

# City of Tucson



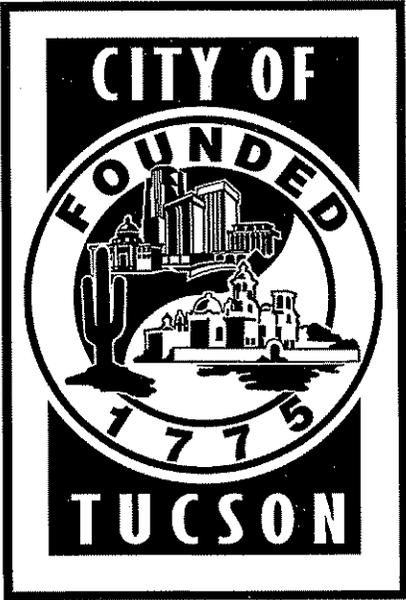
## **Comprehensive Annual Financial Report**

Fiscal Year July 1, 2005 - June 30, 2006



City of Tucson, Arizona  
Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2006

Prepared by: The Department of Finance,  
Accounting Division



# Introductory Section



**CITY OF TUCSON, ARIZONA**  
**Comprehensive Annual Financial Report**  
**Table of Contents**  
For the Year Ended June 30, 2006

|   | <u>Page</u> |
|---|-------------|
| <b>INTRODUCTORY SECTION</b>   |             |
| Letter of Transmittal   | v           |
| City of Tucson Officials  | ix          |
| City of Tucson Organizational Chart   | x           |
| Certificate of Achievement for Excellence in Financial Reporting  | xi          |
| <b>FINANCIAL SECTION</b>  |             |
| Independent Auditors' Report  | 1           |
| Management's Discussion and Analysis (Required Supplementary Information)                                       | 3           |
| Basic Financial Statements:   |             |
| Government-wide Financial Statements:   |             |
| Statement of Net Assets   | 17          |
| Statement of Activities   | 18          |
| Fund Financial Statements:  |             |
| Governmental Funds:   |             |
| Balance Sheet   | 20          |
| Reconciliation of the Balance Sheet for Governmental Funds<br>to the Statement of Net Assets                    | 21          |
| Statement of Revenues, Expenditures, and Changes<br>in Fund Balances - Governmental Funds                       | 22          |
| Reconciliation of the Statement of Revenues, Expenditures,<br>and Changes in Fund Balances - Governmental Funds | 23          |
| Proprietary Funds:  |             |
| Statement of Net Assets   | 24          |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets   | 25          |
| Statement of Cash Flows   | 26          |
| Fiduciary Funds:  |             |
| Statement of Fiduciary Net Assets   | 28          |
| Statement of Changes in Fiduciary Net Assets  | 29          |
| Notes to Basic Financial Statements   |             |
| Note 1 - Summary of Significant Accounting Policies   | 31          |
| Note 2 - New Accounting Pronouncements  | 40          |
| Note 3 - Property Tax   | 41          |
| Note 4 - Individual Fund Disclosures  | 41          |
| Note 5 - Deposits and Investments   | 41          |
| Note 6 - Interfund Balances and Transfers   | 51          |
| Note 7 - Capital Assets   | 53          |
| Note 8 - Changes in Long-term Debt  | 55          |
| Note 9 - Lease Obligations  | 56          |
| Note 10 - Bond Issues   | 57          |
| Note 11 - Advance Refunding/Defeasance of Debt  | 61          |
| Note 12 - Landfills   | 61          |
| Note 13 - Deferred Compensation Plan  | 62          |
| Note 14 - Single Employer and Agent Multiple-Employer Retirement Systems  | 62          |
| Note 15 - Self Insurance Program  | 66          |
| Note 16 - Post-Retirement Health Care and Life Insurance Benefits   | 66          |
| Note 17 - Contingencies and Commitments   | 67          |
| Note 18 - Significant Discretely Presented Component Unit Transactions  | 69          |
| Note 19 - Subsequent Events   | 69          |

**CITY OF TUCSON, ARIZONA**  
**Comprehensive Annual Financial Report**  
**Table of Contents**  
For the Year Ended June 30, 2006

|  | Page |
|--|------|
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>  |      |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance<br>Original Budget, Final Budget and Actual - Major Funds: |      |
| General Fund   | 71   |
| Mass Transit Special Revenue Fund  | 72   |
| Note to Required Supplementary Information   | 73   |
| <b>COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES</b>   |      |
| Combining Statements:  |      |
| Nonmajor Funds:  |      |
| Balance Sheets   | 75   |
| Statements of Revenues, Expenditures, and Changes in Fund Balances   | 84   |
| Internal Service Funds:  |      |
| Statement of Net Assets  | 95   |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets  | 96   |
| Statement of Cash Flows  | 97   |
| Fiduciary Funds:   |      |
| Statement of Fiduciary Net Assets - All Pension Trust Funds  | 98   |
| Statement of Changes in Fiduciary Net Assets - All Pension Trust Funds   | 99   |
| Statement of Fiduciary Assets and Liabilities - All Agency Funds   | 100  |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance<br>Budget and Actual - Nonmajor Governmental Funds:        |      |
| Library Fund   | 102  |
| Public Safety Academy Fund   | 103  |
| TEAM/Parkwise  | 103  |
| Convention Center Fund   | 104  |
| H.U.R.F. Fund  | 105  |
| Civic Contribution Fund  | 105  |
| Human and Community Development Fund   | 106  |
| Development Fee Fund   | 107  |
| Miscellaneous Housing Grant Funds  | 107  |
| Public Housing Fund  | 108  |
| Public Housing HOME Program Fund   | 109  |
| Other Federal Grants Fund  | 109  |
| Non-Federal Grants Fund  | 110  |
| Special Assessment Bond and Interest Debt Service Fund   | 112  |
| General Obligation Bond and Interest Debt Service Fund   | 113  |
| Street and Highway Bond and Interest Debt Service Fund   | 113  |
| Special Assessments Construction Fund  | 116  |
| 2000 Street and Highway Improvement Bond Capital Project Funds   | 117  |
| 2000 General Obligation Bond Capital Project Funds   | 117  |
| 1994 General Obligation Bond Capital Project Funds   | 118  |
| Schedule of Income - Budget and Actual - Enterprise Funds:   |      |
| Environmental Services Fund  | 121  |
| Golf Course Fund   | 122  |
| Water Utility Fund   | 123  |
| Revenues, Expenses and Flow of Funds Per Ordinance No. 6347 -<br>Water Utility Fund  | 124  |

**CITY OF TUCSON, ARIZONA**  
**Comprehensive Annual Financial Report**  
**Table of Contents**  
For the Year Ended June 30, 2006

**(Continued)**

|  | Table | Page       |
|--|-------|------------|
| <b>STATISTICAL SECTION (UNAUDITED)</b>                         |       |            |
| Expenditures/Expenses by Department                            | I     | 128        |
| Net Assets by Component  | II    | 129        |
| Changes in Net Assets  | III   | 130        |
| Fund Balances, Governmental Funds                              | IV    | 132        |
| Tax and Other Agency Revenues, General Fund                    | V     | 133        |
| Changes in Fund Balances, Governmental Funds                   | VI    | 134        |
| Taxable Sales by Category                                      | VII   | 136        |
| Business Privilege Taxes                                       | VIII  | 137        |
| Principal Business Privilege Tax Remitters by Activity         | IX    | 138        |
| Ratios of Outstanding Debt by Type                             | X     | 139        |
| Ratios of Net General Bonded Debt Outstanding                  | XI    | 140        |
| Direct and Overlapping Governmental Activities Debt            | XII   | 141        |
| Legal Debt Margin Information                                  | XIII  | 142        |
| Pledged Revenue Coverage                                       | XIV   | 143        |
| Demographic and Economic Statistics                            | XV    | 144        |
| Principal Employers  | XVI   | 145        |
| Adopted Budget Full-time-Equivalent City Employees by Function | XVII  | 146        |
| Capital Asset Statistics by Function                           | XVIII | 147        |
| Operating Indicators by Function                               | XIX   | 148        |
| <b>GLOSSARY</b>  |       | <b>149</b> |





CITY OF  
TUCSON

FINANCE DEPARTMENT  
ADMINISTRATION

November 20, 2006

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, 2006, 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 financial trends, revenue and debt capacity, demographic and economic information, and operating indicators, 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, 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. On November 8, 2005, city voters approved an Alternative Expenditure Limitation (Home Rule Option) that is determined by the City’s annual balanced budget, which will be effective in fiscal year 2007.

Legal control over the budget derives from state statutes that prohibit the city from exceeding the budget by purpose. 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 within purpose categories and Mayor and Council approves changes between purposes.

**Assessing Economic Condition**

The Arizona economy continued to grow during fiscal year 2006 with expectations of continued growth at a slower pace in the future. This growth has been driven by a large population growth, which has moved Arizona to the 16<sup>th</sup> most populace state. This growth has also been true for

Arizona’s two largest metropolitan areas, Phoenix and Tucson. For the Tucson Metropolitan area, growth in population, retail sales, and personal income will continue. Slight declines in construction jobs may cause unemployment to rise slightly. Figures 1 through 4 provide Tucson and Phoenix Metropolitan area comparisons in these areas.

