
CANADIAN DOLLAR	1,379,523	0.25%
EURO CURRENCY UNIT	12,982,933	2.33%
HONG KONG DOLLAR	1,571,874	0.28%
JAPANESE YEN	7,614,425	1.37%
NEW ZEALAND DOLLAR	620,406	0.11%
NORWEGIAN KRONE	1,082,390	0.19%
SINGAPORE DOLLAR	436,099	0.08%
SOUTH KOREAN WON	2,017,456	0.36%
SWISS FRANC	2,737,144	0.49%
U.S. DOLLAR	511,629,955	91.99%
TOTAL	\$ 556,209,486	100.00%

(1) The majority of the asset value is held in equity securities

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

F. Securities Lending

The City Code, the Board of Trustees for the Tucson Supplemental Retirement System and the Board of Trustees for the Deferred Compensation Fund permit the custodian bank, Mellon Trust, to lend securities to broker-dealers and other entities. Each loan is executed with a simultaneous agreement to return the collateral for the same securities in the future. The custodian bank lends U.S. securities for collateral initially valued at 102% of the market value plus any accrued interest. Non-U.S. securities are loaned for collateral initially valued at 105% of the market value of the securities plus any accrued interest. Collateral is marked-to-market daily. If the market value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day.

In the event of a borrower's default, the custodian bank is obligated to indemnify the lender if, and to the extent that, the fair value of the collateral is insufficient to replace the loaned securities. Mellon Trust's responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations covering securities lending.

Although the average term of the security loans is one week, each loan can be terminated at will by either the lender or the borrower. Cash collateral is invested in a short-term investment pool, which on average had a weighted maturity of 30 days. The relationship between the maturities of the investment pool and the security loans are affected by the maturities of the loans made by other entities that use the agent's pool.

The lender cannot pledge or sell collateral securities received until, and unless, a borrower defaults. There were no significant violations of legal or contractual provisions and no borrower or lending agent default losses known to the securities lending agent. As of June 30, 2005, the lenders had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned.

G. Derivatives

The Tucson Supplemental Retirement System permits the use of foreign exchange contracts by its international equity and external fixed income managers. Derivatives are also permitted in the portfolio, including financial futures, forwards, options and swaps on fixed income securities.

Forward foreign exchange contracts for the purchase or sale of foreign currency were entered into to settle specific transactions, for investment and hedging purposes and to modify the foreign currency exposure of international securities held. The duration of these contracts typically was three months or less and, for those used to settle specific transactions, typically was three business days. During the terms of such forward contracts, the System was exposed to counterparty risk, which is the risk of loss of the amount expected to be delivered under a forward agreement in the event of the default or bankruptcy of a forward agreement counterparty. This risk is controlled through dealing with a number of different counterparties reasonably deemed to be creditworthy by the manager.

The System also permits the use of financial futures and options by its external fixed income manager to reduce or eliminate undesirable/unintended risks, to maintain desirable risks so as to improve the portfolio's return patterns, and to enhance portfolio liquidity, flexibility and/or efficiency. The external fixed income manager used long and short positions in exchange-traded government futures during the year to modify exposure to various parts of the yield curve and to modify the risk characteristics of the portfolio. The government futures positions were fully supported by cash and cash equivalents. The net market exposure as of June 30, 2005 was \$2,990,306. Additionally, forward and mortgage "to be announced" securities (TBAs) were used in the portfolio during the period; the net market value of these positions was \$3,246,732 and \$5,472,750, respectively. As of the same date, the portfolio contained net market exposure to put and call options (including swaptions) of \$112,580.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

Interest rate swaps are used to provide high-grade agency/corporate exposure. Swaps also provide an effective and inexpensive means by which to quickly adjust portfolio duration, maturity mix and sector exposure. Swaps are over-the-counter transactions as opposed to being traded on an organized exchange. Counterparty risk is limited by execution under standardized International Swap and Derivatives Association Agreements. These standardized contracts reduce legal risk and increase speed of execution that, in turn, improves liquidity. A swaption is simply an option on a swap and is used for the same purposes as options and swaps. Credit default swaps provide attractive means of hedging event risk and increasing/decreasing credit exposure. These securities are backed by high-grade liquid securities and are subject to the System's minimum quality and issuer limits. The portfolio held the following net market exposure in swaps and credit default swaps of \$(9,366,342) and 955,898, respectively.

Note 6 - INTERFUND BALANCES AND TRANSFERS:

The following governmental interfund receivables/payables are eliminated in the consolidation of the fund statements and government-wide financial statements. The enterprise due from/to other funds balance is included as Internal Receivable/Payable on the government-wide Statement of Net Assets.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 21,713,112	\$ 6,838,635
Other Nonmajor Governmental Funds	<u>6,838,635</u>	<u>21,713,112</u>
Total Governmental Funds	<u>\$ 28,551,747</u>	<u>\$ 28,551,747</u>

There are interfund receivables/payables classified as Due from/to Other Agencies as listed below that are not included on the government-wide financial statements (Fiduciary Funds) on the Statement of Net Assets.

The Due from/to Other Agencies balances at June 30, 2005, were as follows:

<u>Fund</u>	<u>Due from</u>	<u>Due to</u>
Governmental Funds:		
General Fund	\$ 8,044,252	\$
Other Nonmajor Governmental Funds	<u>531,565</u>	<u>472,032</u>
Total Governmental Funds	<u>8,575,817</u>	<u>472,032</u>
Internal Service Funds:		
Fleet Services Fund		66
Self Insurance Fund		<u>811</u>
Total Internal Service Funds		<u>877</u>
Enterprise Funds:		
Environmental Services Fund	48,553	2,234
Golf Course Fund		11,092
Water Utility Fund		<u>1,041,960</u>
Total Enterprise Funds	<u>48,553</u>	<u>1,055,286</u>
Fiduciary Funds:		
Deferred Compensation		46,348
Supplemental Retirement Fund		<u>1,652</u>
Total Fiduciary Funds		<u>48,000</u>
Total All Funds	<u>\$ 8,624,370</u>	<u>\$ 1,576,195</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 6- INTERFUND BALANANCES AND TRANSFERS (Continued):

The Advances to/from Other Funds are long-term loans for capital expenditures, which have not been reimbursed, between the General Fund and the Special Assessment Capital Project, and Development Fee Funds. These balances are eliminated in the consolidation of the government-wide financial statements.

Advances to/from Other Funds balances at June 30, 2005, were as follows:

<u>Fund</u>	<u>Advances to</u>	<u>Advances from</u>
Governmental Funds:		
General Fund	\$ 7,180,590	\$
Other Nonmajor Governmental Funds		<u>7,180,590</u>
Total Governmental Funds	<u>\$ 7,180,590</u>	<u>\$ 7,180,590</u>

Transfers are primarily: 1) to move receipts restricted to debt service from the funds collecting the receipts to the debt service funds when payment is due, 2) capital assets purchased by one fund for another fund, and 3) operational subsidies from the General Fund to various funds. All transfers are consistent with the operation of the governmental funds. Transfers made during the year ended June 30, 2005, were as follows:

<u>Fund</u>	<u>Transfers to</u>	<u>Transfers from</u>
Governmental Funds:		
General Fund	\$ 59,769,496	\$ 2,726,435
Other Nonmajor Governmental Funds	<u>13,646,437</u>	<u>62,579,246</u>
Total Governmental Funds	<u>73,415,933</u>	<u>65,305,681</u>
Internal Service Funds:		
Fleet Services Fund		4,366,854
Self Insurance Fund	228,424	
Total Internal Service Funds	<u>228,424</u>	<u>4,366,854</u>
Enterprise Fund:		
Environmental Services Fund	2,292,713	6,269,535
Water Utility Fund	5,000	
Total Enterprise Fund	<u>2,297,713</u>	<u>6,269,535</u>
Total All Funds	<u>\$ 75,942,070</u>	<u>\$ 75,942,070</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 7 - CAPITAL ASSETS:

The following is a summary of changes in capital assets as of June 30, 2005:

	Restated Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 620,260,731	\$ 8,972,287	\$ (3,458,743)	\$ 625,774,275
Construction-in-Progress	141,128,362	81,453,874	(32,084,920)	190,497,316
Capital Assets being Depreciated:				
Buildings and Improvements	354,319,483	10,698,186	(1,695,752)	363,321,917
Equipment	169,517,871	18,419,803	(6,081,856)	181,855,818
Infrastructure	657,563,819	17,562,096		675,125,915
Totals at Historical Cost	<u>1,942,790,266</u>	<u>137,106,246</u>	<u>(43,321,271)</u>	<u>2,036,575,241</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	134,464,544	11,963,662	(535,159)	145,893,047
Equipment	109,698,224	15,761,583	(5,821,065)	119,638,742
Infrastructure	294,464,197	15,804,821		310,269,018
Total Accumulated Depreciation	<u>538,626,965</u>	<u>43,530,066</u>	<u>(6,356,224)</u>	<u>575,800,807</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,404,163,301</u>	<u>\$ 93,576,180</u>	<u>\$ (36,965,047)</u>	<u>\$ 1,460,774,434</u>
Business-Type Activities:				
Land	\$ 57,860,728	\$ 229,137	\$ (2,359,747)	\$ 55,730,118
Construction-in-Progress	138,667,756	40,443,559	(25,943,980)	153,167,335
Capital Assets Being Depreciated:				
Buildings and Improvements	142,073,852	967,071		143,040,923
Equipment	56,970,759	3,431,754	(2,245,154)	58,157,359
Distribution and Collection Systems	836,781,004	30,316,347	(1,871,310)	865,226,041
Totals at Historical Cost	<u>1,232,354,099</u>	<u>75,387,868</u>	<u>(32,420,191)</u>	<u>1,275,321,776</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	35,059,980	5,906,825		40,966,805
Equipment	29,939,408	7,060,885	(2,099,912)	34,900,381
Distribution and Collective Systems	210,875,199	14,899,051	(986,489)	224,787,761
Total Accumulated Depreciation	<u>275,874,587</u>	<u>27,866,761</u>	<u>(3,086,401)</u>	<u>300,654,947</u>
Business-Type Activities Capital Assets, Net	<u>\$ 956,479,512</u>	<u>\$ 47,521,107</u>	<u>\$ (29,333,790)</u>	<u>\$ 974,666,829</u>
Depreciation expense was charged to governmental functions as follows:				
Elected and Official			\$	146,571
Support Services				7,029,823
Neighborhood Services				12,199,730
Environment and Development				23,013,436
Strategic Initiatives				484,190
Non-Departmental				656,316
Total Depreciation Expense			\$	<u>43,530,066</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 7 - CAPITAL ASSETS (Continued):

Discretely presented component unit:

Activity for the Rio Nuevo District for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Component Unit:				
Land	\$ 8,275,461	\$ 1,095,240	\$	\$ 9,370,701
Construction-in-Progress	4,608,501	7,010,459		11,618,960
Capital Assets being Depreciated:				
Buildings and Improvements	29,488,169	105,681		29,593,850
Equipment	59,583			59,583
Totals at Historical Cost	<u>42,431,714</u>	<u>8,211,380</u>		<u>50,643,094</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	1,551,530	734,653		2,286,183
Equipment	22,089	9,917		32,006
Total Accumulated Depreciation	<u>1,573,619</u>	<u>744,570</u>		<u>2,318,189</u>
District Capital Assets, Net	<u>\$ 40,858,095</u>	<u>\$ 7,466,810</u>	<u>\$</u>	<u>\$ 48,324,905</u>

Note 8 - CHANGES IN LONG-TERM DEBT:

The following is a summary of changes in long-term debt as of June 30, 2005:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Yr.</u>
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Debt	\$ 239,790,152	\$ 63,724,606	\$ (54,717,576)	\$ 248,797,182	\$ 9,695,000
Street & Highway Revenue Bonds	156,475,000	45,995,000	(48,955,000)	153,515,000	9,250,000
Certificates of Participation	43,335,000	51,700,000	(5,160,000)	89,875,000	6,040,000
Federal Highway Loan	2,100,000		(800,000)	1,300,000	1,300,000
Special Assessment Bonds	4,028,500		(452,900)	3,575,600	441,600
Deferred Amount:					
on Premiums	8,131,271	8,054,895	(1,071,381)	15,114,785	
on Discounts	(140,446)		7,392	(133,054)	
on Refundings	(6,617,419)	(3,946,020)	838,594	(9,724,845)	
Total Bonds and Notes Payable	<u>447,102,058</u>	<u>165,528,481</u>	<u>(110,310,871)</u>	<u>502,319,668</u>	<u>26,726,600</u>
Other Liabilities:					
Claims and Judgments	39,712,642	24,312,447	(18,960,319)	45,064,770	10,029,456
Compensated Absences	25,614,453	18,970,650	(16,533,934)	28,051,169	16,642,991
Contracts Payable	850,084	4,208,283	(397,088)	4,661,279	1,104,871
Total Other Liabilities	<u>66,177,179</u>	<u>47,491,380</u>	<u>(35,891,341)</u>	<u>77,777,218</u>	<u>27,777,318</u>
Governmental Activities Long Term Liabilities	<u>\$ 513,279,237</u>	<u>\$ 213,019,861</u>	<u>\$ (146,202,212)</u>	<u>\$ 580,096,886</u>	<u>\$ 54,503,918</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 8- CHANGES IN LONG-TERM DEBT (Continued):

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Yr.</u>
Business-type Activities:					
Bonds and Notes Payable:					
Enterprise Bonds	\$ 364,700,668	\$ 89,849,180	\$ (66,225,113)	\$ 388,324,735	\$ 11,083,842
General Obligation Debt	34,661,430	17,547,882	(9,822,425)	42,386,887	
Certificates of Participation	4,625,000		(305,000)	4,320,000	320,000
Deferred Amount:					
on Premiums	6,177,848	6,506,341	(456,172)	12,228,017	
on Discounts	(41,400)		3,450	(37,950)	
on Refundings	(7,184,949)	(5,167,496)	538,397	(11,814,048)	
Total Bonds and Notes Payable	<u>402,938,597</u>	<u>108,735,907</u>	<u>(76,266,863)</u>	<u>435,407,641</u>	<u>11,403,842</u>
Other Liabilities:					
Landfill Closure/Post Closure Costs	47,211,999	7,966,388	(12,642,717)	42,535,670	2,570,513
Compensated Absences	4,510,697	2,435,490	(2,308,333)	4,637,854	2,614,386
Contracts Payable	3,232,481	1,405,671	(1,588,736)	3,049,416	1,379,732
Total Other Liabilities	<u>54,955,177</u>	<u>11,807,549</u>	<u>(16,539,786)</u>	<u>50,222,940</u>	<u>6,564,631</u>
Business-type Activities Long Term Liabilities	<u>\$ 457,893,774</u>	<u>\$ 120,543,456</u>	<u>\$ (92,806,649)</u>	<u>\$ 485,630,581</u>	<u>\$ 17,968,473</u>

Discretely presented component unit:

Activity for the Rio Nuevo District for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Yr.</u>
Component Unit Activities:					
Bonds and Notes Payable:					
Certificates of Participation	\$ 24,050,000		\$ (2,540,000)	\$ 21,510,000	\$ 2,665,000
Deferred Amount:					
on Premiums	706,932		(88,366)	618,566	
District Activities Long Term Liabilities	<u>24,756,932</u>		<u>(2,628,366)</u>	<u>22,128,566</u>	<u>2,665,000</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 9 - LEASE OBLIGATIONS:

A. Capital Leases

The City has entered into several long-term capital leases involving the acquisition of real estate and equipment for general city purposes; these commitments are expected to be funded by the City's General, Special Revenue and Internal Service Funds.

Below is a schedule by years of future minimum lease payments under the capital leases as of June 30, 2005.

Years ending June 30,	General City Funds
2006	\$ 11,166,494
2007	10,778,665
2008	10,532,505
2009	10,518,530
2010	9,223,077
2011-2015	34,922,547
2016-2020	27,426,863
2021-2023	<u>17,867,963</u>
Total Minimum Lease Payments	132,436,644
Less: Amount Representing Interest (interest rates range from 3.85% to 12.00%)	<u>37,900,365</u>
Present Value of Net Minimum Lease Payments	<u>\$ 94,536,279</u>

Assets purchased through capital leases for Governmental Activities include buildings (\$24,171,000), improvements other than buildings (\$46,057), equipment (\$7,924,403) and land (\$9,950,000).

Assets purchased through capital leases for Business-Type Activities include equipment (\$6,949,011).

B. Operating Leases

Operating lease expenditures for the fiscal year were \$7,829,277. Minimum future lease payments on non-cancelable operating leases at June 30, 2005, were as follows:

Years ending June 30,	
2006	\$ 7,930,052
2007	6,265,969
2008	5,434,119
2009	4,153,244
2010	4,161,066
2011-2015	9,111,981
2016-2020	1,116,738
2021-2025	1,279,644
2026-2030	1,483,458
2031-2035	<u>1,719,734</u>
Total Minimum Future Lease Payments	<u>\$ 42,656,005</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 10 - CONTRACTS PAYABLE:

Long-term Contracts Payable for the Enterprise Funds as of June 30, 2005, were:

	<u>Water</u>	<u>Environmental</u>	<u>Golf</u>
Equipment Contracts	\$ 599,470	\$ 2,449,946	\$ 4,320,000
Less Current Portion	<u>115,661</u>	<u>1,264,071</u>	<u>320,000</u>
Long-Term Contracts Payable	<u>\$ 483,809</u>	<u>\$ 1,185,875</u>	<u>\$ 4,000,000</u>

Water, Environmental Services and Golf contracts bear interest rates of up to 3.57% and 3.6%, respectively. These contracts mature through June 2016, with varying payment terms.

The City purchased the Metropolitan Water Company, an Arizona limited partnership, on October 1, 1992, for \$14,176,000. A down payment of \$5,176,000 was made, and a 13-year note at 7% annual interest was executed for the \$9,000,000 balance. Also on October 1, 1992, the City sold these assets and miscellaneous improvements to the Metropolitan Water Improvement District and the Oro Valley Domestic Water Improvement District for \$14,497,204 in cash. Adequate sales proceeds were invested in U.S. Treasury Strips with maturities scheduled to meet all future payment obligations by the City to the previous owners of the Metropolitan Water Company. These investments are reported as restricted assets of the Water Utility Fund.

Note 11 - BOND ISSUES:

A. Enterprise Funds

Environmental Services General Obligation Bonds Issued and Outstanding

<u>Series</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2005</u>
GO Series 2000-A (2000)	7.250	July 2013	\$ 430,000	\$ 430,000
GO Series 1994-A (1995)	7.375	July 2013	2,449,830	2,449,830
GO Series 1994-B (1996)	7.625	July 2015	1,178,967	1,178,967
GO Bonds Series 2000-E (2005)	3.000	July 2017	7,921,000	7,921,000
GO Series 1999	4.500	July 2019	1,520,492	1,520,492
GO Series 2000-B (2001)	4.875	July 2020	3,630,000	3,630,000
GO Refunding Bonds Series 2003	3.000	July 2020	4,639,832	4,639,832
GO Refunding Bonds Series 2005	5.000	July 2020	8,697,446	8,697,446
GO Refunding Bonds Series 1998	5.250	July 2021	8,281,372	8,281,372
GO Series 2000-C (2003)	3.300	July 2021	2,201,000	2,201,000
GO Refunding Bonds Series 2005-B	4.000	July 2021	1,436,948	1,436,948
			<u>\$ 42,386,887</u>	<u>\$ 42,386,887</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 11 - BOND ISSUES (Continued):

Water Revenue Bonds will provide funds to improve the potable and reclaimed water systems and ensure compliance with water quality requirements of the Environment Protection Agency and the Arizona Department of Environmental Quality.