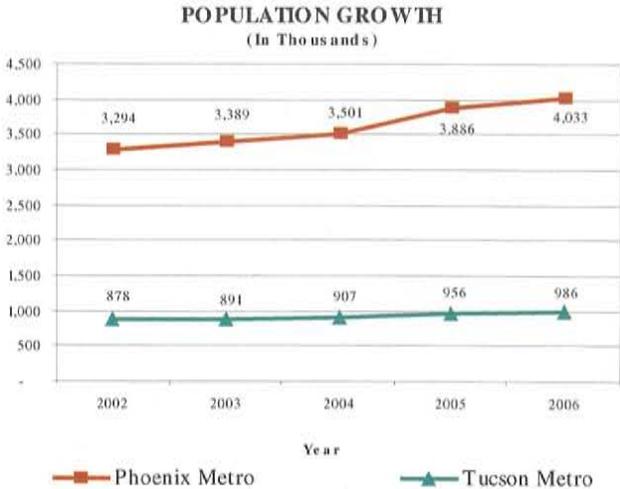


FIGURE 1

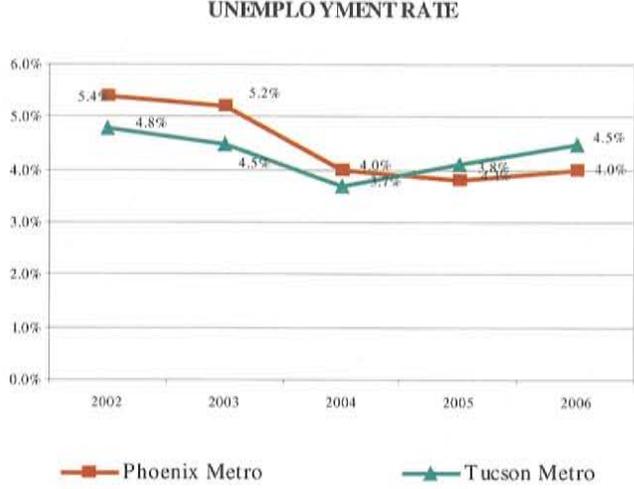


FIGURE 2



FIGURE 3

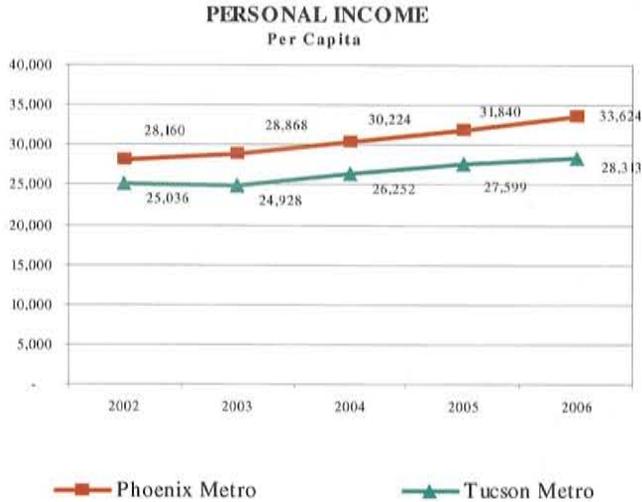


FIGURE 4

The improvement in the economy and the population increases has resulted in significant tax revenue gains for the State of Arizona. These revenues are shared with Arizona cities, towns, and counties based on population growth. The City of Tucson’s revenue share is expected to drop from 12% to 11% due to mid-decade census update. However due to the continued economical growth, the city’s estimated revenue distribution is expected to increase in the near term.

The City of Tucson is working several initiatives and policies to improve our financial position and improve city services. During the development of the biennial budget, the Mayor and Council approved new strategic priorities and a long-term financial sustainability plan to address these priorities. The financial sustainability plan provides a strategic framework and clear benchmarks for addressing future service needs. The plan incorporates aspects of the city’s strategic priorities, as well as input from citizens and other planning processes. It will provide the basis for the city’s

budget and will drive efforts in evaluating services and efficiencies as well as workforce planning. The goal is to allocate 60% of revenue growth each year to improving community services such as, maintaining roadways, reducing crime, saving lives and property, addressing social concerns, and improving parks and recreational opportunities. The remaining 40% of revenue growth would fund employee and benefits such as rising pension costs.

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 10 percent of General Fund expenditures. For Fiscal Year 2006, the goal was exceeded with an unreserved/undesignated balance at 10.4%.

### **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, 2005. 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 24 consecutive years (fiscal years ended 1982 through 2005). 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:

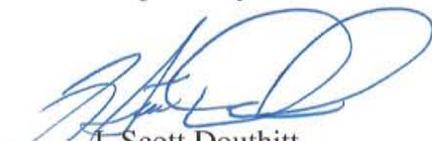
Jeff Alford, CPA, CGFM  
Vivian Newsheller  
Shane Oman  
Kayci Cagle  
Veronica Chen

Enid Moore-Crenshaw  
Omar Garcia  
Melissa Rios  
Silvia Valentin  
Aaron Williams, CPA

Nicole Worzella  
Marsha Schlanger  
Cheryl Van De Beuken  
George Triplett  
Kathy Maish

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,



J. Scott Douthitt  
Finance Director



# City of Tucson Officials

## CITY COUNCIL



HONORABLE  
ROBERT E. WALKUP  
MAYOR



JOSÉ J. IBARRA  
WARD 1



CAROL W. WEST  
WARD 2



KARIN UHLICH  
WARD 3



SHIRLEY C. SCOTT  
WARD 4



STEVE LEAL  
WARD 5



NINA J. TRASOFF  
WARD 6

## CITY ADMINISTRATION

MIKE HEIN  
CITY MANAGER

DEPUTY FINANCE DIRECTOR  
SILVIA AMPARANO

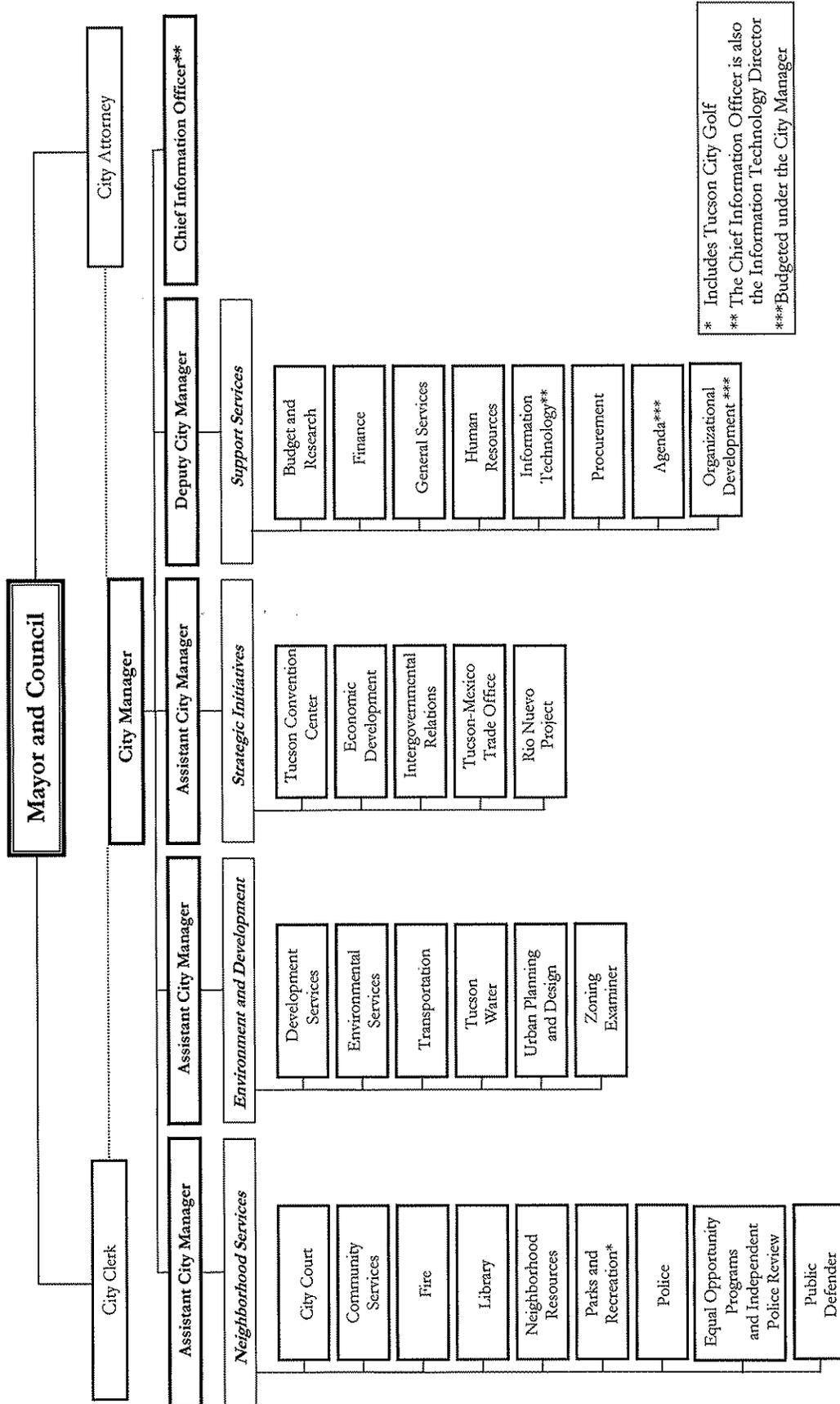
FINANCE DIRECTOR  
J. SCOTT DOUTHITT

DEPUTY FINANCE DIRECTOR  
JOE LADENBURG

ACCOUNTING  
ADMINISTRATOR  
MICHAEL MASON



**CITY OF TUCSON  
ORGANIZATION CHART  
FISCAL YEARS 2005 AND 2006**



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

# 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, 2005

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.



*Carla E. Perry*

President

*Jeffrey R. Emmer*

Executive Director

# Financial Section





Gary Heinfeld, CPA, CGFM  
Nancy A. Meech, CPA, CGFM  
Jennifer L. Shields, CPA  
Corey Arvizu, CPA

Scott W. Kies, CPA  
Kimberly A. Robinson, CPA  
Kera Badalamenti, CPA

[www.heinfeldmeech.com](http://www.heinfeldmeech.com)

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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, 2006, 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, 2006, 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 November 20, 2006, 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 through 73 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 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 statements, and individual fund 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

November 20, 2006

# Management's Discussion and Analysis



**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

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The Management's Discussion and Analysis (MD&A) 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, 2006. 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 analysis 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 \$1.76 billion (reported as net assets). Total net assets increased \$90 million from last year. Governmental activities had a \$67.2 million increase in net assets, while business-type activities had a \$22.8 million increase.

### **Fund Level**

- The City's governmental funds reported a combined fund balance of \$219.4 million, an increase of \$46.9 million from last fiscal year. Within the combined fund balance total, \$64.2 million is unreserved, while \$155.2 million is reserved for specific purposes. A significant portion of the unreserved fund balance (\$9.8 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 \$160.2 million, which represents a \$62.2 million increase from last year. The unreserved/undesignated balance is \$41.3 million. This represents 10.4% of total general fund expenditures for the fiscal year, which exceeds the 7.5% goal established by Mayor & Council.
- On a current financial resource basis, revenues raised during the year were \$12.5 million more than budgeted for the General Fund, while expenditures were \$13.2 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 Statements and 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, 2006

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<br>Statements  | Fund Financial Statements   |  |  |
|  |  | Governmental<br>Funds   | Proprietary<br>Funds   | Fiduciary<br>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<br><br>Statement of Activities                                 | Balance Sheet<br><br>Statement of Revenues, Expenditures and Changes in Fund Balances   | Statement of Net Assets<br><br>Statement of Revenues, Expenses, and Changes in Net Assets<br><br>Statement of Cash Flows | Statement of Fiduciary Net Assets<br><br>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, 2006

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### **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, 2006

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The combined net assets for the primary government increased 5.4% over the course of the year to \$1.76 billion. Governmental activities contributed to 74.7% of this increase, while business-type activities contributed 25.3%. 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<br>Activities |                         | Business-type<br>Activities |                       | Total Primary<br>Government |                         |
|--|----------------------------|-------------------------|-----------------------------|-----------------------|-----------------------------|-------------------------|
|  | 2006                       | 2005                    | 2006                        | 2005                  | 2006                        | 2005                    |
| Current and Other Assets                           | \$ 365,200,415             | \$ 320,277,323          | \$ 96,452,161               | \$ 117,201,523        | \$ 461,652,576              | \$ 437,478,846          |
| Capital Assets                                     | 1,515,710,425              | 1,460,774,434           | 1,022,389,677               | 975,556,549           | 2,538,100,102               | 2,436,330,983           |
| Total Assets                                       | <u>1,880,910,840</u>       | <u>1,781,051,757</u>    | <u>1,118,841,838</u>        | <u>1,092,758,072</u>  | <u>2,999,752,678</u>        | <u>2,873,809,829</u>    |
| Current and Other Liabilities                      | 164,804,697                | 156,289,297             | 56,727,954                  | 49,232,621            | 221,532,651                 | 205,521,918             |
| Long-term Debt Outstanding                         | 549,743,850                | 525,592,968             | 463,489,474                 | 467,662,108           | 1,013,233,324               | 993,255,076             |
| Total Liabilities                                  | <u>714,548,547</u>         | <u>681,882,265</u>      | <u>520,217,428</u>          | <u>516,894,729</u>    | <u>1,234,765,975</u>        | <u>1,198,776,994</u>    |
| Net Assets:  |                            |                         |                             |                       |                             |                         |
| Invested in Capital Assets,<br>Net of Related Debt | 985,658,624                | 998,221,324             | 615,391,846                 | 594,423,874           | 1,601,050,470               | 1,592,645,198           |
| Restricted   | 138,645,084                | 82,813,522              | 3,254,815                   | 9,013,682             | 141,899,899                 | 91,827,204              |
| Unrestricted (Deficit)                             | 42,058,585                 | 18,134,646              | (20,024,020)                | (27,574,213)          | 22,034,565                  | (9,439,567)             |
| Total net assets                                   | <u>\$ 1,166,362,293</u>    | <u>\$ 1,099,169,492</u> | <u>\$ 598,622,641</u>       | <u>\$ 575,863,343</u> | <u>\$ 1,764,984,934</u>     | <u>\$ 1,675,032,835</u> |

**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

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<br>Activities |                      | Business-type<br>Activities |                      | Total Primary<br>Government |                      |
|---|----------------------------|----------------------|-----------------------------|----------------------|-----------------------------|----------------------|
|   | 2006                       | 2005                 | 2006                        | 2005                 | 2006                        | 2005                 |
| Revenues                                  |                            |                      |                             |                      |                             |                      |
| Program Revenues:                         |                            |                      |                             |                      |                             |                      |
| Charges for Services                      | \$ 100,782,391             | \$ 93,414,087        | \$ 167,878,518              | \$ 155,834,538       | \$ 268,660,909              | \$ 249,248,625       |
| Operating Grants and Contributions        | 134,853,525                | 127,785,107          |                             |                      | 134,853,525                 | 127,785,107          |
| Capital Grants and Contributions          | 36,449,563                 | 26,158,108           | 23,309,465                  | 15,396,024           | 59,759,028                  | 41,554,132           |
| Total Program Revenues                    | <u>272,085,479</u>         | <u>247,357,302</u>   | <u>191,187,983</u>          | <u>171,230,562</u>   | <u>463,273,462</u>          | <u>418,587,864</u>   |
| General Revenues:                         |                            |                      |                             |                      |                             |                      |
| Taxes:                                    |                            |                      |                             |                      |                             |                      |
| Property Taxes                            | 33,669,712                 | 30,203,848           |                             |                      | 33,669,712                  | 30,203,848           |
| Business Privilege Taxes                  | 195,790,010                | 183,102,463          |                             |                      | 195,790,010                 | 183,102,463          |
| Public Utility Taxes                      | 7,585,462                  | 7,654,851            |                             |                      | 7,585,462                   | 7,654,851            |
| Transient Occupancy Taxes                 | 12,276,201                 | 10,768,492           |                             |                      | 12,276,201                  | 10,768,492           |
| Occupational Taxes                        | 2,044,040                  | 2,098,216            |                             |                      | 2,044,040                   | 2,098,216            |
| Liquor Taxes                              | 721,117                    | 740,742              |                             |                      | 721,117                     | 740,742              |
| Unrestricted Grants and Contributions     | 129,370,825                | 114,662,691          |                             |                      | 129,370,825                 | 114,662,691          |
| Investment Income (Loss)                  | 3,932,688                  | 2,605,029            | 2,809,904                   | 2,902,021            | 6,742,592                   | 5,507,050            |
| Miscellaneous                             | 15,542,035                 | 7,100,302            |                             |                      | 15,542,035                  | 7,100,302            |
| Total General Revenues                    | <u>400,932,090</u>         | <u>358,936,634</u>   | <u>2,809,904</u>            | <u>2,902,021</u>     | <u>403,741,994</u>          | <u>361,838,655</u>   |
| Total Revenues                            | <u>673,017,569</u>         | <u>606,293,936</u>   | <u>193,997,887</u>          | <u>174,132,583</u>   | <u>867,015,456</u>          | <u>780,426,519</u>   |
| Expenses                                  |                            |                      |                             |                      |                             |                      |
| Elected and Official                      | 17,443,632                 | 15,418,836           |                             |                      | 17,443,632                  | 15,418,836           |
| Support Services                          | 58,092,060                 | 58,587,923           |                             |                      | 58,092,060                  | 58,587,923           |
| Neighborhood Services                     | 341,517,918                | 337,049,181          |                             |                      | 341,517,918                 | 337,049,181          |
| Environment and Development               | 137,175,591                | 131,039,748          |                             |                      | 137,175,591                 | 131,039,748          |
| Strategic Initiatives                     | 12,499,925                 | 14,039,464           |                             |                      | 12,499,925                  | 14,039,464           |
| Non-Departmental                          | 14,972,390                 | 12,788,223           |                             |                      | 14,972,390                  | 12,788,223           |
| Interest on Long-term Debt                | 24,108,533                 | 22,270,724           |                             |                      | 24,108,533                  | 22,270,724           |
| Fiscal Agent and Other                    | 74,613                     | 46,301               |                             |                      | 74,613                      | 46,301               |
| Environmental Services                    |                            |                      | 42,987,747                  | 39,464,082           | 42,987,747                  | 39,464,082           |
| Golf                                      |                            |                      | 9,003,837                   | 10,064,093           | 9,003,837                   | 10,064,093           |
| Water                                     |                            |                      | 119,187,111                 | 112,359,007          | 119,187,111                 | 112,359,007          |
| Total Expenses                            | <u>605,884,662</u>         | <u>591,240,400</u>   | <u>171,178,695</u>          | <u>161,887,182</u>   | <u>777,063,357</u>          | <u>753,127,582</u>   |
| Changes in Net Assets<br>before transfers | 67,132,907                 | 15,053,536           | 22,819,192                  | 12,245,401           | 89,952,099                  | 27,298,937           |
| Transfers                                 | 59,894                     | (3,971,822)          | (59,894)                    | 3,971,822            | -                           | -                    |
| Changes in Net Assets                     | <u>\$ 67,192,801</u>       | <u>\$ 11,081,714</u> | <u>\$ 22,759,298</u>        | <u>\$ 16,217,223</u> | <u>\$ 89,952,099</u>        | <u>\$ 27,298,937</u> |