Water Utility Revenue Bonds Issued and Outstanding

Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2005	
1994 Series B (1997)	4.50-6.25 %	2007	\$ 11,700,000	\$ 2,000,000	
1994 Series C (1999)	4.75-6.75	2009	33,400,000	4,100,000	
1984 Series D (1991)	9.75	2010	48,000,000	3,000,000	
1999A Refunding	5.00	2010	14,045,000	10,085,000	
1993 March (Refunding)	5.25-5.50	2014	35,360,000	17,585,000	
2001A April (Refunding)	5.00	2016	40,850,000	32,785,000	
1994 Series A (1996)	6.0-8.0	2018	33,000,000	3,000,000	
2002 Refunding	5.50	2018	57,820,000	55,890,000	
2003 Refunding	5.00	2018	12,000,000	12,000,000	
1997 July (Refunding)	4.20-5.125	2021	32,980,000	32,205,000	
2000 Series B (2002)	3.5-5.125	2021	18,900,000	17,400,000	
2000 Series C (2003)	4.25-5.25	2021	16,300,000	9,400,000	
2005 Refunding	4.00-5.00	2022	55,110,000	55,020,000	
2000 Series A (2001)	5.0-7.5	2023	37,800,000	36,000,000	
2000 Series D (2004)	4.0-5.0	2023	18,765,000	18,765,000	
1994 Series D (2000)	5.25-7.25	2024	23,740,000	11,315,000	
2005 Series A (2005)	3.00-5.00	2025	31,665,000	31,665,000	
1998A Water Infrastructure Finance Authority (WIFA)	3.425	2017	6,000,000	4,387,921	
2000 Water Infrastructure Finance Authority (WIF1)	4.125	2020	5,120,000	4,342,384	
2000 Water Infrastructure Finance Authority (WIF2)	4.125	2020	7,780,000	6,681,969	
2001 Water Infrastructure Finance Authority (WIF3)	3.430	2021	8,800,000	7,756,581	
2003 Water Infrastructure Finance Authority (WIF4)	3.48	2022	8,300,000	7,655,774	1
2000 Water Infrastructure Finance Authority (WIF5)	3.75	2023	3,000,000	2,882,228	2
2004 Water Infrastructure Finance authority (WIF6)	3.255	2023	2,500,000	2,402,877	
2005 Water Infrastructure Finance authority (WIF7)			-	-	3
			\$ <u>562,935,000</u>	\$ <u>388,324,734</u>	

(1) Balance of proceeds recognized; see loan repayment schedule for WIF4.

(2) Balance of proceeds recognized; see loan repayment schedule for WIF5.

(3) WIF7 was not drawn down during FY2005 and will be recognized in FY2006. Loan amount for WIF7 is \$2,997,000.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 11 - BOND ISSUES (Continued):

B. General City Funds

General Obligation Bonds provide funds for construction of police and fire facilities, street lighting and sidewalk improvements, drainage system improvements, environmental safety improvements, parks and library improvements and the payment of costs relating to the issuance of the bonds. Debt service payments are scheduled annually from July 1, 2006 to July 1, 2021. General Obligation Bonds are payable from property taxes and from Environmental Service fees.

Street and Highway User Revenue Bonds provide funds to improve, construct and reconstruct streets and highways in the City, to acquire rights-of-way for such purposes by purchase, condemnation or otherwise, and to pay costs relating to the issuance of the bonds. Debt service payments are scheduled annually from July 1, 2006 to July 1, 2018. All Street and Highway Revenue Bonds are payable from state motor vehicle fuel taxes.

On June 30, 2005, the City issued \$17,894,000 General Obligation Bonds. The bonds represent the fifth installment of bonds to be issued pursuant to the May 16, 2000, voter authorization.

On June 13, 2005, the City issued \$6,000,000 Junior Lien Street and Highway User Revenue Bonds. The bonds represent the fourth installment of bonds to be issued pursuant to the May 16, 2000, voter authorization.

General Obligation Bonds Issued and Outstanding

<u>Series</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2005</u>
1991 Refunding	6.20-7.50 %	2008	\$ 21,555,000	\$ 5,770,000
1984 Series E and F	6.17	2012	25,000,000	2,143,060
1992 Refunding	6.40-6.5	2012	51,550,000	14,195,000
1993 Refunding	4.40-4.90	2013	17,006,000	1,326,010
1984 Series G (1994)	7.625	2014	21,540,000	3,140,000
1994 Series A (1995)	5.38-7.38	2020	23,600,000	4,150,170
1994 Series B (1996)	7.63	2015	24,745,000	2,566,033
1994 Series C (1997)	5.00-7.00	2021	10,510,000	2,510,000
1997 Refunding	4.40-5.25	2019	20,170,000	19,625,000
1998 Refunding	4.25-5.50	2021	26,470,000	17,903,628
1994 Series D (1998)	4.25-6.25	2018	11,010,000	6,760,000
1994 Series E (1999)	4.50-7.00	2019	13,855,000	1,939,508
2000 Series A (2000)	5.25-7.25	2020	18,840,000	2,760,000
2000 Series B (2001)	4.625-5.75	2020	26,680,000	23,050,000
2002 Refunding	5.00	2012	25,035,000	17,565,000
2000 Series C (2003)	2.50-4.50	2021	29,840,000	27,639,000
2003 Refunding	2.25-5.00	2020	22,465,000	17,120,168
2000 Series D (2004)	3.50-5.00	2021	15,000,000	15,000,000
2005 Series Refunding	2.25-5.00	2020	25,542,554	25,452,554
2005-B Series Refunding	4.00-5.00	2021	20,288,052	20,288,052
2000-E Series (2005)	3.00-5.00	2017	17,894,000	17,894,000
Total			<u>\$ 468,595,606</u>	<u>\$ 248,797,183</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 11 - BOND ISSUES (Continued):

At June 30, 2005, bonds payable were:

Street and Highway Issued and Outstanding				
Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2005
1994 Series A (1995)	5.00-7.00	2015	\$ 10,900,000	\$ 3,900,000
1996 Refunding	4.20-6.00	2010	7,425,000	7,325,000
1994 Series B (1996)	5.50-7.50	2016	10,025,000	2,275,000
1994 Series C (1997)	5.00-7.00	2016	5,000,000	1,000,000
1994 Series D (1998)	4.75-6.60	2018	14,675,000	3,750,000
1994 Series E (2000)	5.00-7.00	2018	19,400,000	6,000,000
1994 Series F (2001) & 2000 Series A (2001)	4.75-6.00	2018	15,500,000	3,250,000
2003 Refunding	4.50	2009	33,760,000	25,535,000
2003 Refunding	4.50	2012	30,665,000	25,930,000
2003 Series A Refunding	2.50-5.00	2016	15,055,000	15,055,000
2003 Series B (2003)	3.375-3.50	2015	5,000,000	5,000,000
2000 Series C (2004)	4.125-5.00	2018	8,500,000	8,500,000
2005 Series Refunding	3.75-5.00	2018	39,995,000	39,995,000
2000-D Series (2005)	4.00-5.00	2018	6,000,000	6,000,000
Total			<u>\$ 221,900,000</u>	<u>\$ 153,515,000</u>

C. Special Assessments

Special assessments on City-owned property were \$62,982 of the \$3,575,600 total assessment. The remaining assessments of \$3,512,618 represent a contingent liability for all other special assessment issues. The City has a contingent liability to the extent that prepaid assessments and proceeds from liens foreclosed against properties within the special assessment districts are insufficient to retire outstanding bonds.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 11 – BOND ISSUES (Continued):

D. Annual Principal and Interest Requirements

Following is a summary of debt service requirements to maturity, including principal and interest:

Years Ending June 30,	Governmental Activities					
	General Obligation		Street and Highway		Special Assessment	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 9,695,000	\$ 12,009,308	\$ 9,250,000	\$ 7,680,267	\$ 441,600	\$ 164,510
2007	11,558,460	13,136,322	9,600,000	7,263,235	393,500	143,415
2008	13,884,437	11,020,692	10,000,000	6,831,205	347,500	125,134
2009	14,326,846	10,331,031	10,645,000	6,381,660	295,000	109,610
2010	15,061,846	9,620,376	11,160,000	5,903,175	305,000	95,227
2011-2015	74,234,283	43,651,367	60,970,000	19,693,888	1,188,000	276,452
2016-2020	93,088,511	17,833,751	41,890,000	4,136,200	605,000	46,625
2021-2025	16,947,800	826,140				
Total	\$ 248,797,183	\$ 118,428,987	\$ 153,515,000	\$ 57,889,630	\$ 3,575,600	\$ 960,973

Years Ending June 30,	Governmental Activities		Business-Type Activities			
	Federal Highway Extension Loan		Environmental Services General Obligation Bonds		Water Services Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 1,300,000	\$ 18,920		\$ 2,104,727	\$ 11,083,842	\$ 19,380,436
2007				2,103,883	13,070,033	18,806,869
2008			320,563	2,103,883	14,183,783	18,123,384
2009			713,154	2,094,266	15,515,194	17,379,566
2010			713,154	2,072,871	17,149,373	16,575,012
2011-2015			9,311,327	9,399,040	102,724,413	68,384,925
2016-2020			26,676,489	5,472,494	128,890,074	40,132,670
2021-2025			4,652,200	231,798	85,708,022	9,441,501
Total	\$ 1,300,000	\$ 18,920	\$ 42,386,887	\$ 25,582,962	\$ 388,324,734	\$ 208,224,363

Note 12 - ADVANCE REFUNDING/DEFEASANCE OF DEBT:

On December 16, 2004, the City issued \$55,110,000 Water System Revenue Bonds to refund all or partial debt scheduled after July 1, 2005 of the 1994 and 2000 Water System Revenue Bonds and to pay costs relating to the issuance of the bonds. The interest rate on the bonds ranges from 3.0-5.0% with a final maturity due July 1, 2022. Debt service payments are scheduled semi-annually at amounts that range from \$90,000 to \$6,830,000. The economic gain resulting from this refunding is \$3,103,789 (based upon NPV from delivery date.) The difference in cash flow requirements to service the old debt (\$56,225,000) and the cash flows to service the new debt (\$55,111,000) is \$2,235,018.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 12 - ADVANCE REFUNDING/DEFEASANCE OF DEBT (Continued):

On January 27, 2005, the City issued \$34,240,000 General Obligation Bonds to refund all or partial debt scheduled after July 1, 2005 of the 1997 GO Bonds, the 1998 GO Bonds, the 1999 GO Bonds, the 2000-A GO Bond and to pay costs relating to the issuance of the bonds. The interest rate on the bonds ranges from 2.25-5.0% with the final maturity due July 1, 2020. Debt service payments are scheduled semi-annually at amounts that range from \$779,990 to \$6,933,500. The economic gain resulting from this refunding is \$1,076,112 (based upon NPV from delivery date.) The difference in cash flow requirements to service the old debt (\$56,263,550) and the cash flows to service the new debt (\$54,815,602) is \$1,447,948.

On April 6, 2005, the City issued \$21,725,000 General Obligation Bonds to refund all or partial debt scheduled after July 1, 2005 of the 1995 Refunding GO Bonds, the 1994-C GO Bonds, and the 1999 GO Bonds and to pay costs relating to the issuance of the bonds. The interest rate on the bonds ranges from 3.0-5.0% with the final maturity due July 1, 2021. Debt service payments are scheduled semi-annually at amounts that range from \$56,513 to \$4,010,363. The economic gain resulting from this refunding is \$1,424,103 (based upon NPV from delivery date.) The difference in cash flow requirements to service the old debt (\$29,070,850) and the cash flows to service the new debt (\$27,304,784) is \$1,766,066.

On May 18, 2005, the City issued \$39,995,000 Jr. Streets and Highway User Revenue Bonds to refund all or partial debt scheduled after July 1, 2005 of the 1998 Jr. S&H Bonds, the 2000 Jr. S&H Bonds, the 2001 Jr. S&H Bonds and the 1997 Sr. S&H Bonds, and to pay costs relating to the issuance of the bonds. The interest rate on the bonds ranges from 3.75-5.0% with the final maturity due July 1, 2018. Debt service payments are scheduled semi-annually at amounts that range from \$238,105 to \$11,093,250. The economic gain resulting from this refunding is \$1,267,269 (based upon NPV from delivery date.) The difference in cash flow requirements to service the old debt (\$64,341,281) and the cash flows to service the new debt (\$62,898,458) is \$1,442,823.

In prior years, the City has defeased various bond issues by creating irrevocable trusts. The proceeds from the advance refundings have been deposited in these trusts and invested in U.S. Governmental Securities that are designed to meet the requirements of the refunded debt. The debt associated with the refunding issues, as well as defeased debt outstanding, but removed, is Water Utility debt of \$184,935,000 and General Obligation and Street and Highway debt of \$66,412,000 and \$48,325,000, respectively.

Note 13 - LANDFILLS:

The U.S. Environmental Protection Agency ruling "Solid Waste Disposal Facility Criteria" requires the City to incur specified landfill closure and post-closure care costs. Closure requirements have been established for municipal landfills that received solid waste after October 9, 1991. Additional thirty-year post-closure monitoring and maintenance functions are required of landfills that accepted solid waste after October 9, 1993. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City records a liability for these required costs based upon each landfill's percentage of capacity used through June 30, 2005. The total closure and post-closure cost estimates are based on what it would cost to perform those functions in 2005. Actual costs will likely vary due to inflation, changes in technology, or changes in regulations.

In addition to the federal requirements discussed above, the City must comply with certain Federal/State requirements dealing with aquifer protection or clean-up. The recognition of this liability is also based on the percentage of landfill capacity used, and cost estimates are in current dollars.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 13 – LANDFILLS (Continued):

Total liability for closure/post-closure costs, including aquifer protection and clean-up, is as follows:

<u>Landfill Site</u>	<u>Landfill Capacity Used as of 6/30/05</u>	<u>Estimated Closure/Post- Closure Costs</u>	<u>Liability Recognized at 6/30/05</u>	<u>Estimated Closure/ Postclosure Cost to be Recognized in Future Years</u>	<u>Estimated Remaining Life in Years</u>
Los Reales	86 %	\$ 30,872,000	\$ 25,687,288	\$ 5,184,712	4
Harrison	100 %	6,813,000	6,813,000		
Irvington	100 %	4,492,000	4,492,000		
Vincent Mullins	100 %	4,302,382	4,302,382		
Silverbell	100 %	1,241,000	1,241,000		
Totals		<u>\$ 47,720,382</u>	<u>\$ 42,535,670</u>	<u>\$ 5,184,712</u>	

Revised estimates of closure and post-closure costs are made annually.

The operation of the landfills is a function of the City's Environmental Management Department that is accounted for as an enterprise fund. The June 30, 2005, liability for closure and post-closure costs is \$42,535,670, which represents the cumulative amount reported to date based on the estimated capacity of the landfills.

Note 14 - DEFERRED COMPENSATION PLAN:

The City offers its employees an internally administered Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits the employees to defer a portion of their salaries until future years. The amount deferred is not available to employees until termination, retirement, death, or unforeseeable emergency.

Federal law requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries; therefore, the internally-administered Deferred Compensation Plan is reported as a Trust Fund.

Note 15 - SINGLE-EMPLOYER AND AGENT MULTIPLE-EMPLOYER RETIREMENT SYSTEMS:

A. Description of Plans

1. Tucson Supplemental Retirement System The Tucson Supplemental Retirement System (System or TSRS) is a single-employer defined benefit plan for City employees. It was established in the City Charter to provide its members with a supplement to the retirement and disability benefits of the social security system. The System is governed by a seven-member Board of Trustees consisting of: a chairman who is appointed by the Mayor and Council, the City's Directors of Human Resources and Finance, two members elected by the membership of the System, an ex-officio retired member, and a member appointed by the City Manager. Benefit provisions and changes in benefits or funding are recommended by the Board of Directors and must be approved by Mayor and Council. The TSRS issues a publicly available financial report that includes financial statements and required supplementary information. The financial statements may be obtained from their administrative office located at 255 W. Alameda Street, Tucson, AZ 85701.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 15 - SINGLE-EMPLOYER AND AGENT MULTIPLE-EMPLOYER RETIREMENT SYSTEMS (Continued):

2. Arizona Public Safety Personnel Retirement System The City contributes to the Arizona Public Safety Personnel Retirement System (System or APSPRS), an agent multiple-employer public employee retirement system established by the Arizona Revised Statutes. All commissioned Police and Fire employees of the City participate in the System. The Fund Manager and 215 Local Boards jointly administer the System. The Fund Manager is a five-member board. The governor appoints three members, and two members are appointed by the state legislature. Each eligible group participating in the System has a five-member Local Board. Three members are appointed by the chief elected official of the organization, and two members are elected by the active members of the eligible group. The Fund Manager is responsible for the investment of the System's assets. The Local Board is responsible for determining eligibility for membership, service credits, eligibility for benefits, timing of benefit payments, and the amount of benefits for its eligible group of employees. APSPRS issues a publicly available financial report that includes financial statements and required supplementary information. The financial statements may be obtained from their administrative office located at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016.
3. Arizona Elected Officials' Retirement Plan The City contributes to the Arizona Elected Officials' Retirement Plan (Plan or AEORP), a cost-sharing, multiple-employer public employee retirement plan. At June 30, 2005, the City had 7 covered officials. Covered payroll for the year then ended was \$186,000 (out of the total City payroll of \$263,901,238). All elected officials of the City are members of the Plan.

State statutes require that the total contribution for an elected official be sufficient to meet the actuarially-determined normal cost, plus the amount needed to amortize any unfunded liability. At the City, covered officials are required to contribute 7% of their salary to the Plan. The City contributes the remaining amounts necessary to finance benefits. The City's contribution for the year was \$25,058 and elected officials contributed \$13,521 contributions, including amounts for current officials as well as for past officials permitted to join the plan pursuant to 1987 legislation.

No additional disclosures regarding AEORP are provided due to its immateriality to these financial statements as a whole. Financial statements for the Plan are available by contacting Arizona Elected Officials' Retirement System at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016.

B. Funding Policy

1. Tucson Supplemental Retirement System Currently, employee contributions are 5% of their annual covered payroll and are made through payroll deductions. A reserve is established for contributions and earnings allocations, less amounts transferred to reserves for retirement and disability and amounts reserved for terminated employees. If an employee leaves covered employment before attaining five years' service credit, the accumulated contributions plus interest are refunded to the employee or his designated beneficiary. The City contributes the remaining amounts necessary to finance employee participation in the System and to fund the costs of administering the System. The City's contribution rate for the year ended June 30, 2005 was 14.06%.
2. Arizona Public Safety Personnel Retirement System Employees covered by APSPRS are required by State statutes to contribute 5% of their salary to the System. The System's funding policy provides for actuarially determined employer contribution rates which will provide assets sufficient to pay benefits when due. For the fiscal year ended June 30, 2005, the required employer contribution rates were 13.33% and 14.69%, respectively, for Police and Fire.

If a member leaves covered employment or dies and no benefit is payable, accumulated member contributions are refunded to the member or designated beneficiary.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 15 - SINGLE-EMPLOYER AND AGENT MULTIPLE-EMPLOYER RETIREMENT SYSTEMS (Continued):

C. Summary of Significant Accounting Policies

1. Tucson Supplemental Retirement System The System's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the System.

At June 30, 2005, there were no individual investments, that represented 5% or more of System net assets, other than those issued or guaranteed by the United States government, and there were no long-term contracts for contributions to the System.

2. Arizona Public Safety Personnel Retirement System The System's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Investment income, net of administrative and investment expenses, is allocated to each employer group based on the average relative fund size for each employer group for that year.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by fixed-income broker/dealers. Investment income is recognized as earned. Realized gains and losses on sales and exchanges of fixed-income securities are recognized on the transaction date.

At June 30, 2005, there were no individual investments, other than those issued or guaranteed by the United States government, that represented 5% or more of System net assets, and there were no long-term contracts for contributions to the System.

D. Annual Pension Cost:

The annual pension cost, net pension obligation for the current year, and other related information for both systems follow:

	Actuarial Information		
	TSRS	APSPRS	
		<u>Police</u>	<u>Fire</u>
Actuarial Valuation Date	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll, Closed	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Remaining Amortization Period	Closed 17 Years from June 30, 2005	Open 20 years from June 30, 2005	Open 20 years from June 30, 2005
Asset Valuation Method	4-Year Smoothed Market	4-Year Smoothed Market	4-Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return	7.75%	8.50%	8.50%
Projected Salary Increases*	4.25% - 9.25%	6.00% - 9.00%	6.00% - 9.00%
Inflation	4.25%	5.00%	5.00%
Cost-of-Living Adjustment	As approved by TSRS Board	None	None

*Projected salary increases include inflation.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 15 – SINGLE EMPLOYER AND AGENT MULTIPLE-EMPLOYER RETIREMENT SYSTEMS (Continued):

The Tucson Supplemental Retirement System (TSRS) issues a publicly available financial report that includes financial statements and required supplementary information. The financial statements may be obtained from their administrative office located at 255 W. Alameda, Tucson, AZ 85701.

The Arizona Public Safety Personnel Retirement System (APSPRS) issues a publicly available financial report that includes financial statements and required supplementary information. The financial statements may be obtained from their administrative office located at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016.

Three Year Trend Information				
	Fiscal Year Ended 6/30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
TSRS	2005	\$ 25,958	100 %	\$ 0
	2004	23,644	100	0
	2003	21,657	100	0
Police	2005	7,141	100	0
	2004	5,140	100	0
	2003	2,992	100	0
Fire	2005	4,621	100	0
	2004	2,653	100	0
	2003	1,725	100	0

Dollar amounts are in thousands

Schedule of Funding Progress							
	Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded (Overfunded) AAL (b) - (a)	Funded Ratio (a) / (b)	Active Member Covered Payroll (c)	Unfunded(Overfunded) AAL as a Percentage of Active Annual Member Covered Payroll (b-a) / (c)
<u>TSRS</u>							
	2005	\$ 538,789	\$ 693,871	\$ 155,082	\$ 77.6 %	\$ 162,149	95.6 %
	2004	494,987	645,351	150,364	76.7	149,782	100.4
	2003	458,857	601,173	142,316	76.3	143,164	99.4
<u>Police</u>							
	2005	333,251	415,094	81,843	80.3	52,700	155.3
	2004	328,655	364,754	36,099	90.1	50,399	71.6
	2003	333,213	333,808	595	99.8	52,996	1.1
<u>Fire</u>							
	2005	228,850	286,348	57,498	79.9	29,843	192.7
	2004	228,828	253,304	24,475	90.3	27,426	89.2
	2003	235,483	239,023	3,540	98.5	27,907	12.7

Dollar amounts are in thousands.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 16 - SELF INSURANCE PROGRAM:

The City is exposed to various risks of losses related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained commercial coverage for Property Insurance, Public Employee Fidelity Bonds, Crime Insurance, Aircraft Insurance and Miscellaneous Insurance (i.e., surety bonds, special event insurance as needed, and fine arts coverage). The City retains all of the risk not covered by commercial carriers and has effectively managed risk through various employee education and prevention programs.

All risk management activities are accounted for in the Self Insurance Fund, an Internal Service Fund. There have not been any settlements in excess of the insurance coverage provided by this fund in the previous three years.

Annually, the City estimates the liabilities for unpaid claims using a historical cost information method. Claims and expenses are recognized when it is probable that a loss has been incurred, and the amount of the loss can be reasonably estimated. Claims accounted for include reported and paid claims, reported but unpaid claims, and incurred but not reported (IBNR) claims. Unpaid claim liability amounts are reported at gross (no discounting).

Changes in the Self Insurance Fund's aggregate claims liabilities for the fiscal years ended June 30, 2005, and 2004, are as follows:

	2005	2004
Beginning of fiscal year liability	\$ 39,712,642	\$ 44,460,352
Current year claims and changes in estimates	24,419,951	4,775,169
Claim Payments	(19,067,823)	(9,522,879)
Balance at fiscal year end	\$ 45,064,770	\$ 39,712,642

Note 17 - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS:

In addition to the pension benefits described in Note 15, the City offers a health insurance benefit to those employees who: have qualified to receive a monthly retirement allowance from the Tucson Supplemental Retirement System or from the Arizona Public Safety Retirement System (Police and Fire); are less than 65 years of age; and are not Medicare-eligible.

These benefits apply only to those employees who retired after March 1, 1981, and were above the minimum eligible age that was in effect on the date of their retirement. Public Safety employees who retired after February 1, 1982, and who were below the minimum eligible age in effect on the date of their retirement are covered for a period not to exceed five years. After that point, the retiree pays 100% of the premium.

As of June 30, 2005, the City contributed towards the medical premiums of 750 retirees. Depending upon the date of retirement, the City pays between 75% and 100% of the medical insurance premiums for eligible retirees and their dependents.

The costs associated with this retirement benefit are expended as the appropriate medical insurance premiums are paid. During the 2004-05 fiscal year, the City's portion of retiree medical insurance premiums was \$3,520,805.

On June 30, 2005, there were 2,295 retirees receiving City-paid life insurance benefits. The costs associated with the life insurance premiums are expended as the insurance premium is paid. During the fiscal year, the City's cost for retiree life insurance was \$91,377.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 18 - CONTINGENCIES AND COMMITMENTS:

A. Litigation

The City is subject to a number of lawsuits, investigations and other claims (some of which involve substantial amounts) that are incidental to the ordinary course of its operations, including those related to wrongful death and personal injury matters. Although the City Attorney does not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon the settlement of such claims and lawsuits, some claims could be significant to the City's operations. While the ultimate resolution of such lawsuits, investigations, and claims cannot be determined at this time, in the opinion of City management, based on the advice of the City Attorney, the resolution of these matters will not have a material adverse effect on the City's financial position.

B. Central Arizona Project Water Purchase Contract

The Central Arizona Water Conservation District (CAWCD) is the entity responsible for contracting with the Secretary of Interior for Central Arizona Project (CAP) water and for subcontracting with users within the State of Arizona. Under a contract between the City, CAWCD and the Department of the Interior, the City currently has the right to receive 135,966 acre-feet of CAP water each year. In return, the City agreed to pay a capital financing charge that is designed to recover a portion of the Federal Government's CAP construction costs. This charge, which must be paid regardless of whether the City orders any CAP water, is adjusted annually and is on a per-acre-foot allocation basis; the CAP capital financing for the year was \$3,807,048. In addition, commodity charges, which are designed to cover CAWCD operating and maintenance expenses, are based on the quantity of CAP water taken by the City. The commodity charge for the year was \$4,586,269.

C. Construction and Other Commitments

In governmental fund types, construction and other commitments, if significant, are appropriately identifiable through reservations of fund balance.

D. Federal and State Grants

Accounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

E. Sale of Tucson House

On November 1, 1997, the City sold the Tucson House, a public housing apartment complex, to a limited partnership that has renovated the complex with money obtained through Federal Home Loan Bank (FHLB) subsidies. Notes and interest receivables have been established for: the sales price, certain construction costs paid by the City, and accrued interest due on the notes at 7.5%. These amounts have been recorded as deferred revenue, and totaled \$14,462,237 at June 30, 2005.

According to the terms of the subsidy agreement, the Tucson House's units must be operated as affordable housing for a period of 15 years after the renovation was completed, at the end of which time the City has the option to repurchase the renovated Tucson House in exchange for forgiveness of the debt. If the terms are violated, the City will be jointly liable (with the limited partnership) for repayment of the subsidy to FHLB. The likelihood of the Tucson House not being operated as a public housing facility is considered remote by the City.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 18 - CONTINGENCIES AND COMMITMENTS: (Continued)

F. Financing of Posadas Sentinel Low-income Housing

On November 1, 1999, the City entered into a capital lease with Posadas Sentinel LLLP (Posadas), whereby the City leased various properties to Posadas for 75 years. Under the terms of the lease, Posadas will develop and operate the properties solely as low-income residential housing facilities. The Posadas is financing this development through low-income housing tax credits from the State of Arizona, and through a \$10,002,000 line of credit from the City, which has been recorded by the City as notes receivable. The note balance, with accrued interest at 7.5% thereon, was \$13,089,155 at June 30, 2005.

Eligibility of Posadas Sentinel LLLP for the tax credits requires that the properties be operated as affordable housing for a period of 15 years after the development is completed, at the end of which time the lease agreement may be terminated in exchange for forgiveness of the associated debt. The City has made certain commitments to ensure eligibility for the tax credit, and therefore has potential associated liability. The likelihood of such liability occurring is considered remote by the City.

G. Financing of South Park Low-income Housing

On December 2, 2002, the City entered into a capital lease with South Park Development Partners LLLP (South Park), whereby the City leased various properties to South Park for 75 years. Under the terms of the lease, South Park will develop and operate the properties solely as low-income residential housing facilities. South Park is financing this development through low-income housing tax credits from the State of Arizona, and through a \$5,473,733 line of credit from the City, which has been recorded by the City as a notes receivable. The note balance, with accrued interest at 5.77% thereon, was \$5,829,472 at June 30, 2005.

Eligibility of South Park for the tax credits requires that the properties be operated as affordable housing for a period of 15 years after the development is completed, at the end of which time the lease agreement may be terminated in exchange for forgiveness of the associated debt. The City has made certain commitments to ensure eligibility for the tax credit, and therefore has potential associated liability. The likelihood of such liability occurring is considered remote by the City.

H. Starr Pass Resort Developments Lease

On May 11, 2005, The City entered into a sublease agreement with Starr Pass Resort Developments LLC. The City is acquiring, among other property, an interest in the real property and the improvements to a parking garage structure located on the Starr Pass grounds. The City issued Certificates of Participation for \$2,640,000 to pay ground rent to Starr Pass Resort Developments. Under the terms of the lease, Starr Pass will develop and operate the properties. The Resort is paying the City under the sublease the amount equal to the debt service. A notes receivable has been recorded by the City for \$2,640,000.

Note 19 - SIGNIFICANT DISCRETELY PRESENTED COMPONENT UNIT TRANSACTIONS:

The Rio Nuevo Multipurpose Facilities District (District) is a legally separate entity created to revitalize downtown Tucson. The District is being funded by tax increment financing (TIF). This State TIF revenue stream did not begin until July 2003; therefore, the substantial project/development expenses incurred by the District were being covered by the City as of June 30, 2005. This coverage resulted in the City's recording a long-term receivable in the amount of \$14,577,549.

On November 3, 2005, the Rio Nuevo Multipurpose Facilities District issued \$5,800,000 Junior Lien Excise Tax Revenue Bonds. The interest rate on the bonds ranges from 4.9% to 6.0% with the final maturity due on July 1, 2013. Debt service payments are scheduled annually at amounts that range from \$510,000 to \$1,710,000.

Required Supplementary Information



RIALTO

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MAYOR WALKUP
CONGRESS STREET INVESTORS
ADDISIGN

CITY OF TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 210,342,120	\$ 210,342,120	\$ 211,795,324	\$ 1,453,204
Licenses and Permits	16,707,940	16,707,940	18,593,626	1,885,686
Fines and Forfeitures	12,622,160	12,622,160	10,341,491	(2,280,669)
Use of Money and Property	1,760,230	1,760,230	2,621,347	861,117
Federal Grants and Contributions	1,800,000	1,800,000		(1,800,000)
Other Agencies	135,245,610	135,245,610	126,372,735	(8,872,875)
Charges for Services	26,994,860	26,994,860	39,266,187	12,271,327
Miscellaneous	10,109,590	10,109,590	4,564,314	(5,545,276)
Total revenues	<u>415,582,510</u>	<u>415,582,510</u>	<u>413,555,024</u>	<u>(2,027,486)</u>
Expenditures:				
Current -				
Elected and Official	16,252,830	16,235,364	14,622,301	1,613,063
Support Services	41,097,490	41,518,075	53,927,885	(12,409,810)
Neighborhood Services	232,874,660	234,232,278	229,908,518	4,323,760
Environment and Development	42,233,420	25,644,902	17,844,265	7,800,637
Strategic Initiatives	2,685,970	2,685,970	2,457,817	228,153
Non-Departmental	10,009,910	9,080,867	11,502,112	(2,421,245)
Environmental Services	1,100,000			
Capital Outlay	3,039,820	6,763,115	3,432,523	3,330,592
Capital Projects	52,197,700	61,694,622	34,699,532	26,995,090
Debt service -				
Principal	5,785,590	5,242,870	4,214,239	1,028,631
Interest	3,231,320	3,049,410	2,834,308	215,102
Fiscal Agent Fees and Other		708,630	23,598	685,032
Issuance Cost of Debt	32,300	32,300	997,378	(965,078)
Total expenditures	<u>410,541,010</u>	<u>406,888,403</u>	<u>376,464,476</u>	<u>30,423,927</u>
Excess (deficiency) of revenues over expenditures	<u>5,041,500</u>	<u>8,694,107</u>	<u>37,090,548</u>	<u>28,396,441</u>
Other financing sources (uses):				
Lease Purchase and Contracts Proceeds	48,723,580	48,723,580	44,784,153	(3,939,427)
Premium on Issuance of Debt			1,332,519	1,332,519
Transfers from Other Funds			2,726,435	2,726,435
Payment to Refunded Bond Escrow Agent			(1,465,000)	(1,465,000)
Transfers to Other Funds	(53,765,080)	(53,765,080)	(59,769,496)	(6,004,416)
Total other financing sources (uses)	<u>(5,041,500)</u>	<u>(5,041,500)</u>	<u>(12,391,389)</u>	<u>(7,349,889)</u>
Change in fund balances		<u>3,652,607</u>	<u>24,699,159</u>	<u>21,046,552</u>
Fund balances, July 1, 2004			73,362,333	73,362,333
Fund balances, June 30, 2005	<u>\$</u>	<u>\$ 3,652,607</u>	<u>\$ 98,061,492</u>	<u>\$ 94,408,885</u>

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

CITY OF TUCSON, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2005

NOTE 1 - BUDGET INFORMATION:

The City prepares a legally adopted annual operating budget for the General Fund. The City's budget is adopted using a basis of accounting consistent with generally accepted accounting principles (GAAP), with immaterial exceptions (e.g., beginning fund balance is budgeted as a revenue source). The City's actuals are presented on a GAAP basis; therefore, no reconciliation is necessary.

Combining Statements and Individual Fund Statements and Schedules

Combining Statements and Individual Fund
Statements and Schedules



CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2005

	Special Revenue	Debt Service	Capital Projects	Civic Endowment Fund	Total Non-Major Governmental Funds
ASSETS					
Pooled Cash and Investments	\$ 19,839,777	\$ 6,936,461	\$ 35,213,803	\$ 149,092	\$ 62,139,133
Cash/Investments with Fiscal Agent	4,709,214	25,875,150			30,584,364
Long Term Investments	1,068,261				1,068,261
Accounts Receivable, Net	12,137,101				12,137,101
Special Assessments Receivable		3,474,061			3,474,061
Notes and Loans Receivable	42,345,862				42,345,862
Due from Other Agencies	474,650		56,915		531,565
Interfund Receivable			6,838,635		6,838,635
Grants and Entitlements Receivable	22,169,637				22,169,637
Interest Receivable	89,859	4,846	140,173	510	235,388
Other Assets	4,724,773				4,724,773
Total assets	\$ 107,559,134	\$ 36,290,518	\$ 42,249,526	\$ 149,602	\$ 186,248,780
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 8,517,366	\$ 62,430	\$ 1,970,867	\$	\$ 10,550,663
Accrued Payroll Liabilities	1,095,322				1,095,322
Advances from Other Funds	3,500,000		3,680,590		7,180,590
Interfund Payable	21,708,761		4,351		21,713,112
Due to Other Agencies	463,864		8,168		472,032
Refundable Deposits	1,722,430	99,008			1,821,438
Bonds and Interest Payable, including					
Special Assessments	714	25,875,150			25,875,864
Deferred Revenue	39,572,162	3,470,990			43,043,152
Total liabilities	76,580,619	29,507,578	5,663,976		111,752,173
Fund balances:					
Reserved for Debt Service	461,469	6,782,940			7,244,409
Reserved for Capital Improvements	4,523,908		40,266,140		44,790,048
Reserved for Advances and Deposits	13,170				13,170
Reserve for Other Purposes	16,647,974			149,602	16,797,576
Unreserved:					
Undesignated	9,331,994		(3,680,590)		5,651,404
Total fund balances	30,978,515	6,782,940	36,585,550	149,602	74,496,607
Total liabilities and fund balances	\$ 107,559,134	\$ 36,290,518	\$ 42,249,526	\$ 149,602	\$ 186,248,780

CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2005

	Library Fund	Public Safety Academy Fund	Team/Parkwise	Convention Center Fund
<u>ASSETS</u>				
Pooled Cash and Investments	\$ 212,473	\$ 169,597	\$ 43,853	\$ 2,148,250
Cash/Investments with Fiscal Agent			4,320,809	
Long Term Investments			1,068,261	
Accounts Receivable, Net	74,749		40,107	161,041
Notes and Loans Receivable				
Due from Other Agencies			110,139	
Grants and Entitlements Receivable				
Interest Receivable			9,993	
Other Assets		3,227		
Total assets	\$ 287,222	\$ 172,824	\$ 5,593,162	\$ 2,309,291
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 65,412	\$ 98,851	\$ 2,296,310	\$ 76,205
Accrued Payroll Liabilities	212,534	72,107	13,195	40,184
Advances from Other Funds				
Interfund Payable			925,675	
Due to Other Agencies	949	1,866		965
Refundable Deposits			5,281	876,730
Bonds and Interest Payable, including Special Assessments			714	
Deferred Revenue				
Total liabilities	278,895	172,824	3,241,175	994,084
Fund balances (deficits):				
Reserved for Debt Service		461,469		
Reserved for Capital Improvements			4,330,802	
Reserved for Advances and Deposits	3,505			9,665
Reserve for Other Purposes	4,822	299,570	1,068,261	1,305,542
Unreserved:				
Undesignated		(761,039)	(3,047,076)	
Total fund balances	8,327	(761,039)	2,351,987	1,315,207
Total liabilities and fund balances	\$ 287,222	\$ 172,824	\$ 5,593,162	\$ 2,309,291

<u>H.U.R.F. Fund</u>	<u>Civic Contribution Fund</u>	<u>Community Development Fund</u>	<u>Development Fee Fund</u>	<u>Miscellaneous Housing Grant Fund</u>	<u>Public Housing Fund</u>
\$ 12,322,894 72,111	\$ 2,518,824	\$	\$ 257,161	\$	\$ 1,281,837
7,863,897				818	230,076
111,095		4,473,789		19,497,053	10,678,448
61,709	7,804	1,699,786		118,873	
1,357			3,731	5,865,014	222,712
				16,856	6,622
<u>\$ 20,433,063</u>	<u>\$ 2,526,628</u>	<u>\$ 6,173,575</u>	<u>\$ 260,892</u>	<u>\$ 25,498,614</u>	<u>\$ 14,373,409</u>
\$ 1,230,843 326,737	\$ 70,118	\$ 393,206 23,529	\$ 67,786	\$ 566,450 8,076	\$ 323,387 78,994
			3,500,000		
705	215	1,202,591 71,287 24,704		4,699,784	229,691
				1,919	725,611
		26,667		19,590,894	10,695,652
<u>1,558,285</u>	<u>70,333</u>	<u>1,741,984</u>	<u>3,567,786</u>	<u>24,867,123</u>	<u>12,053,335</u>
			193,106		
3,542,301	2,456,295	4,431,591		16,856	2,400,498
15,332,477			(3,500,000)	614,635	(80,424)
<u>18,874,778</u>	<u>2,456,295</u>	<u>4,431,591</u>	<u>(3,306,894)</u>	<u>631,491</u>	<u>2,320,074</u>
<u>\$ 20,433,063</u>	<u>\$ 2,526,628</u>	<u>\$ 6,173,575</u>	<u>\$ 260,892</u>	<u>\$ 25,498,614</u>	<u>\$ 14,373,409</u>