**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

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**Governmental Activities**

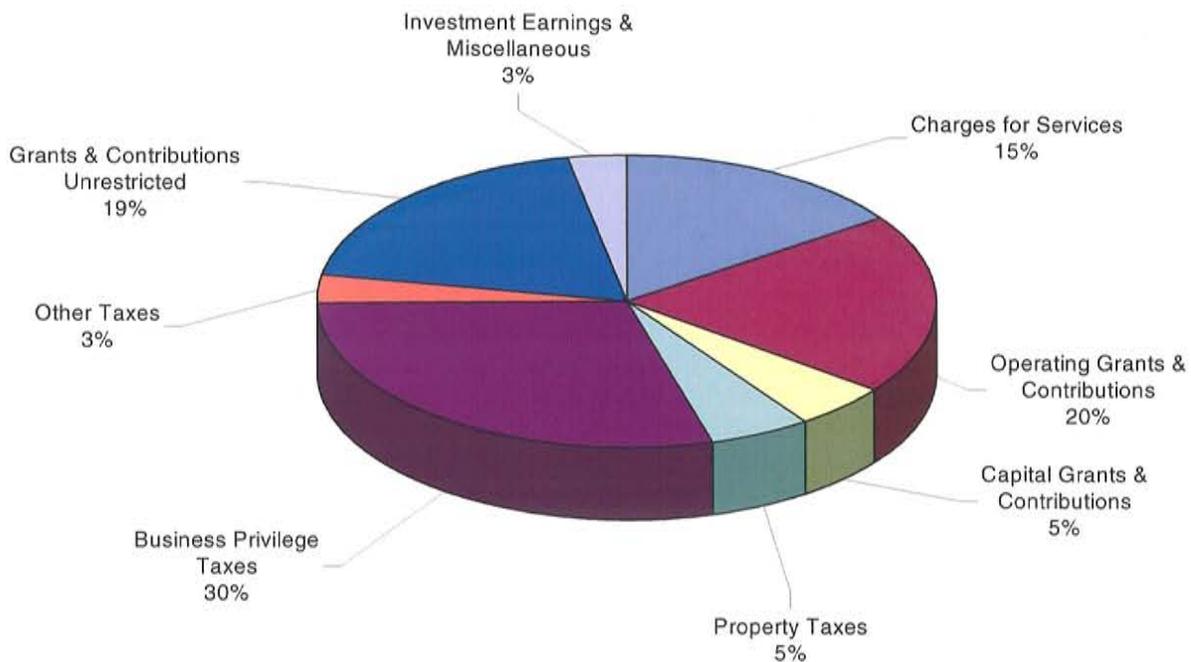
Total expenses for governmental activities for fiscal year 2006 were \$605.9 million. Program revenues, including charges for services and restricted grants or contributions, covered 44.9% of these costs. General revenues covered the remaining 55.1% of governmental costs. Components of general revenues primarily include taxes, unrestricted grants and contributions, and miscellaneous revenue, which includes impact fees.

Operating Grants and Contributions increased 5.6% over fiscal year 2005. The Community Block Development Grant drew \$2.3 million dollars more in fiscal year 2006 based on entitlement monies awarded to the different agencies. Capital Grants and Contributions increased 39.3% over fiscal year 2005. The value of donated streets and right of way is \$4.9 million more in fiscal year 2006 than it was in fiscal year 2005.

Another significant change in expenses is the decrease of benefits and claims recorded in the Incurred But Not Recorded (IBNR) calculation in the Risk Management Internal Service Fund. The decrease of \$19.3 million in reserves for claims is twofold. First, in fiscal year 2006 the last of the claims for the Central Arizona Project (CAP) water liability cases were settled. Several years ago when CAP water was being sent directly to homes and businesses, it caused millions of dollars in property damage mostly because the mineral content change of the CAP water corroded pipes. All related claims to this damage have been paid and the reserve for these estimated claims was eliminated. Second, the large reserve for claims against possible landfill contamination of the environment was reduced based on a new assessment of the probable risk.

The following chart depicts both program and general revenues generated by governmental activities for fiscal year 2006:

**Governmental Activities-Revenue Sources**  
**For the Fiscal Year Ended June 30, 2006**



**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

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:

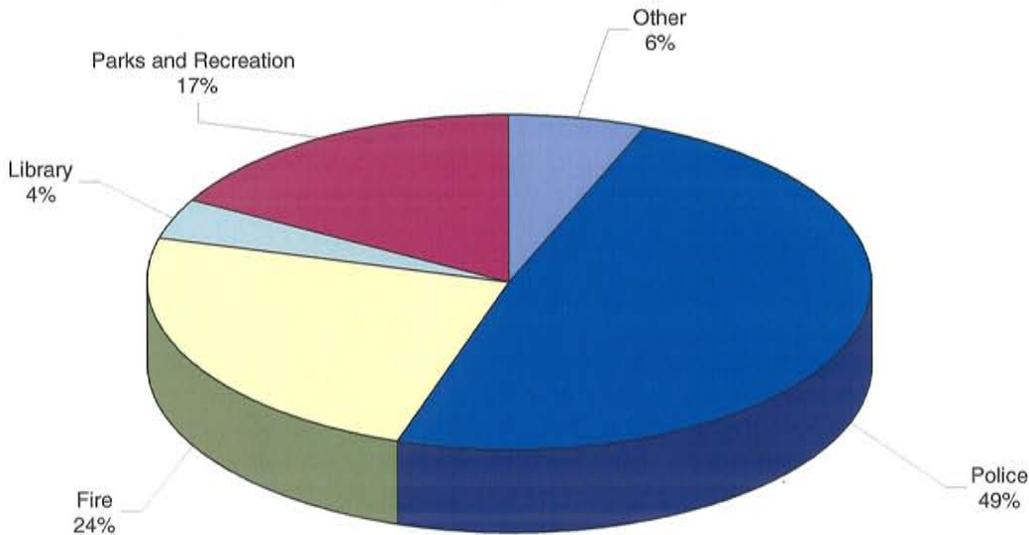
Table B-3  
City of Tucson  
Net Expense/Revenue-Governmental Activities

| Function                    | 2006                    |             | 2005                    |             |
|-----------------------------|-------------------------|-------------|-------------------------|-------------|
|                             | Net Exp/Rev             | Percentage  | Net Expense             | Percentage  |
| Elected and Official        | \$ (16,759,000)         | 5%          | \$ (14,637,970)         | 4%          |
| Support Services            | (23,672,908)            | 7%          | (26,827,590)            | 8%          |
| Neighborhood Services       | (232,821,986)           | 70%         | (239,181,212)           | 70%         |
| Environment and Development | (23,317,071)            | 7%          | (23,548,521)            | 7%          |
| Strategic Initiatives       | (9,047,486)             | 3%          | (10,542,681)            | 3%          |
| Non-Departmental            | (3,997,586)             | 1%          | (6,828,099)             | 2%          |
| Interest on Long-term Debt  | (24,108,533)            | 7%          | (22,270,724)            | 6%          |
| Fiscal Agent Fees and Other | (74,613)                | 0%          | (46,301)                | 0%          |
| <b>Total Net Expense</b>    | <b>\$ (333,799,183)</b> | <b>100%</b> | <b>\$ (343,883,098)</b> | <b>100%</b> |

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:

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

**Neighborhood Services-Net Expenses/Revenues by Department**  
For Fiscal Year ended June 30, 2006



**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

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### **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. The net assets for business-type activities increased by \$22.8 million during the fiscal year.

### **Environmental Revenues**

- Total program revenues increased in fiscal year 2006. Two factors contributed to the \$4.5 million increase. The residential refuse fee was collected for the full 12 months of fiscal year 2006 opposed to only 11 months in fiscal year 2005. Also, many commercial contracts expired in fiscal year 2006 and were renewed at the increased rates that went into effect in July 2004.

### **Environmental Expenses**

- Total operating expenses increased \$3.1 million dollars. An increase in labor cost due to cost of living, merits, and increased hours worked explains \$1.1 million. Leases of roll off containers and 96 gallon containers resulted in a \$.7 million increase. Increased cost for estimated groundwater remediation as well as anticipated operating and maintenance cost for city landfills resulted in a \$4.2 million increase. A decrease in depreciation expense of \$3.0 million is due to Cell One at Los Reales landfill becoming fully depreciated at June 30, 2005. Thus, no depreciation expense for Cell One was recorded in fiscal year 2006.

### **Water Revenues**

- Total program revenues increased in fiscal year 2006 by \$16.9 million. The main contributing factors are an increase of connection fees and metered sales due to the City's growth and a new Intergovernmental Agreement (IGA) between the City and Pima County. The new IGA allows the City to increase the fees it charges the county for the sewer billing service the City provides by using Tucson Water's billing system.

### **Water Expenses**

- Total operating expenses increased in fiscal year 2006 by \$5.9 million. The increase in expenses is due partly to an increase in labor cost of \$1.7 million (cost of living and merit increases) and \$3.0 million maintenance and enhancements of existing water systems.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City had two major governmental funds in fiscal year 2006, the General Fund and the Mass Transit Fund. General Fund expenditures increased 6.0% from last fiscal year and revenues increased 9.0%. The largest increases in expenditures were in the areas of police, fire, debt principal and capital outlay. These expenditure increases were offset somewhat by a decrease in capital project expenditures. The reserved for capital improvements portion of the fund balance increase is due to two new Certificates of Participation (COPS) issuance in January and June 2006. The COPS issues added \$57.0 million to the fund balance.