(Continued)

CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2005
(Concluded)

	Public Housing HOME Program Fund	Other Federal Grants Fund	Non-Federal Grants Fund	Mass Transit Fund
<u>ASSETS</u>				
Pooled Cash and Investments	\$	\$	\$ 884,888	\$
Cash/Investments with Fiscal Agent		316,294		
Long Term Investments				
Accounts Receivable, Net				3,766,413
Notes and Loans Receivable	7,696,572			
Due from Other Agencies				134,543
Grants and Entitlements Receivable	1,751,475	8,679,428	422,485	3,528,737
Interest Receivable				
Other Assets		533	581	2,748,505
Total assets	\$ 9,448,047	\$ 8,996,255	\$ 1,307,954	\$ 10,178,198
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 168,675	\$ 1,015,396	\$ 102,841	\$ 2,041,886
Accrued Payroll Liabilities	13,045	38,976	11,604	256,341
Advances from Other Funds				
Interfund Payable	1,486,469	6,504,833		6,889,409
Due to Other Agencies		6,014	44	152,128
Refundable Deposits	83,286	2,951		1,948
Bonds and Interest Payable, including Special Assessments				
Deferred Revenue	7,696,572	1,166,859	364,976	30,542
Total liabilities	9,448,047	8,735,029	479,465	9,372,254
Fund balances (deficits):				
Reserved for Debt Service				
Reserved for Capital Improvements				
Reserved for Advances and Deposits				
Reserve for Other Purposes		316,294		805,944
Unreserved:				
Undesignated		(55,068)	828,489	
Total fund balances		261,226	828,489	805,944
Total liabilities and fund balances	\$ 9,448,047	\$ 8,996,255	\$ 1,307,954	\$ 10,178,198

Totals

\$ 19,839,777
4,709,214
1,068,261
12,137,101
42,345,862
474,650
22,169,637
89,859
4,724,773
\$ 107,559,134

\$ 8,517,366
1,095,322
3,500,000
21,708,761
463,864
1,722,430

714
39,572,162
76,580,619

461,469

4,523,908

13,170

16,647,974

9,331,994

30,978,515

\$ 107,559,134

CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - ALL DEBT SERVICE FUNDS
JUNE 30, 2005

	Assessment Bond and Interest Fund	Obligation Bond and Interest Fund	Highway Bond and Interest Fund	Totals
<u>ASSETS</u>				
Pooled Cash and Investments	\$ 1,558,119	\$ 5,317,340	\$ 61,002	\$ 6,936,461
Cash/Investments with Fiscal Agent	87,889	14,275,575	11,511,686	25,875,150
Special Assessments Receivable	3,474,061			3,474,061
Interest Receivable	4,846			4,846
Total assets	\$ 5,124,915	\$ 19,592,915	\$ 11,572,688	\$ 36,290,518
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 1,428	\$	\$ 61,002	\$ 62,430
Refundable Deposits	99,008			99,008
Bonds and Interest Payable, including Special Assessments	87,889	14,275,575	11,511,686	25,875,150
Deferred Revenue	3,470,990			3,470,990
Total liabilities	3,659,315	14,275,575	11,572,688	29,507,578
Fund balances:				
Reserved for Debt Service	1,465,600	5,317,340		6,782,940
Total fund balances	1,465,600	5,317,340		6,782,940
Total liabilities and fund balances	\$ 5,124,915	\$ 19,592,915	\$ 11,572,688	\$ 36,290,518



CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - ALL CAPITAL PROJECTS FUNDS
JUNE 30, 2005

	Special Assessment Construction Fund	2000 Street and Highway Improvement	1994 Street and Highway Improvement	2000 General Obligation Fund
<u>ASSETS</u>				
Pooled Cash and Investments	\$	\$ 5,742,331	\$	\$ 28,740,995
Due from Other Agencies				51,651
Interfund Receivable				6,838,635
Interest Receivable		13,639	1,089	111,648
Total assets	\$	\$ 5,755,970	\$ 1,089	\$ 35,742,929
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$	\$ 236,356	\$	\$ 1,731,980
Advances from Other Funds	3,680,590			
Interfund Payable			1,089	
Due to Other Agencies				8,168
Total liabilities	3,680,590	236,356	1,089	1,740,148
Fund balances (deficits):				
Reserved for Capital Improvements		5,519,614		34,002,781
Unreserved:				
Undesignated	(3,680,590)			
Total fund balances	(3,680,590)	5,519,614		34,002,781
Total liabilities and fund balances	\$	\$ 5,755,970	\$ 1,089	\$ 35,742,929

<u>1994 General Obligation Fund</u>	<u>1984 General Obligation Fund</u>	<u>Totals</u>
\$ 730,477	\$	\$ 35,213,803
2,693	2,571	56,915
		6,838,635
13,106	691	140,173
<u>\$ 746,276</u>	<u>\$ 3,262</u>	<u>\$ 42,249,526</u>
\$ 2,531	\$	\$ 1,970,867
		3,680,590
	3,262	4,351
		8,168
<u>2,531</u>	<u>3,262</u>	<u>5,663,976</u>
743,745		40,266,140
		(3,680,590)
<u>743,745</u>	<u></u>	<u>36,585,550</u>
<u>\$ 746,276</u>	<u>\$ 3,262</u>	<u>\$ 42,249,526</u>

CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - ALL PERMANENT FUNDS
JUNE 30, 2005

	<u>Civic Endowment Fund</u>
<u>ASSETS</u>	
Pooled Cash and Investments	\$ 149,092
Interest Receivable	510
Total assets	<u>\$ 149,602</u>
Fund balances:	
Reserve for Other Purposes	149,602
Total fund balances	<u>149,602</u>
 Total liabilities and fund balances	 <u>\$ 149,602</u>



CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
YEAR ENDED JUNE 30, 2005

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Revenues:			
Taxes	\$	\$ 21,274,250	\$
Licenses and Permits	908,798		
Fines and Forfeitures	1,207,715	9,155	
Use of Money and Property	2,565,807	31,788	682,870
Federal Grants and Contributions	70,681,079		
Other Agencies	61,893,835	7,744,361	
Charges for Services	16,461,320		
Special Assessments		857,396	5,926
Miscellaneous	2,785,180		
Total revenues	<u>156,503,734</u>	<u>29,916,950</u>	<u>688,796</u>
Expenditures:			
Current -			
Elected and Official	313,819		
Support Services	40,546		
Neighborhood Services	81,060,951		50,498
Environment and Development	84,053,369		1,613,106
Strategic Initiatives	10,839,519		
Non-Departmental	474,713		
Capital Outlay	4,701,097		710,400
Capital Projects	29,735,619		22,292,325
Debt service -			
Principal	654,214	17,522,900	
Interest	519,474	18,916,942	
Fiscal Agent Fees and Other		22,703	
Issuance Cost of Debt		1,104,152	262,242
Total expenditures	<u>212,393,321</u>	<u>37,566,697</u>	<u>24,928,571</u>
Excess (deficiency) of revenues over expenditures	<u>(55,889,587)</u>	<u>(7,649,747)</u>	<u>(24,239,775)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds		85,825,606	23,894,000
Lease Purchase and Contracts Proceeds	11,124,130		
Premium on Issuance of Debt		6,112,787	609,589
Transfers from Other Funds	51,458,391	7,813,815	3,307,040
Payment to Refunded Bond Escrow Agent		(90,978,595)	
Transfers to Other Funds	(8,469,997)		(5,176,440)
Total other financing sources (uses)	<u>54,112,524</u>	<u>8,773,613</u>	<u>22,634,189</u>
Change in fund balances	<u>(1,777,063)</u>	<u>1,123,866</u>	<u>(1,605,586)</u>
Fund balances, beginning of year, as restated	32,755,578	5,659,074	38,191,136
Fund balances, end of year	<u>\$ 30,978,515</u>	<u>\$ 6,782,940</u>	<u>\$ 36,585,550</u>

Civic Endowment Fund	Total Non-Major Governmental Funds
\$	\$ 21,274,250
	908,798
	1,216,870
3,118	3,283,583
	70,681,079
	69,638,196
	16,461,320
	863,322
	2,785,180
<u>3,118</u>	<u>187,112,598</u>
	313,819
	40,546
4,045	81,115,494
	85,666,475
	10,839,519
	474,713
	5,411,497
	52,027,944
	18,177,114
	19,436,416
	22,703
	1,366,394
<u>4,045</u>	<u>274,892,634</u>
<u>(927)</u>	<u>(87,780,036)</u>
	109,719,606
	11,124,130
	6,722,376
	62,579,246
	(90,978,595)
	(13,646,437)
	<u>85,520,326</u>
<u>(927)</u>	<u>(2,259,710)</u>
150,529	76,756,317
<u>\$ 149,602</u>	<u>\$ 74,496,607</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Library Fund</u>	<u>Public Safety Academy Fund</u>	<u>Team/Parkwise</u>
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures	483,703		546,058
Use of Money and Property		4,038	203,105
Federal Grants and Contributions			
Other Agencies	9,165,359	150,000	1,000,000
Charges for Services	92,309	158,045	1,779,619
Miscellaneous	220	737	142
Total revenues	<u>9,741,591</u>	<u>312,820</u>	<u>3,528,924</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	19,707,025	5,792,512	
Environment and Development			1,882,937
Strategic Initiatives			
Non-Departmental			200
Capital Outlay	82,689	37,414	
Capital Projects			9,799,612
Debt service -			
Principal		240,000	51,000
Interest		28,475	379,689
Total expenditures	<u>19,789,714</u>	<u>6,098,401</u>	<u>12,113,438</u>
Excess (deficiency) of revenues over expenditures	<u>(10,048,123)</u>	<u>(5,785,581)</u>	<u>(8,584,514)</u>
Other financing sources (uses):			
Lease Purchase and Contracts Proceeds			10,502,000
Transfers from Other Funds	10,052,144	5,691,866	28,794
Transfers to Other Funds			
Total other financing sources (uses)	<u>10,052,144</u>	<u>5,691,866</u>	<u>10,530,794</u>
Change in fund balances	<u>4,021</u>	<u>(93,715)</u>	<u>1,946,280</u>
Fund balances, beginning of year, as restated	4,306	93,715	405,707
Fund balances (deficits), end of year	<u>\$ 8,327</u>	<u>\$</u>	<u>\$ 2,351,987</u>

Convention Center Fund	H.U.R.F. Fund	Civic Contribution Fund	Human and Community Development Fund	Development Fee Fund	Miscellaneous Housing Grant Fund
\$	\$ 908,798	\$	\$	\$	\$
36,529	10,620 832,738	50,711	1,357,323 5,560,361	22,834	5,109,561
3,366,470	42,730,782				
141,646	911,353	749,889			614,635
<u>3,544,645</u>	<u>45,394,291</u>	<u>800,600</u>	<u>6,917,684</u>	<u>22,834</u>	<u>5,724,196</u>
		1,034			
	341,806	222,685	6,243,996		5,035,491
10,523,005	31,465,827	24,955	133,285		
	239,835				
6,220	449,235		13,563		74,050
	7,116,317	280,638	182,706	3,329,728	54,266
	51,937		12,285		
	52,025		8,805		
<u>10,529,225</u>	<u>39,716,982</u>	<u>529,312</u>	<u>6,594,640</u>	<u>3,329,728</u>	<u>5,163,807</u>
<u>(6,984,580)</u>	<u>5,677,309</u>	<u>271,288</u>	<u>323,044</u>	<u>(3,306,894)</u>	<u>560,389</u>
	476,915				
7,043,378	11,087		55,027		
	(8,387,093)	(28,485)			
<u>7,043,378</u>	<u>(7,899,091)</u>	<u>(28,485)</u>	<u>55,027</u>		
58,798	(2,221,782)	242,803	378,071	(3,306,894)	560,389
1,256,409	21,096,560	2,213,492	4,053,520		71,102
<u>\$ 1,315,207</u>	<u>\$ 18,874,778</u>	<u>\$ 2,456,295</u>	<u>\$ 4,431,591</u>	<u>\$ (3,306,894)</u>	<u>\$ 631,491</u>

(Continued)

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005
(Concluded)

	Public Housing Fund	Public Housing HOME Program Fund	Other Federal Grants Fund
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			167,334
Use of Money and Property	46,530		4,019
Federal Grants and Contributions	32,351,976	3,651,166	12,722,401
Other Agencies			
Charges for Services	2,737,454		
Miscellaneous	101,172	175,899	
Total revenues	<u>35,237,132</u>	<u>3,827,065</u>	<u>12,893,754</u>
Expenditures:			
Current -			
Elected and Official			243,285
Support Services			22,012
Neighborhood Services	34,339,413	3,682,630	4,672,466
Environment and Development			1,281,289
Strategic Initiatives			121,353
Non-Departmental			
Capital Outlay	145,215		1,519,619
Capital Projects		467,518	4,799,869
Debt service -			
Principal	86,503		212,489
Interest	50,480		
Total expenditures	<u>34,621,611</u>	<u>4,150,148</u>	<u>12,872,382</u>
Excess (deficiency) of revenues over expenditures	<u>615,521</u>	<u>(323,083)</u>	<u>21,372</u>
Other financing sources (uses):			
Lease Purchase and Contracts Proceeds	145,215		
Transfers from Other Funds			
Transfers to Other Funds			(54,419)
Total other financing sources (uses)	<u>145,215</u>	<u></u>	<u>(54,419)</u>
Change in fund balances	<u>760,736</u>	<u>(323,083)</u>	<u>(33,047)</u>
Fund balances, beginning of year, as restated	1,559,338	323,083	294,273
Fund balances (deficits), end of year	<u>\$ 2,320,074</u>	<u>\$</u>	<u>\$ 261,226</u>

Non-Federal Grants Fund	Mass Transit Fund	Totals
\$	\$	\$ 908,798
		1,207,715
	7,980	2,565,807
	11,285,614	70,681,079
2,681,761	6,165,933	61,893,835
	8,327,423	16,461,320
	89,487	2,785,180
<u>2,681,761</u>	<u>25,876,437</u>	<u>156,503,734</u>
69,500		313,819
18,534		40,546
1,022,927		81,060,951
407,582	49,015,734	84,053,369
36,921		10,839,519
234,678		474,713
23,320	2,349,772	4,701,097
206,908	3,498,057	29,735,619
		654,214
		519,474
<u>2,020,370</u>	<u>54,863,563</u>	<u>212,393,321</u>
<u>661,391</u>	<u>(28,987,126)</u>	<u>(55,889,587)</u>
		11,124,130
	28,576,095	51,458,391
		(8,469,997)
	<u>28,576,095</u>	<u>54,112,524</u>
<u>661,391</u>	<u>(411,031)</u>	<u>(1,777,063)</u>
167,098	1,216,975	32,755,578
<u>\$ 828,489</u>	<u>\$ 805,944</u>	<u>\$ 30,978,515</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2005

	Special Assessment Bond and Interest Fund	General Obligation Bond and Interest Fund	Street and Highway Bond and Interest Fund	Totals
Revenues:				
Taxes	\$	\$ 21,274,250	\$	\$ 21,274,250
Fines and Forfeitures	9,155			9,155
Use of Money and Property	31,788			31,788
Other Agencies			7,744,361	7,744,361
Special Assessments	857,396			857,396
Total revenues	<u>898,339</u>	<u>21,274,250</u>	<u>7,744,361</u>	<u>29,916,950</u>
Expenditures:				
Debt service -				
Principal	452,900	8,690,000	8,380,000	17,522,900
Interest	187,446	11,688,578	7,040,918	18,916,942
Fiscal Agent Fees and Other	12,235	9,968	500	22,703
Issuance Cost of Debt		534,935	569,217	1,104,152
Total expenditures	<u>652,581</u>	<u>20,923,481</u>	<u>15,990,635</u>	<u>37,566,697</u>
Excess (deficiency) of revenues over expenditures	<u>245,758</u>	<u>350,769</u>	<u>(8,246,274)</u>	<u>(7,649,747)</u>
Other financing sources (uses):				
Face Amount of Bond Proceeds		45,830,606	39,995,000	85,825,606
Premium on Issuance of Debt		2,478,873	3,633,914	6,112,787
Transfers from Other Funds		136,758	7,677,057	7,813,815
Payment to Refunded Bond Escrow Agent		(47,918,898)	(43,059,697)	(90,978,595)
Total other financing sources (uses)		<u>527,339</u>	<u>8,246,274</u>	<u>8,773,613</u>
Change in fund balances	<u>245,758</u>	<u>878,108</u>		<u>1,123,866</u>
Fund balances, beginning of year	1,219,842	4,439,232		5,659,074
Fund balances, end of year	<u>\$ 1,465,600</u>	<u>\$ 5,317,340</u>	<u>\$</u>	<u>\$ 6,782,940</u>



CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2005

	Special Assessment Construction Fund	2000 Street and Highway Improvement	1994 Street and Highway Improvement
Revenues:			
Use of Money and Property	\$	\$ 51,612	\$ 4,643
Special Assessments	5,926		
Total revenues	<u>5,926</u>	<u>51,612</u>	<u>4,643</u>
Expenditures:			
Current -			
Neighborhood Services			
Environment and Development		1,609,564	3,542
Capital Outlay			
Capital Projects	202,963	3,056,939	618,519
Debt service -			
Issuance Cost of Debt		94,155	
Total expenditures	<u>202,963</u>	<u>4,760,658</u>	<u>622,061</u>
Excess (deficiency) of revenues over expenditures	<u>(197,037)</u>	<u>(4,709,046)</u>	<u>(617,418)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds		6,000,000	
Premium on Issuance of Debt		304,745	
Transfers from Other Funds	464,205		
Transfers to Other Funds	(203,470)	(221,677)	
Total other financing sources (uses)	<u>260,735</u>	<u>6,083,068</u>	
Change in fund balances	<u>63,698</u>	<u>1,374,022</u>	<u>(617,418)</u>
Fund balances (deficits), beginning of year	(3,744,288)	4,145,592	617,418
Fund balances (deficits), end of year	<u>\$ (3,680,590)</u>	<u>\$ 5,519,614</u>	<u>\$</u>

<u>2000 General Obligation Fund</u>	<u>1994 General Obligation Fund</u>	<u>1984 General Obligation Fund</u>	<u>Totals</u>
\$ 565,921	\$ 57,101	\$ 3,593	\$ 682,870
			5,926
<u>565,921</u>	<u>57,101</u>	<u>3,593</u>	<u>688,796</u>
18,341	32,157		50,498
			1,613,106
525,604	184,796		710,400
16,373,485	1,896,052	144,367	22,292,325
168,087			262,242
<u>17,085,517</u>	<u>2,113,005</u>	<u>144,367</u>	<u>24,928,571</u>
<u>(16,519,596)</u>	<u>(2,055,904)</u>	<u>(140,774)</u>	<u>(24,239,775)</u>
17,894,000			23,894,000
304,844			609,589
2,842,835			3,307,040
(3,633,398)	(1,117,895)		(5,176,440)
<u>17,408,281</u>	<u>(1,117,895)</u>		<u>22,634,189</u>
<u>888,685</u>	<u>(3,173,799)</u>	<u>(140,774)</u>	<u>(1,605,586)</u>
33,114,096	3,917,544	140,774	38,191,136
<u>\$ 34,002,781</u>	<u>\$ 743,745</u>	<u>\$</u>	<u>\$ 36,585,550</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL PERMANENT FUNDS
YEAR ENDED JUNE 30, 2005

	Civic Endowment Fund
Revenues:	
Use of Money and Property	\$ 3,118
Total revenues	3,118
Expenditures:	
Current -	
Neighborhood Services	4,045
Total expenditures	4,045
 Change in fund balances	 (927)
Fund balances, beginning of year	150,529
 Fund balances, end of year	 \$ 149,602

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF NET ASSETS - ALL INTERNAL SERVICE FUNDS
JUNE 30, 2005

	Fleet Services Fund	Self Insurance Fund	Totals
<u>ASSETS</u>			
Current assets:			
Pooled Cash and Investments	\$ 2,573,108	\$ 864,466	\$ 3,437,574
Accounts Receivable, Net	208,583	12,342	220,925
Interest Receivable	17,887	446,670	464,557
Other Assets - Restricted	79,313	18,619,069	18,698,382
Total current assets	<u>2,878,891</u>	<u>19,942,547</u>	<u>22,821,438</u>
Noncurrent assets:			
Land and Construction in Progress		30,242	30,242
Other Capital Assets, Net	21,787,379	89,107	21,876,486
Total noncurrent assets	<u>21,787,379</u>	<u>119,349</u>	<u>21,906,728</u>
Total assets	<u>24,666,270</u>	<u>20,061,896</u>	<u>44,728,166</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts Payable	\$ 323,030	\$ 4,776,109	\$ 5,099,139
Accrued Payroll Liabilities	85,173	14,311	99,484
Accrued Interest Payable	719		719
Due to Other Agencies	66	811	877
Refundable Deposits	198		198
Current Portion of Contracts Payable	24,711		24,711
Current Portion of Claims Payable		10,029,456	10,029,456
Total current liabilities	<u>433,897</u>	<u>14,820,687</u>	<u>15,254,584</u>
Noncurrent liabilities:			
Contracts Payable	39,190		39,190
Claims Payable		35,035,314	35,035,314
Total non-current liabilities	<u>39,190</u>	<u>35,035,314</u>	<u>35,074,504</u>
Total liabilities	<u>473,087</u>	<u>49,856,001</u>	<u>50,329,088</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	21,723,478	119,349	21,842,827
Restricted for Capital	79,313		79,313
Restricted for Other Purposes		18,619,069	18,619,069
Unrestricted	2,390,392	(48,532,523)	(46,142,131)
Total net assets	<u>\$ 24,193,183</u>	<u>\$ (29,794,105)</u>	<u>\$ (5,600,922)</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Fleet Services Fund	Self Insurance Fund	Totals
Operating revenues:			
Charges for Services	\$ 17,493,118	\$ 17,951,874	\$ 35,444,992
Miscellaneous	165,045	38,905	203,950
Total operating revenues	<u>17,658,163</u>	<u>17,990,779</u>	<u>35,648,942</u>
Operating expenses:			
Personal Services	5,570,121	974,234	6,544,355
Contractual Services	2,947,206	3,633,167	6,580,373
Commodities	9,707,105	208,529	9,915,634
Benefits and Claims		24,419,951	24,419,951
Depreciation	5,547,064	3,068	5,550,132
Total operating expenses	<u>23,771,496</u>	<u>29,238,949</u>	<u>53,010,445</u>
Operating loss	<u>(6,113,333)</u>	<u>(11,248,170)</u>	<u>(17,361,503)</u>
Nonoperating revenues (expenses):			
Investment Income	83,846	281,916	365,762
Gain (Loss) on Sale of Property/Equipment	373,623		373,623
Interest Expense	(3,410)		(3,410)
Total nonoperating revenues (expenses)	<u>454,059</u>	<u>281,916</u>	<u>735,975</u>
Income (loss) before operating transfers	<u>(5,659,274)</u>	<u>(10,966,254)</u>	<u>(16,625,528)</u>
Transfers In	4,366,854		4,366,854
Transfers Out		(228,424)	(228,424)
Change in net assets	<u>(1,292,420)</u>	<u>(11,194,678)</u>	<u>(12,487,098)</u>
Total net assets, beginning of year, as restated	25,485,603	(18,599,427)	6,886,176
Total net assets, end of year	<u>\$ 24,193,183</u>	<u>\$ (29,794,105)</u>	<u>\$ (5,600,922)</u>

**CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF CASH FLOWS -
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Fleet Services Fund</u>	<u>Self Insurance Fund</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 17,454,852	\$ 18,221,847	\$ 35,676,699
Cash Payments to Suppliers for Goods and Services	(13,036,719)	(19,407,645)	(32,444,364)
Cash Payments to Employees for Services	(5,578,457)	(977,032)	(6,555,489)
Other Operating Revenues	165,045		165,045
Net Cash Provided (Used) by Operating Activities	<u>(995,279)</u>	<u>(2,162,830)</u>	<u>(3,158,109)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers to Other Funds		(228,424)	(228,424)
Net Cash Provided (Used) by Noncapital Financing Activities		<u>(228,424)</u>	<u>(228,424)</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(2,929,840)		(2,929,840)
Principal Paid on Capital Debt	(23,635)		(23,635)
Interest Paid on Capital Debt	(11,601)		(11,601)
Proceeds from Sale of Assets/Equipment	633,262		633,262
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,331,814)</u>		<u>(2,331,814)</u>
Cash Flows from Investing Activities:			
Interest on Investments	78,778	298,407	377,185
Proceeds from Sale of Investments		1,801,513	1,801,513
Net Cash Provided (Used) by Investing Activities	<u>78,778</u>	<u>2,099,920</u>	<u>2,178,698</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,248,315)</u>	<u>(291,334)</u>	<u>(3,539,649)</u>
Cash and Cash Equivalents - July 1	5,821,423	1,155,800	6,977,223
Cash and Cash Equivalents - June 30	<u>\$ 2,573,108</u>	<u>\$ 864,466</u>	<u>\$ 3,437,574</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (6,113,333)	\$ (11,248,170)	\$ (17,361,503)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation/Goodwill Amortization	5,547,064	3,068	5,550,132
Decrease (Increase) in Assets:			
Accounts Receivable	(101,247)	(12,342)	(113,589)
Internal Receivable	2,500	243,410	245,910
Due from Other Agencies	62,782		62,782
Increase (Decrease) in Liabilities:			
Accounts Payable	(384,793)	4,645,795	4,261,002
Accrued Payroll Liabilities	(8,336)	(2,798)	(11,134)
Customer/Refundable Deposits	198		198
Due to Other Agencies	(114)	339	225
Due to Other Funds - Unrestricted		(1,144,260)	(1,144,260)
Claims and Judgements Payable		5,352,128	5,352,128
Net Cash Provided (Used) by Operating Activities	<u>\$ (995,279)</u>	<u>\$ (2,162,830)</u>	<u>\$ (3,158,109)</u>

Noncash investing, capital and financing activities:

In the Fleet Service Internal Service Fund, City funds contributed vehicles and equipment with a net book value of \$4,366,854.

**CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS -
ALL PENSION TRUST FUNDS
JUNE 30, 2005**

	Deferred Compensation Plan	Supplemental Retirement Fund	Totals
ASSETS			
Pooled Cash and Investments	\$	\$ 1,566,343	\$ 1,566,343
Employer Contributions		837,577	837,577
Employee Contributions	198,060	315,282	513,342
Interest and Dividends	895,609	1,297,426	2,193,035
Due from Brokers		4,783,586	4,783,586
Short-term Investments		5,761,617	5,761,617
Securities Lending Collateral	14,290,998	33,158,524	47,449,522
U.S. Government Obligations	49,020,569	64,459,422	113,479,991
Bonds and Preferred Stocks	20,297,761	24,213,206	44,510,967
Common Stocks		284,758,229	284,758,229
International Investments		81,560,958	81,560,958
Mutual Funds		74,123,361	74,123,361
Real Estate		30,232,095	30,232,095
Other Capital Assets, Net		10,748	10,748
Total assets	<u>84,702,997</u>	<u>607,078,374</u>	<u>691,781,371</u>
LIABILITIES			
Accounts Payable	19,617	484,624	504,241
Accrued Payroll Liabilities		3,295	3,295
Due to Other Agencies	46,348	1,652	48,000
Due to Securities Borrowers	14,290,998	33,158,524	47,449,522
Due to Brokers		14,286,225	14,286,225
Refundable Deposits	179	1,856	2,035
Total liabilities	<u>14,357,142</u>	<u>47,936,176</u>	<u>62,293,318</u>
NET ASSETS			
Held in trust	<u>\$ 70,345,855</u>	<u>\$ 559,142,198</u>	<u>\$ 629,488,053</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS-
ALL PENSION TRUST FUNDS
JUNE 30, 2005

	Deferred Compensation Plan	Supplemental Retirement Fund	Totals
Additions:			
Employer	\$	\$ 21,423,488	\$ 21,423,488
Employees	6,090,870	9,611,117	15,701,987
Other Plans		857,399	857,399
Net Increase (Decrease) in Fair Value of Investment	308,414	33,977,326	34,285,740
Interest, Dividends and Other Income	3,613,079	13,472,425	17,085,504
Securities Lending Income	291,933	879,477	1,171,410
Less: Investment Activity Expense	(17,912)	(2,581,056)	(2,598,968)
Less: Securities Lending Expense	(257,388)	(819,201)	(1,076,589)
Miscellaneous Additions		43,387	43,387
Total additions	<u>10,028,996</u>	<u>76,864,362</u>	<u>86,893,358</u>
Deductions:			
Payments to Participants	960,771	31,357,794	32,318,565
Refunds and Transfers to Other Plans	3,837,704	1,438,677	5,276,381
Administrative Expense	141,166	389,303	530,469
Total deductions	<u>4,939,641</u>	<u>33,185,774</u>	<u>38,125,415</u>
Changes in net assets	<u>5,089,355</u>	<u>43,678,588</u>	<u>48,767,943</u>
Net assets, beginning of year	65,256,500	515,463,610	580,720,110
Net assets, end of year	<u>\$ 70,345,855</u>	<u>\$ 559,142,198</u>	<u>\$ 629,488,053</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS
JUNE 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance July 1, 2005
Sewer User Fee Fund				
<u>Assets</u>				
Pooled Cash and Investments	\$ 1,239,055	\$ 82,459,119	\$ 80,974,563	\$ 2,723,611
Accounts Receivable, Net	2,660,045	80,513,757	80,284,467	2,889,335
Interest Receivable	5,166	182,454	181,724	5,896
Total assets	\$ 3,904,266	\$ 163,155,330	\$ 161,440,754	\$ 5,618,842
<u>Liabilities</u>				
Accounts Payable		43,793,203	41,413,937	2,379,266
Due to Other Agencies	3,904,266	111,279,713	111,944,403	3,239,576
Total liabilities	\$ 3,904,266	\$ 155,072,916	\$ 153,358,340	\$ 5,618,842
Employee Prepaid Insurance Fund				
<u>Assets</u>				
Pooled Cash and Investments	\$	\$ 148,791,772	\$ 148,699,433	\$ 92,339
Accounts Receivable, Net	1,715,894	151,302	1,831,831	35,365
Other		292,330		292,330
Total assets	\$ 1,715,894	\$ 149,235,404	\$ 150,531,264	\$ 420,034
<u>Liabilities</u>				
Accounts Payable	511,733	152,347,134	152,438,833	420,034
Due to Other Agencies	1,204,161	1,204,161	2,408,322	
Total liabilities	\$ 1,715,894	\$ 153,551,295	\$ 154,847,155	\$ 420,034
Totals				
<u>Assets</u>				
Pooled Cash and Investments	\$ 1,239,055	\$ 231,250,891	\$ 229,673,996	\$ 2,815,950
Accounts Receivable, Net	4,375,939	80,665,059	82,116,298	2,924,700
Interest Receivable	5,166	182,454	181,724	5,896
Other		292,330		292,330
Total assets	\$ 5,620,160	\$ 312,390,734	\$ 311,972,018	\$ 6,038,876
<u>Liabilities</u>				
Accounts Payable	511,733	196,140,337	193,852,770	2,799,300
Due to Other Agencies	5,108,427	112,483,874	114,352,725	3,239,576
Total liabilities	\$ 5,620,160	\$ 308,624,211	\$ 308,205,495	\$ 6,038,876

**BUDGET AND ACTUAL
NONMAJOR
GOVERNMENTAL FUNDS**

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005

	Library Fund		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures	570,000	483,703	(86,297)
Use of Money and Property			
Federal Grants and Contributions			
Other Agencies	9,840,330	9,165,359	(674,971)
Charges for Services		92,309	92,309
Miscellaneous		220	220
Total revenues	<u>10,410,330</u>	<u>9,741,591</u>	<u>(668,739)</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	19,297,210	19,707,025	(409,815)
Environment and Development			
Strategic Initiatives			
Non-Departmental			
Capital Outlay	118,240	82,689	35,551
Capital Projects			
Debt service -			
Principal			
Interest			
Fiscal Agent Fees and Other			
Total expenditures	<u>19,415,450</u>	<u>19,789,714</u>	<u>(374,264)</u>
Excess (deficiency) of revenues over expenditures	<u>(9,005,120)</u>	<u>(10,048,123)</u>	<u>(1,043,003)</u>
Other financing sources (uses):			
Lease Purchase and Contracts Proceeds			
Transfers from Other Funds	9,005,120	10,052,144	1,047,024
Transfers to Other Funds			
Total other financing sources (uses)	<u>9,005,120</u>	<u>10,052,144</u>	<u>1,047,024</u>
Change in fund balances		<u>4,021</u>	<u>4,021</u>
Fund balances, July 1, 2004, as restated		4,306	4,306
Fund balances (deficits), June 30, 2005	<u>\$</u>	<u>\$ 8,327</u>	<u>\$ 8,327</u>

Public Safety Academy Fund			Team/Parkwise		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 840,000	\$	\$ (840,000)
			326,000	546,058	220,058
	4,038	4,038		203,105	203,105
190,000	150,000	(40,000)		1,000,000	1,000,000
661,580	158,045	(503,535)	1,690,000	1,779,619	89,619
	737	737	1,773,480	142	(1,773,338)
<u>851,580</u>	<u>312,820</u>	<u>(538,760)</u>	<u>4,629,480</u>	<u>3,528,924</u>	<u>(1,100,556)</u>
5,549,060	5,792,512	(243,452)	105,960		105,960
			2,429,308	1,882,937	546,371
			3,519	200	3,319
42,500	37,414	5,086	11,005,233	9,799,612	1,205,621
240,000	240,000		85,000	51,000	34,000
27,310	28,475	(1,165)	387,290	379,689	7,601
			113,170		113,170
<u>5,858,870</u>	<u>6,098,401</u>	<u>(239,531)</u>	<u>14,129,480</u>	<u>12,113,438</u>	<u>2,016,042</u>
<u>(5,007,290)</u>	<u>(5,785,581)</u>	<u>(778,291)</u>	<u>(9,500,000)</u>	<u>(8,584,514)</u>	<u>915,486</u>
4,917,960	5,691,866	773,906	9,500,000	10,502,000	1,002,000
				28,794	28,794
<u>4,917,960</u>	<u>5,691,866</u>	<u>773,906</u>	<u>9,500,000</u>	<u>10,530,794</u>	<u>1,030,794</u>
<u>(89,330)</u>	<u>(93,715)</u>	<u>(4,385)</u>		1,946,280	1,946,280
	93,715	93,715		405,707	405,707
<u>\$ (89,330)</u>	<u>\$</u>	<u>\$ 89,330</u>	<u>\$</u>	<u>\$ 2,351,987</u>	<u>\$ 2,351,987</u>

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005
(Continued)

	Convention Center Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Use of Money and Property		36,529	36,529
Federal Grants and Contributions			
Other Agencies			
Charges for Services	3,820,000	3,366,470	(453,530)
Miscellaneous		141,646	141,646
Total revenues	<u>3,820,000</u>	<u>3,544,645</u>	<u>(275,355)</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services			
Environment and Development			
Strategic Initiatives	9,629,730	10,523,005	(893,275)
Non-Departmental			
Capital Outlay	650,000	6,220	643,780
Capital Projects			
Debt service -			
Principal			
Interest			
Fiscal Agent Fees and Other			
Total expenditures	<u>10,279,730</u>	<u>10,529,225</u>	<u>(249,495)</u>
Excess (deficiency) of revenues over expenditures	<u>(6,459,730)</u>	<u>(6,984,580)</u>	<u>(524,850)</u>
Other financing sources (uses):			
Lease Purchase and Contracts Proceeds			
Transfers from Other Funds	6,459,730	7,043,378	583,648
Transfers to Other Funds			
Total other financing sources (uses)	<u>6,459,730</u>	<u>7,043,378</u>	<u>583,648</u>
Change in fund balances		<u>58,798</u>	<u>58,798</u>
Fund balances, July 1, 2004, as restated		1,256,409	1,256,409
Fund balances (deficits), June 30, 2005	<u>\$</u>	<u>\$ 1,315,207</u>	<u>\$ 1,315,207</u>

*The Civic Contribution Fund Fund was included in the budget, however, the budget was -0-.

H.U.R.F. Fund		
Budget	Actual	Variance - Positive (Negative)
\$ 1,100,000	\$ 908,798	\$ (191,202)
	10,620	10,620
464,000	832,738	368,738
32,465,010	42,730,782	10,265,772
14,171,020	911,353	(13,259,667)
<u>48,200,030</u>	<u>45,394,291</u>	<u>(2,805,739)</u>
1,680,935	341,806	1,339,129
31,987,426	31,465,827	521,599
411,330	239,835	171,495
1,286,284	449,235	837,049
12,941,851	7,116,317	5,825,534
248,630	51,937	196,693
89,150	52,025	37,125
<u>48,645,606</u>	<u>39,716,982</u>	<u>8,928,624</u>
<u>(445,576)</u>	<u>5,677,309</u>	<u>6,122,885</u>
557,000	476,915	(80,085)
	11,087	11,087
	(8,387,093)	(8,387,093)
<u>557,000</u>	<u>(7,899,091)</u>	<u>(8,456,091)</u>
<u>111,424</u>	<u>(2,221,782)</u>	<u>(2,333,206)</u>
	21,096,560	21,096,560
<u>\$ 111,424</u>	<u>\$ 18,874,778</u>	<u>\$ 18,763,354</u>

Civic Contribution Fund		
Budget*	Actual	Variance - Positive (Negative)
\$	\$	\$
	50,711	50,711
	749,889	749,889
	<u>800,600</u>	<u>800,600</u>
	1,034	(1,034)
	222,685	(222,685)
	24,955	(24,955)
	280,638	(280,638)
	<u>529,312</u>	<u>(529,312)</u>
	<u>271,288</u>	<u>271,288</u>
	(28,485)	(28,485)
	<u>(28,485)</u>	<u>(28,485)</u>
	242,803	242,803
	2,213,492	2,213,492
<u>\$</u>	<u>\$ 2,456,295</u>	<u>\$ 2,456,295</u>

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005
(Continued)

	Human and Community Development Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Use of Money and Property		1,357,323	1,357,323
Federal Grants and Contributions	15,106,170	5,560,361	(9,545,809)
Other Agencies			
Charges for Services			
Miscellaneous			
Total revenues	<u>15,106,170</u>	<u>6,917,684</u>	<u>(8,188,486)</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	12,115,979	6,243,996	5,871,983
Environment and Development			
Strategic Initiatives	167,900	133,285	34,615
Non-Departmental			
Capital Outlay	26,700	13,563	13,137
Capital Projects	3,187,479	182,706	3,004,773
Debt service -			
Principal	16,630	12,285	4,345
Interest	11,920	8,805	3,115
Fiscal Agent Fees and Other			
Total expenditures	<u>15,526,608</u>	<u>6,594,640</u>	<u>8,931,968</u>
Excess (deficiency) of revenues over expenditures	<u>(420,438)</u>	<u>323,044</u>	<u>743,482</u>
Other financing sources (uses):			
Lease Purchase and Contracts Proceeds			
Transfers from Other Funds		55,027	55,027
Transfers to Other Funds			
Total other financing sources (uses)		<u>55,027</u>	<u>55,027</u>
Change in fund balances	<u>(420,438)</u>	<u>378,071</u>	<u>798,509</u>
Fund balances, July 1, 2004, as restated		4,053,520	4,053,520
Fund balances (deficits), June 30, 2005	<u>\$ (420,438)</u>	<u>\$ 4,431,591</u>	<u>\$ 4,852,029</u>