The Mass Transit Fund balance decreased \$133.9 thousand during fiscal year 2006. The fund balance in the Mass Transit Fund is the balance of prepaid expenditures. More expenditures were amortized from the prepaid account than were recorded as new prepaid expenditures in fiscal year 2006. The prepaid expenditures balance is comprised of workers compensation, auto insurance and computer software maintenance.

**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

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**General Fund Revenues**

- Property taxes increased \$3.5 million as a result of increased property valuations in Pima County. Transient occupancy tax collections increased \$1.4 million largely due to the new Starr Pass resort.
- Continued economic recovery resulted in \$6.1 million in additional state sales tax revenues in fiscal year 2006. This was a 13.4% increase over fiscal year 2005. Arizona Department of Revenue projected a 6.7% increase.
- The increase of recovered expenditures was caused primarily by a South Park loan repayment of \$1.3 million.
- The \$22.2 million increase to Other Financing Sources is largely due to the issuance of the COPS for the lease purchase of certain real property and improvements thereto, including several Police projects, the new Fire Central Station project, the final Pennington Garage construction and the purchase of MacArthur Building.

**General Fund Expenditures**

- General Fund expenditures increased \$22.6 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 2006.
- Fiscal year 2006 was the first full year of expenditures for 71 police department positions added last fiscal year. The police department also added 24 police positions in fiscal year 2006. Furthermore, the fire department added 43 new employees in fiscal year 2006.
- Debt service principal increased \$3.4 million in fiscal year 2006 because of increases in COPS, BDFC and HELP loan payments over fiscal year 2005.

**Mass Transit Fund Revenues**

- Total revenues increased by \$5.5 million (21.6%) in fiscal year 2006. Grant income increased \$4.2 million because of new bus purchases and the subsidy transfer from the General Fund increased \$6.8 million because of the increase in expenditures.

**Mass Transit Fund Expenditures**

- Total expenditures increased \$12.0 million (21.9%) in fiscal year 2006. The increase is largely a result of the purchase of thirty-six new buses for Sun Tran.
- The operating expenditures increase of \$4.2 million is mainly due to higher labor costs. The City covers the rising pension and employee health costs. Cost of living and merit increases were also given in fiscal year 2006.

**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) and Mass Transit Fund (pg 72) shows the original budget (adopted), the final budget (revised), and actual revenues and expenditures for the fiscal year.

**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

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The variance between the final budget and actual revenues is \$12.5 million.

- Sales and use tax receipts were \$6.4 million higher due to stronger economic growth than was anticipated. Also, the transient occupancy tax was \$2.4 million more than expected.
- Again, due to an improving economy, state sales tax was underestimated by \$4.1 million and state income tax by \$1.4 million. These higher actual receipts were offset by variances in Intergovernmental Agreement revenues. The budget of these revenues is based on department anticipated expenditures, which were approximately \$11.3 million more than actually spent, billed, and reimbursed.
- Under charges for service, \$13.5 million of the \$14.6 million variance is because of the difference between budget treatment and accounting for Facilities Management, Communications and Architecture & Engineering. These intra-departmental expenditures have a zero budget, thus revenue is not budgeted. The remaining \$1.1 million variance is development related fees and charges.

The variance between the final budget and actual expenditures is \$13.2 million.

- The expenditures for Support Services exceeded the budget by \$6.7 million. This was due to non-budgeted intra-departmental expenditures for Facilities Management, Communications and Architecture & Engineering.
- The variance of \$21.3 million for capital projects is primarily due to project delays and over budgeting of capital agreements and other general fund capital project spending.

The variances between total other financing sources (uses) final budget and actual was \$44.5 million.

- The primary variance is under Lease Purchase and Contracts Proceeds (\$50.3 million). Proceeds from lease purchase agreements are not budgeted. Also, Certificates of Participation revenue, considered contracts proceeds by the City, are only budgeted when the related project expenditures are budgeted, not when the revenue is received.
- Transfers to other funds account for \$6.3 million of the variance. The Library transfer to the county resulted in additional expenditures of approximately \$2 million. The general fund covered \$.5 million more than anticipated for the Public Safety Training Academy Fund because of a shortfall in the Academy's revenues. \$3.6 million of the remaining variance is because the budget does not include the lease expenditure transfers to internal fleet services for the purchase of City vehicles.

**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The following table provides details regarding capital assets as of June 30, 2006 and June 30, 2005.

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

|                             | Governmental<br>Activities |                         | Business-type<br>Activities |                       | Total Primary<br>Government |                         |
|-----------------------------|----------------------------|-------------------------|-----------------------------|-----------------------|-----------------------------|-------------------------|
|                             | 2006                       | 2005                    | 2006                        | 2005                  | 2006                        | 2005                    |
| Land                        | \$ 635,434,436             | \$ 625,774,275          | \$ 55,906,496               | \$ 55,730,118         | \$ 691,340,932              | \$ 681,504,393          |
| Buildings and Improvements  | 249,064,317                | 217,428,870             | 112,272,301                 | 102,074,118           | 361,336,618                 | 319,502,988             |
| Equipment                   | 80,075,317                 | 62,217,076              | 22,338,915                  | 23,256,978            | 102,414,232                 | 85,474,054              |
| Infrastructure              | 359,982,136                | 364,856,897             | 674,414,435                 | 640,438,280           | 1,034,396,571               | 1,005,295,177           |
| Construction in Progress    | 191,154,219                | 190,497,316             | 156,563,880                 | 153,167,335           | 347,718,099                 | 343,664,651             |
| Goodwill                    |                            |                         | 134,136                     | 163,978               | 134,136                     | 163,978                 |
| Water Rights                |                            |                         | 759,514                     | 725,742               | 759,514                     | 725,742                 |
| <b>Total Capital Assets</b> | <b>\$ 1,515,710,425</b>    | <b>\$ 1,460,774,434</b> | <b>\$ 1,022,389,677</b>     | <b>\$ 975,556,549</b> | <b>\$ 2,538,100,102</b>     | <b>\$ 2,436,330,983</b> |

Additional information regarding capital assets can be found in Note 7 on page 53.

**Governmental Activities**

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

- Additions in public infrastructure improvements totaled \$11.5 million. Infrastructure improvements include streets, sidewalks, street lighting, traffic signals and drainage. Two projects accounted for 83% of the additions: Mountain Avenue Storm Drain Improvement (\$6.4 million) and El Vado Wash Drainage Improvement (\$3.1 million). In spite of additions to infrastructure, the net book value decrease of \$4.9 million in infrastructure is because depreciation of assets exceeded total additions for the year.
- The net increase in land value is \$9.7 million. Additions to land for fiscal year 2006 is \$12.7 million, which includes \$9.2 million for right of way. The City sold or exchanged land worth a total of \$2.8 million during fiscal year 2006.
- Thirty-six new SunTran buses were purchased for a total of \$11.9 million. Two heavy rescue vehicle were purchased for the Fire Department for a total of \$1.1 million. A new software system for asset management was capitalized at \$1.0 million.
- Vehicles and heavy equipment were purchased for Fleet Services in fiscal year 2006 through capital leases in the amount of \$3.9 million. These purchases include ambulances, pick up trucks, automobiles, rollers and graders.
- An emergency communication system was added in fiscal year 2006 for \$1.5 million.
- The MacArthur Building was purchased for \$2.9 million and a new Police Evidence facility was purchased for \$2.9 million.

**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

- Other significant capital projects that were capitalized (expenditures may be in previous years) in fiscal year 2006 include the Pennington Garage for \$12.0 million, the Midtown Multi-Service Center for \$13.3 million, ADA modifications at city parks for \$3.3, Starr Pass Boulevard improvements for \$2.3 million and the Udall Senior Center for \$2.0 million.

**Business-type Activities**

Business-type activities had a net increase of \$46.8 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, \$34.0 million of the net increase in capital assets was incurred in the distribution and collection systems.

**Long-term Debt**

The following table illustrates the City's long-term debt as of June 30, 2006 and June 30, 2005. 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<br>Activities |                       | Business-type<br>Activities |                       | Total Primary<br>Government |                         |
|---|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-------------------------|
|   | 2006                       | 2005                  | 2006                        | 2005                  | 2006                        | 2005                    |
| General Obligation Debt                       | \$ 239,102,182             | \$ 248,797,183        | \$ 42,386,887               | \$ 42,386,887         | \$ 281,489,069              | \$ 291,184,070          |
| Street & Highway Revenue Bonds                | 144,265,000                | 153,515,000           |                             |                       | 144,265,000                 | 153,515,000             |
| Certificates of Participation                 | 152,485,000                | 89,875,000            | 5,495,000                   | 4,320,000             | 157,980,000                 | 94,195,000              |
| Federal Highway Loan                          |                            | 1,300,000             |                             |                       |                             | 1,300,000               |
| Special Assessment Bonds                      | 3,481,766                  | 3,575,600             |                             |                       | 3,481,766                   | 3,575,600               |
| Water Revenue Bonds                           |                            |                       | 383,337,014                 | 388,324,735           | 383,337,014                 | 388,324,735             |
| Deferred Amount on Refundings<br>and Premiums | 5,943,276                  | 5,256,885             | 388,064                     | 376,019               | 6,331,340                   | 5,632,904               |
| Landfill Closure/Post Closure Costs           |                            |                       | 41,287,775                  | 42,535,670            | 41,287,775                  | 42,535,670              |
| Contracts/Capital Leases Payable              | 7,218,103                  | 4,661,279             | 6,787,833                   | 3,049,416             | 14,005,936                  | 7,710,695               |
| Compensated Absences                          | 31,012,248                 | 28,051,169            | 4,818,324                   | 4,637,854             | 35,830,572                  | 32,689,023              |
| Claims and Judgments                          | 25,717,646                 | 45,064,770            |                             |                       | 25,717,646                  | 45,064,770              |
| <b>Total</b>                                  | <b>\$ 609,225,221</b>      | <b>\$ 580,096,886</b> | <b>\$ 484,500,897</b>       | <b>\$ 485,630,581</b> | <b>\$ 1,093,726,118</b>     | <b>\$ 1,065,727,467</b> |

As shown in Table B-5, outstanding debt for the City totaled \$1.1 billion with 55.7% attributed to governmental activities and the remaining 44.3% attributed to business-type activities. The following information describes significant changes in long-term debt for the fiscal year:

- In business-type activities, Water Revenue Bond debt decreased \$5.0 million due to principal payments made in fiscal year 2006, however, the Water Infrastructure Finance Authority of Arizona (WIFA) approved two new low-interest loan for Tucson Water projects totaling \$4.5 million. 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. For Environmental Services, Contracts/Capital Leases increased by \$3.7 million. This increase is the difference between the proceeds of \$4.9 million from the new lease purchase contracts and principal payments made in fiscal year 2006.