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005
(Continued)

	Public Housing Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Use of Money and Property		46,530	46,530
Federal Grants and Contributions	31,301,290	32,351,976	1,050,686
Other Agencies			
Charges for Services	2,680,860	2,737,454	56,594
Miscellaneous		101,172	101,172
Total revenues	<u>33,982,150</u>	<u>35,237,132</u>	<u>1,254,982</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	35,018,269	34,339,413	678,856
Environment and Development			
Strategic Initiatives			
Non-Departmental			
Capital Outlay	8,090	145,215	(137,125)
Capital Projects			
Debt service -			
Principal	50,280	86,503	(36,223)
Interest	35,540	50,480	(14,940)
Fiscal Agent Fees and Other			
Total expenditures	<u>35,112,179</u>	<u>34,621,611</u>	<u>490,568</u>
Excess (deficiency) of revenues over expenditures	<u>(1,130,029)</u>	<u>615,521</u>	<u>1,745,550</u>
Other financing sources (uses):			
Lease Purchase and Contracts Proceeds		145,215	145,215
Transfers from Other Funds			
Transfers to Other Funds			
Total other financing sources (uses)		<u>145,215</u>	<u>145,215</u>
Change in fund balances	<u>(1,130,029)</u>	<u>760,736</u>	<u>1,890,765</u>
Fund balances, July 1, 2004, as restated		1,559,338	1,559,338
Fund balances (deficits), June 30, 2005	<u>\$ (1,130,029)</u>	<u>\$ 2,320,074</u>	<u>\$ 3,450,103</u>

Public Housing HOME Program Fund			Other Federal Grants Fund		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
				167,334	167,334
				4,019	4,019
9,344,710	3,651,166	(5,693,544)	22,532,510	12,722,401	(9,810,109)
	175,899	175,899			
<u>9,344,710</u>	<u>3,827,065</u>	<u>(5,517,645)</u>	<u>22,532,510</u>	<u>12,893,754</u>	<u>(9,638,756)</u>
			378,130	243,285	134,845
			1,500,000	22,012	1,477,988
9,651,558	3,682,630	5,968,928	6,773,093	4,672,466	2,100,627
			1,037,990	1,281,289	(243,299)
			612,650	121,353	491,297
21,240		21,240	3,260,771	1,519,619	1,741,152
821,789	467,518	354,271	11,671,000	4,799,869	6,871,131
				212,489	(212,489)
3,460		3,460			
2,480		2,480			
<u>10,500,527</u>	<u>4,150,148</u>	<u>6,350,379</u>	<u>25,233,634</u>	<u>12,872,382</u>	<u>12,361,252</u>
<u>(1,155,817)</u>	<u>(323,083)</u>	<u>832,734</u>	<u>(2,701,124)</u>	<u>21,372</u>	<u>2,722,496</u>
				(54,419)	(54,419)
				(54,419)	(54,419)
<u>(1,155,817)</u>	<u>(323,083)</u>	<u>832,734</u>	<u>(2,701,124)</u>	<u>(33,047)</u>	<u>2,668,077</u>
	323,083	323,083		294,273	294,273
<u>\$ (1,155,817)</u>	<u>\$</u>	<u>\$ 1,155,817</u>	<u>\$ (2,701,124)</u>	<u>\$ 261,226</u>	<u>\$ 2,962,350</u>

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005
(Concluded)

	Non-Federal Grants Fund		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Use of Money and Property			
Federal Grants and Contributions			
Other Agencies	8,307,830	2,681,761	(5,626,069)
Charges for Services			
Miscellaneous			
Total revenues	<u>8,307,830</u>	<u>2,681,761</u>	<u>(5,626,069)</u>
Expenditures:			
Current -			
Elected and Official	138,300	69,500	68,800
Support Services	1,535,000	18,534	1,516,466
Neighborhood Services	4,601,841	1,022,927	3,578,914
Environment and Development	853,470	407,582	445,888
Strategic Initiatives	284,280	36,921	247,359
Non-Departmental	200,000	234,678	(34,678)
Capital Outlay	375,939	23,320	352,619
Capital Projects	319,000	206,908	112,092
Debt service -			
Principal			
Interest			
Fiscal Agent Fees and Other			
Total expenditures	<u>8,307,830</u>	<u>2,020,370</u>	<u>6,287,460</u>
Excess (deficiency) of revenues over expenditures		<u>661,391</u>	<u>661,391</u>
Other financing sources (uses):			
Lease Purchase and Contracts Proceeds			
Transfers from Other Funds			
Transfers to Other Funds			
Total other financing sources (uses)			
Change in fund balances		<u>661,391</u>	<u>661,391</u>
Fund balances, July 1, 2004, as restated		167,098	167,098
Fund balances (deficits), June 30, 2005	<u>\$</u>	<u>\$ 828,489</u>	<u>\$ 828,489</u>

Mass Transit Fund			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 1,940,000	\$ 908,798	\$ (1,031,202)
			896,000	1,207,715	311,715
	7,980	7,980	464,000	2,565,807	2,101,807
32,459,730	11,285,614	(21,174,116)	129,405,040	70,681,079	(58,723,961)
5,346,230	6,165,933	819,703	56,149,400	61,893,835	5,744,435
8,125,000	8,327,423	202,423	16,977,440	16,461,320	(516,120)
1,940,800	89,487	(1,851,313)	17,885,300	2,785,180	(15,100,120)
<u>47,871,760</u>	<u>25,876,437</u>	<u>(21,995,323)</u>	<u>223,717,180</u>	<u>156,503,734</u>	<u>(67,213,446)</u>
			516,430	313,819	202,611
			3,035,000	40,546	2,994,454
			104,365,255	81,060,951	23,304,304
51,504,477	49,015,734	2,488,743	87,812,671	84,053,369	3,759,302
			10,694,560	10,839,519	(144,959)
			614,849	474,713	140,136
14,004,950	2,349,772	11,655,178	19,819,839	4,701,097	15,118,742
11,969,410	3,498,057	8,471,353	56,683,416	29,735,619	26,947,797
			644,000	654,214	(10,214)
			553,690	519,474	34,216
			113,170		113,170
<u>77,478,837</u>	<u>54,863,563</u>	<u>22,615,274</u>	<u>284,852,880</u>	<u>212,393,321</u>	<u>72,459,559</u>
<u>(29,607,077)</u>	<u>(28,987,126)</u>	<u>619,951</u>	<u>(61,135,700)</u>	<u>(55,889,587)</u>	<u>5,246,113</u>
			10,057,000	11,124,130	1,067,130
33,382,270	28,576,095	(4,806,175)	53,765,080	51,458,391	(2,306,689)
				(8,469,997)	(8,469,997)
<u>33,382,270</u>	<u>28,576,095</u>	<u>(4,806,175)</u>	<u>63,822,080</u>	<u>54,112,524</u>	<u>(9,709,556)</u>
<u>3,775,193</u>	<u>(411,031)</u>	<u>(4,186,224)</u>	<u>2,686,380</u>	<u>(1,777,063)</u>	<u>(4,463,443)</u>
	1,216,975	1,216,975		32,755,578	32,755,578
<u>\$ 3,775,193</u>	<u>\$ 805,944</u>	<u>\$ (2,969,249)</u>	<u>\$ 2,686,380</u>	<u>\$ 30,978,515</u>	<u>\$ 28,292,135</u>

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2005

	Special Assessment Bond and Interest Fund		
	Budget*	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$	\$	\$
Fines and Forfeitures		9,155	9,155
Use of Money and Property		31,788	31,788
Other Agencies			
Special Assessments		857,396	857,396
Total revenues		<u>898,339</u>	<u>898,339</u>
Expenditures:			
Debt service -			
Principal		452,900	(452,900)
Interest		187,446	(187,446)
Fiscal Agent Fees and Other		12,235	(12,235)
Issuance Cost of Debt			
Total expenditures		<u>652,581</u>	<u>(652,581)</u>
Excess (deficiency) of revenues over expenditures		<u>245,758</u>	<u>245,758</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Premium on Issuance of Debt			
Transfers from Other Funds			
Payment to Refunded Bond Escrow Agent			
Total other financing sources (uses)			
Change in fund balances		<u>245,758</u>	<u>245,758</u>
Fund balances, July 1, 2004		1,219,842	1,219,842
Fund balances (deficits), June 30, 2005	<u>\$</u>	<u>\$ 1,465,600</u>	<u>\$ 1,465,600</u>

*The Special Assessment Bond and Interest Fund Fund was included in the budget, however, the budget was -0-.

General Obligation Bond and Interest Fund		
Budget	Actual	Variance - Positive (Negative)
\$ 21,343,410	\$ 21,274,250	\$ (69,160)
<u>21,343,410</u>	<u>21,274,250</u>	<u>(69,160)</u>
8,600,000	8,690,000	(90,000)
12,730,520	11,688,578	1,041,942
6,000	9,968	(3,968)
	534,935	(534,935)
<u>21,336,520</u>	<u>20,923,481</u>	<u>413,039</u>
<u>6,890</u>	<u>350,769</u>	<u>343,879</u>
	45,830,606	45,830,606
	2,478,873	2,478,873
	136,758	136,758
	(47,918,898)	(47,918,898)
	<u>527,339</u>	<u>527,339</u>
<u>6,890</u>	<u>878,108</u>	<u>871,218</u>
	4,439,232	4,439,232
<u>\$ 6,890</u>	<u>\$ 5,317,340</u>	<u>\$ 5,310,450</u>

Street and Highway Bond and Interest Fund		
Budget	Actual	Variance - Positive (Negative)
\$	\$	\$
16,541,490	7,744,361	(8,797,129)
<u>16,541,490</u>	<u>7,744,361</u>	<u>(8,797,129)</u>
8,380,000	8,380,000	
8,162,380	7,040,918	1,121,462
6,000	500	5,500
	569,217	(569,217)
<u>16,548,380</u>	<u>15,990,635</u>	<u>557,745</u>
<u>(6,890)</u>	<u>(8,246,274)</u>	<u>(8,239,384)</u>
	39,995,000	39,995,000
	3,633,914	3,633,914
	7,677,057	7,677,057
	(43,059,697)	(43,059,697)
	<u>8,246,274</u>	<u>8,246,274</u>
<u>(6,890)</u>		<u>6,890</u>
<u>\$ (6,890)</u>	<u>\$</u>	<u>\$ 6,890</u>

(Continued)

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2005
(Concluded)

	Totals		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Taxes	\$ 21,343,410	\$ 21,274,250	\$ (69,160)
Fines and Forfeitures		9,155	9,155
Use of Money and Property		31,788	31,788
Other Agencies	16,541,490	7,744,361	(8,797,129)
Special Assessments		857,396	857,396
Total revenues	<u>37,884,900</u>	<u>29,916,950</u>	<u>(7,967,950)</u>
Expenditures:			
Debt service -			
Principal	16,980,000	17,522,900	(542,900)
Interest	20,892,900	18,916,942	1,975,958
Fiscal Agent Fees and Other	12,000	22,703	(10,703)
Issuance Cost of Debt		1,104,152	(1,104,152)
Total expenditures	<u>37,884,900</u>	<u>37,566,697</u>	<u>318,203</u>
Excess (deficiency) of revenues over expenditures		<u>(7,649,747)</u>	<u>(7,649,747)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds		85,825,606	85,825,606
Premium on Issuance of Debt		6,112,787	6,112,787
Transfers from Other Funds		7,813,815	7,813,815
Payment to Refunded Bond Escrow Agent		(90,978,595)	(90,978,595)
Total other financing sources (uses)		<u>8,773,613</u>	<u>8,773,613</u>
Change in fund balances		<u>1,123,866</u>	<u>1,123,866</u>
Fund balances, July 1, 2004		5,659,074	5,659,074
Fund balances (deficits), June 30, 2005	<u>\$</u>	<u>\$ 6,782,940</u>	<u>\$ 6,782,940</u>



CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2005

	Special Assessment Construction Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Use of Money and Property	\$	\$	\$
Special Assessments		5,926	5,926
Total revenues		<u>5,926</u>	<u>5,926</u>
Expenditures:			
Current -			
Neighborhood Services			
Environment and Development			
Environmental Services			
Capital Outlay			
Capital Projects	785,000	202,963	582,037
Debt service -			
Issuance Cost of Debt			
Total expenditures	<u>785,000</u>	<u>202,963</u>	<u>582,037</u>
Excess (deficiency) of revenues over expenditures	<u>(785,000)</u>	<u>(197,037)</u>	<u>587,963</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Premium on Issuance of Debt			
Transfers from Other Funds		464,205	464,205
Transfers to Other Funds		(203,470)	(203,470)
Total other financing sources (uses)		<u>260,735</u>	<u>260,735</u>
Change in fund balances	<u>(785,000)</u>	<u>63,698</u>	<u>848,698</u>
Fund balances (deficits), July 1, 2004		(3,744,288)	(3,744,288)
Fund balances (deficits), June 30, 2005	<u>\$ (785,000)</u>	<u>\$ (3,680,590)</u>	<u>\$ (2,895,590)</u>

2000 Street and Highway Improvement			1994 Street and Highway Improvement		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$ 51,612	\$ 51,612	\$	\$ 4,643	\$ 4,643
	51,612	51,612		4,643	4,643
2,175,567	1,609,564	566,003	9,639	3,542	6,097
7,246,628	3,056,939	4,189,689	620,612	618,519	2,093
	94,155	(94,155)			
9,422,195	4,760,658	4,661,537	630,251	622,061	8,190
(9,422,195)	(4,709,046)	4,713,149	(630,251)	(617,418)	12,833
4,773,300	6,000,000	1,226,700			
	304,745	304,745			
	(221,677)	(221,677)			
4,773,300	6,083,068	1,309,768			
(4,648,895)	1,374,022	6,022,917	(630,251)	(617,418)	12,833
	4,145,592	4,145,592		617,418	617,418
\$ (4,648,895)	\$ 5,519,614	\$ 10,168,509	\$ (630,251)	\$	\$ 630,251

(Continued)

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2005
(Continued)

	2000 General Obligation Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Use of Money and Property	\$	\$ 565,921	\$ 565,921
Special Assessments			
Total revenues		<u>565,921</u>	<u>565,921</u>
Expenditures:			
Current -			
Neighborhood Services	500,359	18,341	482,018
Environment and Development			
Environmental Services	2,289,664		2,289,664
Capital Outlay	351,315	525,604	(174,289)
Capital Projects	55,082,064	16,373,485	38,708,579
Debt service -			
Issuance Cost of Debt		168,087	(168,087)
Total expenditures	<u>58,223,402</u>	<u>17,085,517</u>	<u>41,137,885</u>
Excess (deficiency) of revenues over expenditures	<u>(58,223,402)</u>	<u>(16,519,596)</u>	<u>41,703,806</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds	60,032,900	17,894,000	(42,138,900)
Premium on Issuance of Debt		304,844	304,844
Transfers from Other Funds		2,842,835	2,842,835
Transfers to Other Funds		(3,633,398)	(3,633,398)
Total other financing sources (uses)	<u>60,032,900</u>	<u>17,408,281</u>	<u>(42,624,619)</u>
Change in fund balances	<u>1,809,498</u>	<u>888,685</u>	<u>(920,813)</u>
Fund balances (deficits), July 1, 2004		33,114,096	33,114,096
Fund balances (deficits), June 30, 2005	<u>\$ 1,809,498</u>	<u>\$ 34,002,781</u>	<u>\$ 32,193,283</u>

CITY OF TUCSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2005
(Concluded)

	Totals		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Use of Money and Property	\$	\$ 682,870	\$ 682,870
Special Assessments		5,926	5,926
Total revenues		<u>688,796</u>	<u>688,796</u>
Expenditures:			
Current -			
Neighborhood Services	1,225,435	50,498	1,174,937
Environment and Development	2,706,991	1,613,106	1,093,885
Environmental Services	2,289,664		2,289,664
Capital Outlay	351,315	710,400	(359,085)
Capital Projects	65,973,157	22,292,325	43,680,832
Debt service -			
Issuance Cost of Debt		262,242	(262,242)
Total expenditures	<u>72,546,562</u>	<u>24,928,571</u>	<u>47,617,991</u>
Excess (deficiency) of revenues over expenditures	<u>(72,546,562)</u>	<u>(24,239,775)</u>	<u>48,306,787</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds	64,806,200	23,894,000	(40,912,200)
Premium on Issuance of Debt		609,589	609,589
Transfers from Other Funds		3,307,040	3,307,040
Transfers to Other Funds		(5,176,440)	(5,176,440)
Total other financing sources (uses)	<u>64,806,200</u>	<u>22,634,189</u>	<u>(42,172,011)</u>
Change in fund balances	<u>(7,740,362)</u>	<u>(1,605,586)</u>	<u>6,134,776</u>
Fund balances (deficits), July 1, 2004		38,191,136	38,191,136
Fund balances (deficits), June 30, 2005	<u>\$ (7,740,362)</u>	<u>\$ 36,585,550</u>	<u>\$ 44,325,912</u>

CITY OF TUCSON ARIZONA
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
ENVIRONMENTAL SERVICES FUND - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Environmental Services		Variance - Positive (Negative)
	Budget	Actual	
Operating revenues:			
Fines and Forfeitures	\$	\$ 5,087	\$ 5,087
Charges for Services	30,299,070	34,013,740	3,714,670
Miscellaneous		1,488,141	1,488,141
Other Agencies	329,600	88,829	(240,771)
Total operating revenues	<u>30,628,670</u>	<u>35,595,797</u>	<u>4,967,127</u>
Operating expenses:			
Personal Services	14,886,090	14,647,718	(238,372)
Contractual Services	23,026,726	11,929,285	(11,097,441)
Commodities	10,844,184	3,754,384	(7,089,800)
Depreciation		7,306,145	7,306,145
Total operating expenses	<u>48,757,000</u>	<u>37,637,532</u>	<u>(11,119,468)</u>
Operating loss	<u>(18,128,330)</u>	<u>(2,041,735)</u>	<u>16,086,595</u>
Nonoperating revenues (expenses):			
Investment Income		43,671	43,671
Gain (Loss) on Sale of Property/Equipment		70,489	70,489
Federal Grants and Contributions	1,510,000	81,638	(1,428,362)
Interest Expense		(1,806,732)	(1,806,732)
Amortization of Cost Issuance		(19,818)	(19,818)
Other Non-Operating (Income) Expenses	6,724,140		(6,724,140)
Total nonoperating revenues (expenses)	<u>8,234,140</u>	<u>(1,630,752)</u>	<u>(9,864,892)</u>
Income (loss) before capital contributions and transfers	<u>(9,894,190)</u>	<u>(3,672,487)</u>	<u>6,221,703</u>
Capital Contributions		67,088	67,088
Transfers In		6,269,535	6,269,535
Transfers Out		(2,292,713)	(2,292,713)
Changes in net assets	<u>\$ (9,894,190)</u>	<u>371,423</u>	<u>\$ 10,265,613</u>
Total net assets, beginning of year, as Restated		(49,447,767)	
Total net assets, end of year		<u>\$ (49,076,344)</u>	

CITY OF TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOLF COURSE FUND - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Golf Course Fund		Variance - Positive (Negative)
	Budget	Actual	
Operating revenues:			
Charges for Services	\$ 14,068,590	\$ 8,980,101	\$ (5,088,489)
Total operating revenues	<u>14,068,590</u>	<u>8,980,101</u>	<u>(5,088,489)</u>
Operating expenses:			
Personal Services	5,130,970	4,240,148	(890,822)
Contractual Services	3,885,664	2,292,217	(1,593,447)
Commodities	4,686,146	2,244,656	(2,441,490)
Cost of Goods Sold		342,848	342,848
Depreciation		658,720	658,720
Total operating expenses	<u>13,702,780</u>	<u>9,778,589</u>	<u>(3,924,191)</u>
Operating income (loss)	<u>365,810</u>	<u>(798,488)</u>	<u>(1,164,298)</u>
Nonoperating revenues (expenses):			
Investment Income		34,892	34,892
Gain (Loss) on Sale of Property/Equipment		1,142,608	1,142,608
Interest Expense	365,810	(280,235)	(646,045)
Amortization of Cost Issuance		(5,269)	(5,269)
Other Nonoperating Income (Expenses)		841,000	841,000
Total nonoperating revenues (expenses)	<u>365,810</u>	<u>1,732,996</u>	<u>1,367,186</u>
Income (loss) before capital contributions and transfers		<u>934,508</u>	<u>934,508</u>
Changes in net assets	<u>\$ -</u>	<u>934,508</u>	<u>\$ 934,508</u>
Total net assets, beginning of year		14,780,706	
Total net assets, end of year		<u>\$ 15,715,214</u>	

CITY OF TUCSON, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WATER UTILITY - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Water Utility Fund		Variance - Positive (Negative)
	Budget	Actual	
Operating revenues:			
Charges for Services	\$ 125,962,000	\$ 109,618,367	\$ (16,343,633)
Miscellaneous	1,015,280	1,729,102	713,822
Total operating revenues	<u>126,977,280</u>	<u>111,347,469</u>	<u>(15,629,811)</u>
Operating expenses:			
Personal Services	30,309,630	30,512,627	202,997
Contractual Services	45,399,540	35,771,356	(9,628,184)
Commodities	58,832,461	7,585,807	(51,246,654)
Depreciation		19,911,030	19,911,030
Total operating expenses	<u>134,541,631</u>	<u>93,780,820</u>	<u>(40,760,811)</u>
Operating income (loss)	<u>(7,564,351)</u>	<u>17,566,649</u>	<u>25,131,000</u>
Nonoperating revenues (expenses):			
Investment Income	1,055,000	1,174,078	119,078
Gain (Loss) on Sale of Property/Equipment		436,283	436,283
Federal Grants and Contributions		9,982	9,982
Interest Expense	(17,259,000)	(17,992,230)	(733,230)
Amortization of Cost Issuance		(108,206)	(108,206)
Other Nonoperating Income (Expenses)	17,958,000	(477,751)	(18,435,751)
Total nonoperating revenues (expenses)	<u>1,754,000</u>	<u>(16,957,844)</u>	<u>(18,711,844)</u>
Income (loss) before capital contributions and transfers	<u>(5,810,351)</u>	<u>608,805</u>	<u>6,419,156</u>
Capital Contributions	7,583,000	14,307,487	6,724,487
Transfers Out		(5,000)	
Changes in net assets	<u>\$ 1,772,649</u>	<u>14,911,292</u>	<u>\$ 13,138,643</u>
Total net assets, beginning of year		594,313,181	
Total net assets, end of year		<u>\$ 609,224,473</u>	

**CITY OF TUCSON, ARIZONA
WATER UTILITY FUND
REVENUES, EXPENSES AND FLOWS OF FUNDS
PER ORDINANCE NO. 6347 (1)
YEAR ENDED JUNE 30, 2005**

Revenues:

Sale of Water:

Potable Water Sales		\$ 93,335,582
Reclaimed Water Sales		5,652,916
Central Arizona Project Surcharge		1,852,266
Connection Fees		2,997,238
Pima County - Sewer Billing Services		1,914,630

Miscellaneous Revenue:

Area Development Fees	\$ 439,244	
TCE Clean Up Reimbursement	713,618	
Plan Review and Inspection Fees	1,876,780	
Other	2,565,194	
Total Miscellaneous Revenue		<u>5,594,836</u>

Non-Operating Income:

System Equity Fees	7,438,248	
Investment Earnings - Operating Funds	489,153	
Investment Earnings - Debt Service Fund	141,636	
Gain on Sale of Property/Equipment	436,283	
Total Non-Operating Income		<u>8,505,320</u>

Total Revenues		<u>119,852,788</u>
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Operation and Maintenance Expenses:

Director's Office		5,051,199
Business Services		9,820,498
Water Operations		19,357,161
Planning and Engineering		7,528,793
Quality Management		6,042,304
Power - Potable System		11,308,490
Power - Reclaimed System		839,167
CAP Water Purchases:		
Commodity	4,565,269	
Capital Charges	3,807,048	
Total CAP Water Purchases		<u>8,372,317</u>
General Expenses		2,617,321
Capitalized Operation and Maintenance Expense		<u>(4,719,504)</u>
Total Operation and Maintenance Expense		<u>66,217,746</u>

Net Revenue Available After Operations (2)		<u>\$ 53,635,042</u>
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**CITY OF TUCSON, ARIZONA
WATER UTILITY FUND
REVENUES, EXPENSES AND FLOWS OF FUNDS
PER ORDINANCE NO. 6347 (1)
YEAR ENDED JUNE 30, 2005**

Debt Service for Water Revenue Bonds:

Interest	17,922,422
Principal	9,987,817
Fiscal Fees	477,750
Total Debt Service for Water Revenue Bonds	28,387,989

Net Revenue Available After Operations and Water Revenue Bond Debt Service	\$ 25,247,053
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- (1) This is a special purpose financial statement intended to show compliance with Ordinance 6347. It is not prepared in accordance with Generally Accepted Accounting Principles (GAAP). Financials statements on pages 24 and 25 are presented on a GAAP basis.
- (2) Section 5.02 (b) of Ordinance 6347 covenants that the City will issue additional bonds only if Net Revenue Available After Operations has been at least equal to 120% of the maximum future annual debt service requirement. The City's experience has shown that more factorable interest rates (and thus lower debt service costs) can be attained if such coverage is 150% to 200%. For the period ended June 30, 2005, the debt coverage was 171%. An amendment to Section 7.01 or Ordinance 6347 further requires that if the Net Revenue of any fiscal year does not equal or exceed 175% of the Annual Debt Service Requirement for that fiscal year, the City will deposit additional monies into a required reserve account. For the period ended June 30, 2005, the debt coverage for the Annual Debt Service Requirement is 188%.



Statistical Section



CITY OF TUCSON, ARIZONA
General Governmental Expenditures by Function (1)
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE I

	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
General Government:										
Elected and Official	\$ 17,596	\$ 16,379	\$ 19,844	\$ 18,548	\$ 23,868	\$ 23,868	\$ 16,415	\$ 14,357	\$ 15,651	\$ 14,936
Support Services:										
Finance	5,335	5,576	5,496	5,818	6,616	6,667	6,954	7,238	8,004	8,927
Budget and Research	1,661	1,606	1,644	1,620	1,781	1,889	2,113	1,910	1,791	1,917
Procurement	2,394	2,210	2,320	2,682	2,754	3,669	3,168	3,297	2,977	3,379
Information Technology	6,007	7,300	7,568	8,682	9,480	9,096	9,131	9,750	9,419	12,868
Human Resources	2,239	2,112	2,640	2,645	2,877	2,926	2,801	2,909	2,562	2,818
Operations	10,205	11,921	12,818	12,948	16,937	16,811	15,212	16,530	15,122	23,358
City Manager Support Services (2)							2,203	765	625	701
Neighborhood Services:										
Community Services	43,200	42,196	47,165	54,879	50,546	46,934	46,252	52,561	55,604	55,069
City Court	6,939	7,257	8,187	8,178	8,570	9,418	9,349	9,570	8,617	9,525
Public Defender	1,523	1,540	1,601	1,678	1,858	1,940	2,050	2,232	2,443	2,751
Police	63,723	65,167	68,376	77,296	90,271	99,960	100,532	109,876	113,493	124,453
Fire	28,957	29,285	30,403	32,805	36,487	39,990	42,156	46,889	49,346	56,882
Library	13,125	13,179	13,555	15,123	16,618	18,578	19,728	19,158	18,604	20,068
Parks and Recreation	30,458	37,139	33,983	38,113	38,473	37,877	36,041	36,158	34,065	39,331
City Manager Neighborhood Services (2)							937	3,293	2,839	2,944
Environment & Development:										
Planning	2,581	2,603	2,717	2,762	3,028	2,829	3,156	3,259	3,639	3,896
Development Services	3,585	3,797	3,847	4,123	4,622	6,076	6,344	7,348	8,267	8,913
Environmental Services (5)	18,921	21,252	21,767	21,819	25,013	26,769	26,760	27,785	28,501	
Transportation	69,173	79,468	85,515	76,676	97,730	93,183	70,181	74,953	80,988	90,525
City Manager Environmental Management (2)							2,369	2,969	165	177
Strategic Initiatives										
Convention Center	4,764	4,739	6,313	5,950	5,101	5,895	9,241	10,748	10,456	10,548
Rio Nuevo (4)					172	2,046				
City Manager Strategic Initiatives (2)							2,686	2,849	2,355	2,749
Nondepartmental	14,518	7,181	8,276	11,382	23,385	11,889	7,544	10,549	8,298	11,577
Debt Service	39,233	39,200	39,836	42,036	46,302	50,372	48,523	43,234	46,435	47,072
Capital Projects/Outlays (3)							86,893	88,903	69,530	95,572
Total	\$ 386,137	\$ 401,107	\$ 423,871	\$ 445,763	\$ 512,489	\$ 518,682	\$ 578,739	\$ 609,090	\$ 599,796	\$ 650,956

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- (1) Includes GAAP basis expenditures, except "Lease Purchase" expenditures which are offset by "Lease Purchase" proceeds, for the General Fund, all Special Revenue Funds, all Capital Project Funds, and General Obligation and Street and Highway Debt Service Funds (Excludes Special Assessment Debt Service).
- (2) Prior to Fiscal Year 2001-02, these functions were included in Elected and Official.
- (3) Capital Projects are included in the expenditures of the function to which they are related for Fiscal Years 1994-95 through 2000-01.
- (4) Rio Nuevo became a Discretely Presented Component Unit in Fiscal Year 2001-02.
- (5) Environmental Services became an enterprise fund in Fiscal Year 2004-05.

CITY OF TUCSON, ARIZONA
General Revenues by Source (1)
Last Ten Fiscal Years (unaudited)
(dollar amounts in thousands)

TABLE II

	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Taxes:										
Property Taxes-Current	\$ 16,714	\$ 18,072	\$ 17,352	\$ 17,187	\$ 18,992	\$ 22,173	\$ 23,062	\$ 24,442	\$ 26,958	\$ 29,751
Property Taxes-Delinquent	1,201	900	824	692	640	445	1,387		143	453
Public Utility Taxes	4,142	4,616	5,011	5,279	7,176	6,474	7,853	9,267	7,888	7,655
Business Privilege Taxes	117,056	123,044	128,786	137,878	148,180	158,366	158,140	160,781	174,345	176,655
Tansient Occupancy Taxes	5,819	6,243	6,428	6,392	7,124	7,013	6,339	6,395	7,172	8,814
Other Taxes							2,687	2,846	9,004	9,742
Other Agencies:										
Auto Lieu Taxes-State	11,899	12,528	12,614	15,772	17,229	18,180	19,058	19,790	21,078	23,188
Sales Taxes-State	33,222	31,480	33,205	35,762	35,833	43,551	37,533	38,161	41,217	45,700
State Grants	1,470	2,108	1,501	1,677	1,586	2,239	1,708	2,009	1,409	2,682
State Revenue Sharing	79,001	77,071	82,258	92,744	99,124	102,286	96,928	97,739	93,413	102,596
County Grants	7,858	8,165	8,492	8,477	9,884	8,735	12,549	11,552	13,260	9,161
Other		165	554	358	300	783	9,124	9,407	9,166	13,299
Licenses and Permits	12,476	11,499	16,884	14,755	16,530	17,514	18,098	17,088	17,762	19,502
Fines, Forfeitures and Penalties	6,365	7,030	7,996	8,095	6,433	7,443	8,946	10,641	10,220	11,558
Use of Money and Property	5,900	6,773	7,239	6,285	7,602	7,528	7,408	5,031	2,288	5,905
Charges for Current Services	30,671	30,491	30,530	32,213	38,986	40,831	40,432	42,692	57,262	55,727
Special Assessments (2)							1,131	484	684	863
Grants and Contributions										
On Federal Projects	47,417	61,701	65,582	62,875	60,704	67,801	78,150	71,867	75,141	70,681
Miscellaneous Revenue	<u>18,663</u>	<u>7,798</u>	<u>19,058</u>	<u>9,715</u>	<u>8,250</u>	<u>8,082</u>	<u>2,935</u>	<u>3,505</u>	<u>5,541</u>	<u>6,734</u>
Total	<u>\$ 399,874</u>	<u>\$ 409,684</u>	<u>\$ 444,314</u>	<u>\$ 456,156</u>	<u>\$ 484,573</u>	<u>\$ 519,444</u>	<u>\$ 533,468</u>	<u>\$ 533,697</u>	<u>\$ 573,951</u>	<u>\$ 600,666</u>

(1) Includes GAAP basis revenues for the General Fund, all Special Revenue Funds, all Capital Project Funds, and General Obligation and Street and Highway Debt Service Funds.

(2) Special Assessment Capital Project Fund revenue (not bond proceeds). New GASB Statement No 34 presentation change in Fiscal Year 2001-02.

CITY OF TUCSON, ARIZONA
Property Tax Levies and Collections
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE III

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections as Percent of Current Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as Percent of Current Levy</u>
1995-96	\$ 17,945	\$ 17,163	95.7 %	\$ 934	\$ 18,097	100.9 %	\$ 1,306	7.3 %
1996-97	18,343	18,070	98.5	771	18,040	98.3	1,141	6.2
1997-98	17,905	17,328	96.8	683	18,011	100.6	1,078	6.0
1998-99	17,915	16,961	94.7	673	17,634	98.4	1,077	6.0
1999-00	19,832	18,798	94.8	812	19,610	98.9	862	4.3
2000-01	23,017	21,788	94.7	675	22,463	97.6	1,441	6.3
2001-02	23,885	22,478	94.1	979	23,457	98.2	725	3.0
2002-03	25,277	22,871	90.5	897	23,768	94.0	1,712	6.8
2003-04	27,907	26,886	96.3	949	27,835	99.7	2,024	7.3
2004-05	30,021	29,075	96.8	1,217	30,292	100.0	1,644	5.5

CITY OF TUCSON, ARIZONA
Assessed and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE IV

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed To Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1995-96	\$ 1,337,603	\$ 11,583,856	\$ 230,911	\$ 970,146	\$ 1,568,514	\$ 12,554,002	0.13
1996-97	1,357,143	11,788,763	241,653	1,131,077	1,598,796	12,919,840	0.12
1997-98	1,543,311	13,383,256	275,598	1,157,684	1,818,909	14,540,940	0.13
1998-99	1,605,984	13,807,855	269,891	1,173,053	1,875,875	14,980,908	0.13
1999-00	1,624,339	12,874,604	320,829	2,542,911	1,945,168	15,417,515	0.13
2000-01	1,713,871	13,515,042	334,750	2,639,735	2,048,621	16,154,777	0.13
2001-02	1,808,505	14,379,728	329,956	2,623,540	2,138,461	17,003,268	0.13
2002-03	1,923,729	15,339,146	345,004	2,750,943	2,268,733	18,090,089	0.13
2003-04	2,056,913	16,322,643	375,071	2,976,377	2,431,984	19,299,020	0.13
2004-05	2,199,393	17,567,010	358,838	2,866,116	2,558,231	20,433,126	0.13

CITY OF TUCSON, ARIZONA
Property Tax Rates - Direct and Overlapping
Per \$100 Assessed Valuation
Last Ten Fiscal Years (1) (unaudited)

TABLE V

<u>Fiscal Year</u>	<u>State</u>	<u>County</u>	<u>City</u>	<u>School District #1</u>	<u>Junior College District</u>	<u>Other</u>	<u>Total</u>
1995-96							
Primary	0.4700	3.5137	0.2000	6.7528	1.1441	0.5300	12.6106
Secondary		1.2325	0.9490	2.1532	0.0742	0.5535	4.9624
1996-97							
Primary		3.5137	0.1489	7.1193	1.1691	0.5300	12.4810
Secondary		1.1925	1.0000	2.3515	0.0742	0.5545	5.1727
1997-98							
Primary		3.5839	0.1428	7.0576	1.1166	0.5300	12.4309
Secondary		1.5520 (2)	0.8488	1.8525	0.0670	0.1917	4.5120
1998-99							
Primary		3.6852	0.1428	7.0800	1.1283	0.5300	12.5663
Secondary		1.5120	0.8173	1.7481	0.0639	0.1915	4.3328
1999-00							
Primary		4.0720	0.1428	6.8582	1.1626	0.5217	12.7573
Secondary		1.4931	0.8810	1.9287	0.2070	0.1100	4.6198
2000-01							
Primary		4.0720	0.1406	7.1105	1.1709	0.5123	13.0063
Secondary		1.4915	0.9864	1.9389	0.3865	0.1300	4.9333
2001-02							
Primary		4.0720	0.1403	8.0889	1.1455	0.4974	13.9441
Secondary		1.5108	0.9799	1.7199	0.4015	0.1300	4.7421
2002-03							
Primary		4.0720	0.2089	7.6124	1.1530	0.4889	13.5352
Secondary		1.4278	0.9113	1.6656	0.3803	0.1300	4.5150
2003-04							
Primary		4.0720	0.2089	7.1831	1.1358	0.4717	13.0715
Secondary		1.4261	0.9480	1.5779	0.3526	0.1200	4.4246
2004-05							
Primary		4.0720	0.3531	6.8278	1.1143	0.4560	12.8232
Secondary		1.4247	0.8316	1.5008	0.2285	0.1200	4.1056

(1) Per Arizona revised Statute 42-301, primary tax levy (no restrictions on use) is limited to an increase of 2 % over the previous year's maximum allowable primary levy. Secondary tax may be levied in any amount necessary to pay for debt service or to provide special district funding.

(2) Beginning in 1997-98, the County Secondary Rate includes the Flood Control District rate which was previously placed in the "Other" secondary rate.

CITY OF TUCSON, ARIZONA
Principal Taxpayers
 June 30, 2005 (unaudited)
 (dollar amounts in thousands)

TABLE VI

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Estimated 2004-05 Assessed Valuation</u>	<u>As % of City's Total 2003-04 Assessed Valuation</u>
Tucson Electric Power Company	Electric Utility	\$ 79,101	3.05 %
Qwest	Telephone	61,808	2.42
Southwest Gas Corporation	Natural Gas Utility	20,745	0.81
Tucson Mall	Retail Stores	19,364	0.76
Park Place	Retail Stores	14,934	0.58
AT & T Communications	Telephone	8,365	0.33
EI Con Mall	Retail Stores	7,773	0.30
WC Partners	Commerical Rentals	6,899	0.27
HUB Properties Trust	Commercial Rentals	6,398	0.25
MCI Worldcom Network	Telephone	5,765	0.23
Totals		\$ <u><u>231,152</u></u>	

Sources:
 Pima County Assessor's Office
 Arizona Department of Revenue

CITY OF TUCSON, ARIZONA
Special Assessment Collections (1)
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE VII

<u>Fiscal Year</u>	<u>Current Assessments Due</u>	<u>Current Assessments Collected (2)</u>	<u>Ratio of Collections to Amounts Due (2)</u>
1995-96	\$ 1,632	\$ 1,632	1.00
1996-97	1,432	1,432	1.00
1997-98	1,145	1,145	1.00
1998-99	947	947	1.00
1999-00	810	810	1.00
2000-01	736	736	1.00
2001-02 (3)	399	322	0.81
2002-03	458	796	1.74
2003-04	386	473	1.23
2004-05	495	654	1.32

(1) Principal only.