**CITY OF TUCSON, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2006

- In governmental activities, Certificates of Participation (COPS) were issued to finance the following projects: the MacArthur building, the police evidence building, fire apparatus, Pennington Garage, the police headquarters expansion, the central fire station, the northwest police service center, the northeast police patrol station, the police communication equipment, a new City phone system and the train depot. The net increase of \$62.6 million is the COPS proceeds of \$68.6 million for the preceding projects less fiscal year 2006 COPS debt payments of \$6 million by the City.

**Bond Ratings**

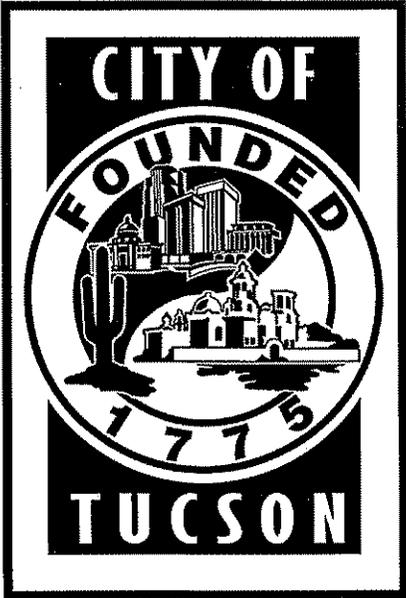
Table B-6 illustrates previous and current bond ratings for Fiscal year 2006:

Table B-6  
City of Tucson  
Fiscal Year 2006 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      | AA           | AA      |
| Street & Highway User Revenue Bonds        |                |         |                           |         |              |         |
| Senior Lien                                | A1             | A1      | A+                        | A+      | AA-          | AA-     |
| Junior Lien                                | A2             | A2      | A                         | A       | A+           | 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, 8<sup>th</sup> floor, Tucson, Arizona 85701, (520) 791-4561, [www.tucsonaz.gov](http://www.tucsonaz.gov).



# Basic Financial Statements



**CITY OF TUCSON, ARIZONA  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

|   | <b>Primary Government</b>          |                                     |                         | <b>Component<br/>Unit</b> |
|---|------------------------------------|-------------------------------------|-------------------------|---------------------------|
|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>            | <u>Rio Nuevo</u>          |
| <b>ASSETS</b>                                       |                                    |                                     |                         |                           |
| Current assets:                                     |                                    |                                     |                         |                           |
| Pooled Cash and Investments                         | \$ 57,416,399                      | \$ 36,372,520                       | \$ 93,788,919           | \$ 3,257,403              |
| Cash and Investments - Restricted                   |                                    | 13,276,246                          | 13,276,246              |                           |
| Cash and Investments with Fiscal Agent - Restricted | 103,810,143                        | 21,278,971                          | 125,089,114             | 2,835,589                 |
| Taxes Receivable, Net                               | 46,831,445                         |                                     | 46,831,445              | 2,770,569                 |
| Accounts Receivable, Net                            | 26,048,172                         | 18,406,623                          | 44,454,795              | 12,263                    |
| Special Assessments Receivable                      | 3,253,624                          |                                     | 3,253,624               |                           |
| Internal Balances                                   | 1,535,914                          | (1,535,914)                         |                         |                           |
| Due from Other Agencies                             | 20,715,237                         | 25,449                              | 20,740,686              |                           |
| Interest Receivable                                 | 814,809                            | 294,149                             | 1,108,958               | 3,919                     |
| Inventories   | 2,165,050                          | 1,722,218                           | 3,887,268               |                           |
| Other Assets  | 4,983,721                          | 2,000                               | 4,985,721               |                           |
| Other Assets - Restricted                           | 19,577,581                         | 2,875,686                           | 22,453,267              |                           |
| Total current assets                                | <u>287,152,095</u>                 | <u>92,717,948</u>                   | <u>379,870,043</u>      | <u>8,879,743</u>          |
| Noncurrent assets:                                  |                                    |                                     |                         |                           |
| Long Term Investments                               | 1,170,557                          |                                     | 1,170,557               |                           |
| Long Term Accounts Receivable                       | 10,578,847                         | 1,248,553                           | 11,827,400              |                           |
| Long Term Notes Receivable                          | 61,170,265                         |                                     | 61,170,265              |                           |
| Deferred Charges                                    | 5,128,651                          | 2,483,891                           | 7,612,542               | 486,656                   |
| Land and Construction in Progress                   | 826,588,656                        | 212,470,376                         | 1,039,059,032           | 30,371,546                |
| Other Capital Assets, Net                           | 689,121,769                        | 809,025,651                         | 1,498,147,420           | 26,918,785                |
| Goodwill, Net                                       |                                    | 134,136                             | 134,136                 |                           |
| Water Rights, Net                                   |                                    | 759,514                             | 759,514                 |                           |
| Total noncurrent assets                             | <u>1,593,758,745</u>               | <u>1,026,122,121</u>                | <u>2,619,880,866</u>    | <u>57,776,987</u>         |
| <b>Total assets</b>                                 | <u>1,880,910,840</u>               | <u>1,118,840,069</u>                | <u>2,999,750,909</u>    | <u>66,656,730</u>         |
| <b>LIABILITIES</b>                                  |                                    |                                     |                         |                           |
| Current liabilities:                                |                                    |                                     |                         |                           |
| Accounts Payable                                    | 23,075,964                         | 6,691,815                           | 29,767,779              | 313,918                   |
| Accrued Payroll Liabilities                         | 6,360,166                          | 1,094,301                           | 7,454,467               | 10,679                    |
| Accrued Interest Payable                            | 72,222                             | 7,077                               | 79,299                  | 37,979                    |
| Due to Other Agencies                               | 1,576,399                          | 1,018,713                           | 2,595,112               | 6,307                     |
| Refundable Deposits                                 | 10,656,011                         | 3,149,192                           | 13,805,203              | 15,025                    |
| Liabilities Payable from Restricted Assets          | 28,875,390                         | 23,740,241                          | 52,615,631              | 745,023                   |
| Deferred Revenue                                    | 34,707,174                         | 15,192                              | 34,722,366              |                           |
| Current portion of Long Term Liabilities            | 59,481,371                         | 21,011,423                          | 80,492,794              | 3,310,000                 |
| Total current liabilities                           | <u>164,804,697</u>                 | <u>56,727,954</u>                   | <u>221,532,651</u>      | <u>4,438,931</u>          |
| Noncurrent liabilities:                             |                                    |                                     |                         |                           |
| Notes/Loans Payable                                 |                                    |                                     |                         | 14,577,549                |
| Long Term Liabilities                               | 549,743,850                        | 463,489,474                         | 1,013,233,324           | 21,285,199                |
| Total non-current liabilities                       | <u>549,743,850</u>                 | <u>463,489,474</u>                  | <u>1,013,233,324</u>    | <u>35,862,748</u>         |
| <b>Total liabilities</b>                            | <u>714,548,547</u>                 | <u>520,217,428</u>                  | <u>1,234,765,975</u>    | <u>40,301,679</u>         |
| <b>NET ASSETS</b>                                   |                                    |                                     |                         |                           |
| Invested in Capital Assets, Net of Related Debt     | 985,658,624                        | 615,391,846                         | 1,601,050,470           | 32,601,788                |
| Restricted for:                                     |                                    |                                     |                         |                           |
| Debt Service  | 13,728,540                         | 225,213                             | 13,953,753              | 1,000,000                 |
| Capital   | 78,364,645                         | 3,029,602                           | 81,394,247              | 1,835,589                 |
| Grants and Entitlement                              | 18,488,562                         |                                     | 18,488,562              |                           |
| Self Insurance Mandates                             | 19,577,581                         |                                     | 19,577,581              |                           |
| Transportation                                      | 3,750,814                          |                                     | 3,750,814               |                           |
| Other Purposes                                      | 4,580,632                          |                                     | 4,580,632               |                           |
| Permanent Endowments                                |                                    |                                     |                         |                           |
| Expendable  | 11,854                             |                                     | 11,854                  |                           |
| Unexpendable  | 142,456                            |                                     | 142,456                 |                           |
| Unrestricted  | 42,058,585                         | (20,024,020)                        | 22,034,565              | (9,082,326)               |
| <b>Total net assets</b>                             | <u>\$ 1,166,362,293</u>            | <u>\$ 598,622,641</u>               | <u>\$ 1,764,984,934</u> | <u>\$ 26,355,051</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, 2006**