(2) All delinquent assessments are sold to independent bidders.

(3) FY 02 collections included a reduction for a refund to Civano property holders of \$160.

CITY OF TUCSON, ARIZONA
Legal Debt Margin
 June 30, 2005 (unaudited)
 (dollar amounts in thousands)

TABLE VIII

Total Assessed Value	\$ 2,558,231		
		General Obligation Other Purposes <u>6%</u>	General Obligation Utility Purposes and Open Spaces <u>20%</u>
Debt Limitation		\$ 163,483	\$ 544,944
Total Bonded Debt	840,359		
Less:			
Street & Highway Bonds	153,515		
Water Utility Revenue Bonds	352,215		
WIFA Loans	39,869		
Special Assessments Bonds	<u>3,576</u>		
Debt Subject to Limitation	<u>\$ 291,184</u>	<u>60,988</u>	<u>230,196</u>
Legal Debt Margin		<u>\$ 102,495</u>	<u>\$ 314,748</u>

CITY OF TUCSON, ARIZONA
Ratio of Net General Bonded Debt
to Assessed Value and Net Bonded Debt Per Capita
 Last Ten Fiscal Years (unaudited)

TABLE IX

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value (in thousands)</u>	<u>Gross Bonded Debt (in thousands)</u>	<u>Less Debt Service Funds (in thousands)</u>	<u>Net Bonded Debt (in thousands)</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1995-96	449,000	\$ 1,568,514	\$ 194,854	\$ 5,056	\$ 189,798	0.121	422.71
1996-97	459,000	1,598,796	201,534	5,517	196,017	0.123	427.05
1997-98	466,538	1,818,909	209,159	4,012	205,147	0.113	439.72
1998-99	476,406	1,875,875	217,274	1,586	215,688	0.115	452.73
1999-00	486,810	1,945,168	211,169	315	210,854	0.108	433.13
2000-01	498,307	2,048,621	223,569	1,209	222,360	0.109	446.23
2001-02	508,271	2,138,461	243,099	1,503	241,596	0.113	475.33
2002-03	516,220	2,268,733	266,989	3,195	263,794	0.116	511.01
2003-04	518,878	2,431,984	273,944	4,439	269,505	0.111	519.40
2004-05	521,605	2,558,231	291,184	5,317	285,867	0.112	548.05

CITY OF TUCSON, ARIZONA
Property Tax Requirements for General Debt Service
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE X

Fiscal Year	Principal	Interest	Net Debt Service	Property Tax Levy(1)		Tax Rate Required for Net General Debt Service(2)
				Primary	Secondary	
1995-96	\$ 3,450	\$ 10,850	\$ 14,300	\$ 3,060	\$ 14,885	0.91
1996-97	3,830	11,694	15,524	2,355	15,988	0.97
1997-98	5,465	11,478	16,943	2,466	15,439	0.93
1998-99	5,740	12,012	17,752	2,583	15,332	0.93
1999-00	6,105	12,299	18,404	2,695	17,137	0.94
2000-01	6,440	12,868	19,308	2,810	20,207	0.95
2001-02	7,030	13,785	20,815	2,931	20,954	0.97
2002-03	6,570	12,670	19,240	4,342	19,537	0.85
2003-04	8,045	13,973	22,018	4,898	23,009	0.91
2004-05	8,690	11,689	20,379	8,746	21,274	0.80

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(1) Primary tax levy (no restrictions on use) is limited to an increase of 2% over the previous years maximum allowable primary levy. Secondary tax may be levied in any amount necessary to meet the City's general obligation debt requirements, subject to City Charter ceiling limitation for combined primary and secondary levies of \$1.75 per \$100 assessed valuation.

(2) Rate shown is per \$100 of assessed valuation and assumes no use of reserved funds or interest earnings in General Obligation Debt Service Fund. Secondary tax levy for Fiscal Year 2004-05 was .8316.

CITY OF TUCSON, ARIZONA
Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Expenditures
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE XI

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures(1)</u>	<u>Ratio of Debt Service to General Expenditures</u>
1995-96	\$ 3,450	\$ 10,850	\$ 14,300	\$ 386,137	.04
1996-97	3,830	11,694	15,524	401,107	.04
1997-98	5,465	11,478	16,943	423,871	.04
1998-99	5,740	12,012	17,752	445,763	.04
1999-00	6,105	12,299	18,404	512,489	.04
2000-01	6,440	12,868	19,308	518,682	.04
2001-02	7,030	13,785	20,815	578,739	.04
2002-03	6,570	12,670	19,240	609,090	.03
2003-04	8,045	13,973	22,018	599,012	.04
2004-05	8,690	11,689	20,379	650,956	.03

⁽¹⁾ Includes GAAP basis expenditures, except "Lease Purchase" expenditures which are offset by "Lease Purchase Proceeds," for the General Fund, all Special Revenue Funds and the General Obligation and Street and Highway Debt Service Funds.

CITY OF TUCSON, ARIZONA
Computation of Direct and Overlapping Debt
 June 30, 2005 (unaudited)
 (dollar amounts in thousands)

TABLE XII

<u>Name of Governmental Unit</u>	<u>General Obligation Net Debt Outstanding</u>	<u>Percentage Applicable to City of Tucson</u>	<u>Amount Applicable to City of Tucson</u>
City of Tucson	\$ 291,184 ⁽¹⁾	100.00 %	\$ 291,184
School District No. 1	313,600	77.92	244,357
School District No. 8	12,835	25.41	3,261
School District No. 10	99,895	17.53	17,512
School District No. 12	51,605	63.19	32,609
School District No. 20	17,435	43.93	7,659
School District No. 16	39,805	0.01	4
School District No. 13	6,170	1.17	72
School District No. 30	18,620	0.51	95
Pima County	232,105	45.52	105,654
Pima County Flood Control District	4,120	41.64	1,716
Pima County Community College	80,785	45.52	36,773
Total Direct and Overlapping Debt	<u>\$ 1,168,159</u>		<u>\$ 740,896</u>

⁽¹⁾ Net of Debt Service Funds on Hand.

CITY OF TUCSON, ARIZONA
Schedule of Water Revenue Bond Coverage (1)
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE XIII

Year	Gross Revenue	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements- Bonds		Total	Coverage
				Principal	Interest		
1995-96	\$ 91,463	\$ 46,359	\$ 45,104	\$ 7,280	\$ 11,973	\$ 19,253	2.34
1996-97	96,187	50,867	45,320	6,865	13,257	20,122	2.25
1997-98	94,884	46,008	48,876	7,516	13,244	20,760	2.25
1998-99	91,377	53,471	37,906	14,825	7,823	22,648	1.67
1999-00	93,486	52,240	41,246	15,869	9,101	24,970	1.65
2000-01	94,810	52,643	42,167	16,688	9,099	25,787	1.64
2001-02	114,282	57,295	56,987	16,575	11,077	27,652	1.64
2002-03	110,444	60,031	50,413	16,575	11,023	27,598	1.83
2003-04	115,299	61,670	53,629	17,075	12,700	29,775	1.80
2004-05	119,853	66,218	53,635	17,510	13,808	31,318	1.71

(1) Effective with Fiscal Year 1997/98, this information will show the Maximum Annual Debt Service coverage as defined by Ordinance No. 6347. The debt service requirements represent the greatest amount required in any fiscal year as of the current fiscal year or thereafter. In previous years, the coverage ratio was based on the current fiscal year debt service requirements. Expenses exclude depreciation, amortization, and other water expenses subordinate to debt service.

CITY OF TUCSON, ARIZONA
Demographic Statistics
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE XIV

<u>Year</u>	<u>Population</u>	<u>Per Capita Income</u>	<u>Unemployment Rate (1)</u>	<u>Area In Square Miles</u>	<u>Population Per Square Mile</u>
1996	449,000	\$ 20	3.6	191.30	2,347.10
1997	459,000	21	3.2	193.51	2,371.97
1998	466,538	22	2.6	194.12	2,403.35
1999	476,406	22	2.7	195.36	2,438.61
2000	486,810	23	2.8	195.46	2,490.59
2001	498,307	24	3.1	223.33	2,231.26
2002	508,271	25	4.5	226.08	2,248.19
2003	516,220	25	4.4	226.13	2,282.85
2004	518,878	25	4.2	226.13	2,294.60
2005	521,605	27	4.7	226.55	2,302.38

(1) Statistics for Pima County as a whole.

Source:
 City of Tucson, Planning Department

CITY OF TUCSON, ARIZONA
Building Permits, Bank Deposits and Retail Sales
 Last Ten Fiscal Years (unaudited)
 (dollar amounts in thousands)

TABLE XV

Year	Building Permits			
	Commercial		Residential	
	Number	Value	Number	Value
1996	1,443	\$ 201,654	5,236	\$ 222,537
1997	1,630	170,362	5,923	227,027
1998	1,924	189,849	5,439	276,011
1999	2,027	262,089	4,062	295,924
2000	2,332	214,514	4,233	336,850
2001	2,415	269,156	5,808	386,393
2002	2,148	223,703	5,778	355,394
2003	1,225	108,728	4,013	308,621
2004	1,067	251,068	3,371	351,408
2005	1,038	183,218	2,290	336,331

Sources:
 Arizona Bankers Association
 City of Tucson Finance Department
 City of Tucson Development Services Center

CITY OF TUCSON, ARIZONA
Miscellaneous Statistics
 June 30, 2005 (unaudited)
 (dollar amounts in thousands)

TABLE XVI

<u>Date of Incorporation:</u>		<u>Street Lights:</u>	
February 7, 1887		Number	17,243
<u>Form of Government:</u>		<u>Libraries:</u>	
Council - Manager		Number - Within City	11
		- Outside City	10
<u>Date of Charter Adoption:</u>		Circulation	4,849,449
March 7, 1883		<u>Parks and Recreation:</u>	
<u>City Employees: June 30, 2005</u>		Recreation/ Regional Centers	19
Full Time	5,117	Golf Courses	5
Part Time/Other	2,055	Parks	125
	<u>7,172</u>	Playfields	182
		Swimming Pools	27
<u>Fire Protection:</u>		<u>Water Utility:</u>	
Commissioned Employees	565	Operable Wells	223
Number of Stations	20	Miles of Water Mains	4,480
<u>Police Protection:</u>		Number of Water Connections	218,569
Commissioned Employees	955	Potable Water Distributed (in Billion Gallons)	35
Traffic Citations	121,387	<u>Elections:</u>	
Felonies	51,837	Registered Voters As Of 11/09/03	191,406
<u>Miles of Streets:</u>		Votes Cast in Last City	
Residential	1,355	General Election (40.68% of Voters) 11/4/2003	77,857
Collectors	100		
Arterials	287		
Interstate	79		
Area of City in Square Miles	234		

Glossary



Glossary

Accrual basis of accounting. A method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows. All proprietary and trust funds use the accrual basis of accounting.

Agent multiple-employer defined benefit pension plan. An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level. [SGAS 27]

Basic financial statements. The minimum combination of financial statements and note disclosures required for fair presentation in conformity with GAAP.

Basis of accounting. The timing of recognition, that is, when the effects of transactions or events should be recognized for *financial reporting purposes*. For example, the effects of transactions or events can be recognized on an accrual basis (that is, when the transactions or events take place), or on a cash basis (that is, when cash is received or paid). Basis of accounting is an essential part of measurement focus because a particular timing of recognition is necessary to accomplish a particular measurement focus. [SGAS 11]

Budgetary basis of accounting. The method used to determine when revenues and expenditures are recognized for budgetary purposes.

Capital and related financing activities. Term used in connection with cash flows reporting. Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit. [SGAS 9]

Capital projects fund. Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capitalization threshold. The dollar value at which a government elects to capitalize tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. For the City, the capitalization threshold is \$5,000.

Cash. The term, as used in connection with cash flows reporting, includes not only currency on hand, but also demand deposits with banks or other financial institutions. *Cash* also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty. [SGAS 9]

Cash equivalent. Term used in connection with cash flows reporting. Short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose "original maturity" means the original maturity to the entity holding the investment. [SGAS 9]

Collateral. Term used in connection with deposits with financial institutions. Security pledged by a financial institution to a governmental entity for its deposit.

Combining financial statements. Financial statements that report separate columns for individual funds or component units. Combining financial statements normally are required in a comprehensive annual financial report to support each column in the basic financial statements that aggregates information from more than one fund or component unit.

Component unit. A legally separate organization for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. [SGAS 14]

Comprehensive annual financial report (CAFR). A financial report that encompasses all funds and component units of the government. The CAFR should contain (a) the basic financial statements and required supplementary information, (b) combining statements to support columns in the basic financial statements that aggregate information from more than one fund or component unit, and (c) individual fund statements as needed. The CAFR is the governmental unit's official annual report and also should contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data.

Cost-sharing multiple-employer defined benefit pension plan. A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members and the same contribution rate(s) applies for each employer. [SGAS 25]

Current financial resources measurement focus. Measurement focus according to which the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Debt service fund. Governmental fund type used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Deferred revenue. Resource inflows that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as deferred revenue. In governmental funds, earned amounts also are reported as deferred revenue until they are available to liquidate liabilities of the current period.

Defined benefit pension plan. A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified usually is a function of one or more factors such as age, years of service, and compensation. [SGAS 25]

Designated unreserved fund balance. Management's intended use of available expendable resources in governmental funds reflecting actual plans approved by the government's senior management. Expressed another way, designations reflect a government's self-imposed limitations on the use of otherwise available financial resources in governmental funds.

Economic resources measurement focus. Measurement focus under which the aim of a set of financial statements is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets: The economic resources measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. Business enterprises and not-for-profit organizations in the private sector also use it.

Encumbrances. Commitments related to unperformed (executory) contracts for goods or services.

Enterprise fund. Proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

Expenditure. Decreases in net financial resources under the current financial resources measurement focus not properly classified as *other financing uses*.

Fiduciary funds. Funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Financial reporting entity. A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

Financial resources. Resources that are or will become available for spending. Financial resources include cash and resources ordinarily expected to be converted to cash (e.g., receivables, investments). Financial resources also may include inventories and prepaids (because they obviate the need to expend current available financial resources).

Financial section. One of the three basic sections of a comprehensive annual financial report. The financial section is used to present the independent auditor's report on the financial statements, the basic financial statements (including the notes to the financial statements), required supplementary information, combining statements, individual fund statements and schedules, and supplementary information, as needed.

Fund. A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund balance. The difference between assets and liabilities reported in a governmental fund.

Fund classifications. One of the three categories (governmental, proprietary, and fiduciary) used to classify fund types.

Fund type. One of 11 classifications into which all individual funds can be categorized. Governmental fund types include the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. Proprietary fund types include enterprise funds and internal service funds. Fiduciary fund types include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

General fund. The general fund is one of five governmental fund types and typically serves as the chief operating fund of a government. The general fund is used to account for all financial resources except those required to be accounted for in another fund.

Generally accepted accounting principles (GAAP). The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. The various sources of GAAP for state and local government are set forth by SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*.

Government Finance Officers Association (GFOA). An association of public finance professionals founded in 1906 as the Municipal Finance Officers Association. The GFOA has played a major role in the development and promotion of GAAP for state and local government since its inception and has sponsored the Certificate of Achievement for Excellence in Financial Reporting Program since 1946.

Governmental Accounting Standards Board (GASB). The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The GASB was established in June 1984 to replace the NCGA.

Governmental funds. Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund, special revenue funds, debt service funds, capital project funds, and permanent funds.

Internal service funds. Proprietary fund type that may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. The goal of an internal service fund is to measure the full cost of providing goods or services for the purpose of fully recovering that cost (including the cost of capital assets) through fees or charges.

Introductory section. The first of three essential components of any comprehensive annual financial report. The introductory section typically provides general information on a government's structure and personnel as well as information useful in assessing the government's financial condition. The contents of the introductory section normally fall outside the scope of the independent audit of the financial statements.

Landfill closure and postclosure care costs. Costs incurred to provide for the protection of the environment that occur near or after the date that a municipal solid-waste landfill stops accepting solid waste and during the postclosure period. Closure and postclosure care costs include the cost of equipment and facilities (e.g., leachate collection systems and final cover) as well as the cost of services (e.g., postclosure maintenance and monitoring costs). [SGAS18]

Legal debt margin. The excess of the amount of debt legally authorized over the amount of debt outstanding.

Legal defeasance. A situation that occurs when debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid. When debt is defeased, it is no longer reported as a liability on the face of the statement of position; only the new debt, if any, is reported as a liability. [SGAS 7]

Legal level of budgetary control. The level at which a government's management may not reallocate resources without special approval from the legislative body.

Materiality. The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.¹ The objective of accountability in governmental financial reporting adds another perspective to materiality. Specifically, accountability requires another perspective to materiality. Specifically, accountability requires materiality to be judged not only in a quantitative manner, but also in a qualitative manner. That is, accountability involves such issues as legal and contractual compliance that may not have a "material" effect on the entity's reported operating results and financial position but that would influence or change the judgment of a reasonable person about how the government has conducted its affairs during the period. [SGAS 11]

Measurement Focus. The objective of a measurement, that is, what is being expressed in reporting an entity's financial performance and position. A particular measurement focus is accomplished by considering not only which resources are measured (for example, financial or economic resources), but also when the effects of transactions or events involving those resources are recognized (the basis of accounting). The measurement focus of government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements is economic resources. The measurement focus of governmental fund financial statements is current financial resources.

Modified accrual basis of accounting. Basis of accounting according to which (a) revenues are recognized in the accounting period in which they become available and measurable and (b) expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which should be recognized when due.

Noncapital financing activities. Term used in connection with cash flows reporting. Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also included are certain other interfund and intergovernmental receipts and payments. [SGAS 9]

Operating Activities: Term used in connection with cash flows reporting. Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. [SGAS 9]

Operating revenues and expenses. Term used in connection with the proprietary fund statement of revenues, expenses, and changes in net assets. The term is not defined as such in the authoritative accounting and financial reporting standards, although financial statement preparers are advised to consider the definition of *operating activities* for cash flows reporting in establishing their own definition. [SGAS 34]

Other financing source. An increase in current financial resources that is reported separately from revenues to avoid distorting revenue trends. The use of the *other financing sources* category is limited to items so classified by GAAP.

Other financing use. A decrease in current financial resources that is reported separately from expenditures to avoid distorting expenditure trends. The use of the *other financing uses* category is limited to items so classified by GAAP.

Overlapping debt. Proportionate share that property within a government must bear the debts of other local governments located wholly or in part within the geographic boundaries of the reporting government. Except for special assessment debt, the amount of debt of each unit applicable to the reporting unit is arrived at by (1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and (2) applying this percentage to the total debt of the overlapping jurisdiction. Special assessment debt is allocated on the basis of the ratio of assessments receivable in each jurisdiction, which will be used wholly or in part to pay off the debt, to total assessments receivable, which will be used wholly or in part for this purpose.

Pension (and other employee benefit) trust funds. A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Permanent Funds. A fiduciary fund type used to report resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Post-retirement healthcare benefits. Medical, dental, vision, and other health-related benefits provided to retired employees, dependents, and beneficiaries. [SGAS 26]

Proprietary funds. Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

Refunding. The issuance of new debt whose proceeds are used to repay previously issued debt. The proceeds may be used immediately for this purpose (a current refunding), or they may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding).

Required supplementary information. Statements, schedules, statistical data, or other information that the GASB has determined to be necessary to supplement, although not required to be a part of, the basic statements. [SGAS 5]

Restricted assets. Assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Special revenue fund. A governmental fund type used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purpose.

Statistical section. The third of three essential components of any comprehensive annual financial report. The statistical section provides a broad range of trend data covering key financial indicators from the past 10 fiscal years (e.g., general government revenues and expenditures, property tax collections, debt burden). It also contains demographic and miscellaneous data useful in assessing a government's financial condition. The contents of the statistical section normally fall outside the scope of the independent audit of the financial statements.