| <b>Functions/Programs</b>        | Program Revenues      |                         |                                       |                                     |
|----------------------------------|-----------------------|-------------------------|---------------------------------------|-------------------------------------|
|                                  | Expenses              | Charges for<br>Services | Operating Grants<br>and Contributions | Capital Grants<br>and Contributions |
| <b>Primary Government</b>        |                       |                         |                                       |                                     |
| <b>Governmental activities:</b>  |                       |                         |                                       |                                     |
| Elected and Official             | \$ 17,443,632         | \$ 270,588              | \$ 414,044                            | \$                                  |
| Support Services                 | 58,092,060            | 34,321,671              | 97,481                                |                                     |
| Neighborhood Services            | 341,517,918           | 31,329,471              | 72,918,121                            | 3,589,500                           |
| Environment and Development      | 137,175,591           | 31,372,551              | 61,125,434                            | 21,360,535                          |
| Strategic Initiatives            | 12,499,925            | 3,301,249               | 151,190                               |                                     |
| Non-Departmental                 | 14,972,390            | 186,861                 | 147,255                               | 11,499,528                          |
| Interest                         | 24,108,533            |                         |                                       |                                     |
| Fiscal Agent Fees and Other      | 74,613                |                         |                                       |                                     |
| Total governmental activities    | 605,884,662           | 100,782,391             | 134,853,525                           | 36,449,563                          |
| <b>Business-type activities:</b> |                       |                         |                                       |                                     |
| Environmental Services           | 42,987,747            | 39,809,587              |                                       | 541,183                             |
| Golf                             | 9,003,837             | 8,230,509               |                                       |                                     |
| Water                            | 119,187,111           | 119,838,422             |                                       | 22,768,282                          |
| Total business-type activities   | 171,178,695           | 167,878,518             |                                       | 23,309,465                          |
| <b>Total primary government</b>  | <b>\$ 777,063,357</b> | <b>\$ 268,660,909</b>   | <b>\$ 134,853,525</b>                 | <b>\$ 59,759,028</b>                |
| <b>Component Unit:</b>           |                       |                         |                                       |                                     |
| Rio Nuevo                        | \$ 4,496,851          | \$ 3,790,019            |                                       |                                     |

**General revenues:**

Taxes:

- Property Taxes
- Business Privilege Taxes
- Public Utility Taxes
- Transient Occupancy Taxes
- Occupational Taxes
- Liquor Taxes
- Unrestricted Grants and Contributions
- Miscellaneous
- Investment Income (Loss)
- Contribution from City of Tucson
- Transfers

**Total general revenues and transfers**

**Changes in net assets**

**Net assets, beginning of year**

**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<br>Activities | Business-type<br>Activities | Totals                  | Rio Nuevo            |
| \$ (16,759,000)            | \$                          | \$ (16,759,000)         |                      |
| (23,672,908)               |                             | (23,672,908)            |                      |
| (233,680,826)              |                             | (233,680,826)           |                      |
| (23,317,071)               |                             | (23,317,071)            |                      |
| (9,047,486)                |                             | (9,047,486)             |                      |
| (3,138,746)                |                             | (3,138,746)             |                      |
| (24,108,533)               |                             | (24,108,533)            |                      |
| (74,613)                   |                             | (74,613)                |                      |
| <u>(333,799,183)</u>       |                             | <u>(333,799,183)</u>    |                      |
|                            | (2,636,977)                 | (2,636,977)             |                      |
|                            | (773,328)                   | (773,328)               |                      |
|                            | 23,419,593                  | 23,419,593              |                      |
|                            | 20,009,288                  | 20,009,288              |                      |
| <u>(333,799,183)</u>       | <u>20,009,288</u>           | <u>(313,789,895)</u>    |                      |
|                            |                             |                         | \$ (706,832)         |
| 33,669,712                 |                             | 33,669,712              |                      |
| 195,790,010                |                             | 195,790,010             | 10,526,207           |
| 7,585,462                  |                             | 7,585,462               |                      |
| 12,276,201                 |                             | 12,276,201              |                      |
| 2,044,040                  |                             | 2,044,040               |                      |
| 721,117                    |                             | 721,117                 |                      |
| 129,370,825                |                             | 129,370,825             |                      |
| 15,542,035                 |                             | 15,542,035              | 150                  |
| 3,932,688                  | 2,809,904                   | 6,742,592               | 135,322              |
|                            |                             |                         | 346,069              |
| 59,894                     | (59,894)                    |                         |                      |
| <u>400,991,984</u>         | <u>2,750,010</u>            | <u>403,741,994</u>      | <u>11,007,748</u>    |
| 67,192,801                 | 22,759,298                  | 89,952,099              | 10,300,916           |
| <u>1,099,169,492</u>       | <u>575,863,343</u>          | <u>1,675,032,835</u>    | <u>16,054,135</u>    |
| <u>\$ 1,166,362,293</u>    | <u>\$ 598,622,641</u>       | <u>\$ 1,764,984,934</u> | <u>\$ 26,355,051</u> |

**CITY OF TUCSON, ARIZONA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

|  | General Fund          | Mass Transit<br>Fund | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-----------------------|----------------------|------------------------------------|--------------------------------|
| <b>ASSETS</b>  |                       |                      |                                    |                                |
| Pooled Cash and Investments                                  | \$                    | \$                   | \$ 57,416,399                      | \$ 57,416,399                  |
| Cash/Investments with Fiscal Agent                           | 74,331,037            |                      | 29,479,106                         | 103,810,143                    |
| Long Term Investments  |                       |                      | 1,170,557                          | 1,170,557                      |
| Taxes Receivable - Current                                   | 46,831,445            |                      |                                    | 46,831,445                     |
| Accounts Receivable, Net                                     | 13,503,352            | 502,900              | 7,984,300                          | 21,990,552                     |
| Special Assessments Receivable                               |                       |                      | 3,253,624                          | 3,253,624                      |
| Notes and Loans Receivable                                   | 30,615,123            |                      | 30,555,142                         | 61,170,265                     |
| Advances to Other Funds                                      | 6,147,855             |                      |                                    | 6,147,855                      |
| Due from Other Agencies                                      | 10,593,147            | 7,686,049            | 292,683                            | 18,571,879                     |
| Interfund Receivable   | 32,145,393            |                      | 3,586,668                          | 35,732,061                     |
| Grants and Entitlements Receivable                           |                       | 2,496,563            | 12,012,212                         | 14,508,775                     |
| Interest Receivable  | 240,086               |                      | 352,003                            | 592,089                        |
| Inventories  | 1,083,295             |                      |                                    | 1,083,295                      |
| Other Assets   | 201,181               | 2,933,989            | 1,848,551                          | 4,983,721                      |
| <b>Total assets</b>  | <b>\$ 215,691,914</b> | <b>\$ 13,619,501</b> | <b>\$ 147,951,245</b>              | <b>\$ 377,262,660</b>          |
| <b>LIABILITIES AND FUND BALANCES</b>                         |                       |                      |                                    |                                |
| Liabilities:   |                       |                      |                                    |                                |
| Accounts Payable   | \$ 12,267,915         | \$ 2,649,128         | \$ 7,832,680                       | \$ 22,749,723                  |
| Accrued Payroll Liabilities                                  | 4,966,800             | 17,118               | 1,246,488                          | 6,230,406                      |
| Accrued Interest Payable                                     |                       |                      | 5,542                              | 5,542                          |
| Advances from Other Funds                                    |                       |                      | 6,147,855                          | 6,147,855                      |
| Interfund Payable  | 3,586,668             | 10,184,858           | 9,225,115                          | 22,996,641                     |
| Due to Other Agencies  | 102,778               | 69,201               | 1,014,722                          | 1,186,701                      |
| Refundable Deposits  | 6,392,137             | 3,206                | 4,251,794                          | 10,647,137                     |
| Bonds and Interest Payable,<br>including Special Assessments |                       |                      | 28,875,390                         | 28,875,390                     |
| Deferred Revenue   | 28,152,195            | 23,917               | 30,818,486                         | 58,994,598                     |
| <b>Total liabilities</b>                                     | <b>55,468,493</b>     | <b>12,947,428</b>    | <b>89,418,072</b>                  | <b>157,833,993</b>             |
| Fund balances (deficits):                                    |                       |                      |                                    |                                |
| Reserved for Debt Service                                    | 909,640               |                      | 9,612,308                          | 10,521,948                     |
| Reserved for Capital Improvements                            | 72,980,694            |                      | 22,706,526                         | 95,687,220                     |
| Reserved for Advances and Deposits                           | 22,830,664            |                      | 11,874                             | 22,842,538                     |
| Reserved for Inventories                                     | 1,083,295             |                      |                                    | 1,083,295                      |
| Reserve for Other Purposes                                   | 4,128,719             | 672,073              | 20,269,887                         | 25,070,679                     |
| Unreserved:  |                       |                      |                                    |                                |
| Undesignated   | 41,258,164            |                      |                                    | 41,258,164                     |
| Designated   | 17,032,245            |                      |                                    | 17,032,245                     |
| Unreserved reported in:                                      |                       |                      |                                    |                                |
| Special revenue funds  |                       |                      | 9,073,096                          | 9,073,096                      |
| Capital projects funds                                       |                       |                      | (3,140,518)                        | (3,140,518)                    |
| <b>Total fund balances</b>                                   | <b>160,223,421</b>    | <b>672,073</b>       | <b>58,533,173</b>                  | <b>219,428,667</b>             |
| <b>Total liabilities and fund balances</b>                   | <b>\$ 215,691,914</b> | <b>\$ 13,619,501</b> | <b>\$ 147,951,245</b>              | <b>\$ 377,262,660</b>          |

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, 2006**

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|   |               |               |
|---|---------------|---------------|
| Total Governmental Fund Balances (page 20)  | \$            | 219,428,667   |
| 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  |               | 1,485,721,790 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.  |               |               |
|   |               | 5,128,651     |
| 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   | (392,792,225) |               |
| Capital Leases  | (159,663,913) |               |
| Compensated Absences  | (31,012,247)  |               |
| Total Long-term Liabilities   | (583,468,385) |               |
| Interest payable on long-term debt is not reported in governmental funds.   |               |               |
|   |               | (31,559)      |
| 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. |               |               |
|   |               | 24,287,425    |
| Internal service funds' assets and liabilities are included in the Statement of Net Assets since they primarily support the governmental activities.  |               |               |
|   |               | 15,295,704    |
| Net Assets of Governmental Activities (page 17)   | \$            | 1,166,362,293 |

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, 2006**

|  | General Fund          | Mass Transit<br>Fund | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-----------------------|----------------------|------------------------------------|--------------------------------|
| <b>Revenues:</b>   |                       |                      |                                    |                                |
| Taxes  | \$ 228,178,760        | \$                   | \$ 24,220,337                      | \$ 252,399,097                 |
| Licenses and Permits                                     | 20,265,264            |                      | 749,147                            | 21,014,411                     |
| Fines and Forfeitures                                    | 11,425,947            |                      | 1,110,323                          | 12,536,270                     |
| Developer Fees   |                       |                      | 8,585,307                          | 8,585,307                      |
| Use of Money and Property                                | 3,290,428             | 7,410                | 2,217,918                          | 5,515,756                      |
| Federal Grants and Contributions                         | 621,274               | 15,489,047           | 63,890,742                         | 80,001,063                     |
| Other Agencies   | 138,214,017           | 6,973,995            | 64,811,983                         | 209,999,995                    |
| Charges for Services                                     | 42,682,660            | 8,879,485            | 8,728,195                          | 60,290,340                     |
| Special Assessments                                      |                       |                      | 1,337,976                          | 1,337,976                      |
| Miscellaneous  | 6,192,572             | 107,460              | 3,404,446                          | 9,704,478                      |
| <b>Total revenues</b>                                    | <u>450,870,922</u>    | <u>31,457,397</u>    | <u>179,056,374</u>                 | <u>661,384,693</u>             |
| <b>Expenditures:</b>                                     |                       |                      |                                    |                                |
| Current -  |                       |                      |                                    |                                |
| Elected and Official                                     | 17,263,973            |                      | 375,010                            | 17,638,983                     |
| Support Services   | 56,743,263            |                      | 19,332                             | 56,762,595                     |
| Neighborhood Services                                    | 253,425,503           |                      | 85,223,287                         | 338,648,790                    |
| Environment and Development                              | 18,969,216            | 53,153,810           | 39,143,029                         | 111,266,055                    |
| Strategic Initiatives                                    | 1,999,643             |                      | 10,369,335                         | 12,368,978                     |
| Non-Departmental   | 11,855,383            |                      | 494,398                            | 12,349,781                     |
| Capital Outlay   | 6,762,516             | 12,674,347           | 2,694,444                          | 22,131,307                     |
| Capital Projects   | 19,336,252            | 1,068,547            | 38,014,616                         | 58,419,415                     |
| Debt service -   |                       |                      |                                    |                                |
| Principal  | 7,644,706             |                      | 20,447,724                         | 28,092,430                     |
| Interest   | 3,594,711             |                      | 20,513,822                         | 24,108,533                     |
| Fiscal Agent Fees and Other                              | 40,389                |                      | 34,224                             | 74,613                         |
| Issuance Cost of Debt                                    | 1,334,278             |                      |                                    | 1,334,278                      |
| <b>Total expenditures</b>                                | <u>398,969,833</u>    | <u>66,896,704</u>    | <u>217,329,221</u>                 | <u>683,195,758</u>             |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>51,901,089</u>     | <u>(35,439,307)</u>  | <u>(38,272,847)</u>                | <u>(21,811,065)</u>            |
| <b>Other financing sources (uses):</b>                   |                       |                      |                                    |                                |
| Face Amount of Bond Proceeds                             |                       |                      | 347,766                            | 347,766                        |
| Lease Purchase and Contracts Proceeds                    | 69,676,558            |                      | 2,920,808                          | 72,597,366                     |
| Premium on Issuance of Debt                              | 1,095,521             |                      |                                    | 1,095,521                      |
| Transfers from Other Funds                               | 1,726,973             | 35,349,527           | 32,019,163                         | 69,095,663                     |
| Transfers to Other Funds                                 | (62,238,212)          | (44,091)             | (12,172,380)                       | (74,454,683)                   |
| <b>Total other financing sources (uses)</b>              | <u>10,260,840</u>     | <u>35,305,436</u>    | <u>23,115,357</u>                  | <u>68,681,633</u>              |
| <b>Changes in fund balances</b>                          | <u>62,161,929</u>     | <u>(133,871)</u>     | <u>(15,157,490)</u>                | <u>46,870,568</u>              |
| <b>Fund balances, beginning of year</b>                  | 98,061,492            | 805,944              | 73,690,663                         | 172,558,099                    |
| <b>Fund balances, end of year</b>                        | <u>\$ 160,223,421</u> | <u>\$ 672,073</u>    | <u>\$ 58,533,173</u>               | <u>\$ 219,428,667</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, 2006**

|   |                     |                      |
|---|---------------------|----------------------|
| Net Change in Fund Balances - Total Governmental Funds (page 22)  |                     | \$ 46,870,568        |
| <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  | 80,550,721          |                      |
| Depreciation Expense  | <u>(39,453,553)</u> | 41,097,168           |
| <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  | (3,757,117)         |                      |
| Gain on the sale of an asset  | 2,198,257           |                      |
| Loss on the sale of an asset  | <u>(137,390)</u>    | (1,696,250)          |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>   |                     |                      |
|   |                     | 7,575,628            |
| <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   | (72,945,132)        |                      |
| Repayment of Debt Principal   | <u>28,092,430</u>   | (44,852,702)         |
| <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  | 1,334,278           |                      |
| Amortization of Issuance Costs  | <u>(367,324)</u>    | 966,954              |
| <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   | (1,095,521)         |                      |
| Accrued Interest Expense  | (17,723)            |                      |
| Amortization of Premium on Debt   | <u>409,132</u>      | (704,112)            |
| <p>Governmental funds do not recognize the changes in long-term debt:</p>   |                     |                      |
| Change in Compensated Absences Liability  |                     | (2,961,079)          |
| <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>  |                     |                      |
|   |                     | 20,896,626           |
| Change in Net Assets of Governmental Activities (page 19)   |                     | <u>\$ 67,192,801</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, 2006**

|  | Enterprise Funds          |                       |                                 | Total                 | Governmental<br>Activities<br>Internal Service<br>Funds |
|--|---------------------------|-----------------------|---------------------------------|-----------------------|---|
|  | Environmental<br>Services | Water<br>Utility Fund | Non-Major<br>Enterprise<br>Fund |                       |   |
| <b>ASSETS</b>  |                           |                       |                                 |                       |   |
| Current assets:  |                           |                       |                                 |                       |   |
| Pooled Cash and Investments                            | \$ 7,776,413              | \$ 28,596,107         | \$                              | \$ 36,372,520         | \$  |
| Cash and Investments - Restricted                      | 3,800,183                 | 9,476,063             |                                 | 13,276,246            |   |
| Cash and Investments with<br>Fiscal Agent - Restricted | 2,567,482                 | 18,711,489            |                                 | 21,278,971            |   |
| Accounts Receivable, Net                               | 2,911,241                 | 15,495,382            |                                 | 18,406,623            | 127,692   |
| Due from Other Agencies                                | 25,449                    |                       |                                 | 25,449                | 2,143,358   |
| Interest Receivable                                    | 64,638                    | 229,511               |                                 | 294,149               | 222,720   |
| Inventories  |                           | 1,516,213             | 206,005                         | 1,722,218             | 1,081,755   |
| Other Assets   |                           | 2,000                 |                                 | 2,000                 |   |
| <b>Total current assets</b>                            | <b>17,145,406</b>         | <b>74,026,765</b>     | <b>206,005</b>                  | <b>91,378,176</b>     | <b>23,153,106</b>                                       |
| Noncurrent assets:                                     |                           |                       |                                 |                       |   |
| Long Term Accounts Receivable                          |                           | 1,248,553             |                                 | 1,248,553             |   |
| Deferred Charges                                       | 183,652                   | 2,275,851             | 24,388                          | 2,483,891             |   |
| Other Assets - Restricted                              |                           | 2,875,686             |                                 | 2,875,686             | 19,577,581  |
| Land and Construction in Progress                      | 10,090,584                | 198,968,787           | 3,411,005                       | 212,470,376           | 30,242  |
| Other Capital Assets, Net                              | 15,867,419                | 775,804,109           | 17,354,123                      | 809,025,651           | 29,958,392  |
| Goodwill, Net  |                           | 131,006               | 3,130                           | 134,136               |   |
| Water Rights, Net                                      |                           | 759,514               |                                 | 759,514               |   |
| <b>Total noncurrent assets</b>                         | <b>26,141,655</b>         | <b>982,063,506</b>    | <b>20,792,646</b>               | <b>1,028,997,807</b>  | <b>29,988,634</b>                                       |
| <b>Total assets</b>                                    | <b>43,287,061</b>         | <b>1,056,090,271</b>  | <b>20,998,651</b>               | <b>1,120,375,983</b>  | <b>53,141,740</b>                                       |
| <b>LIABILITIES</b>                                     |                           |                       |                                 |                       |   |
| Current liabilities:                                   |                           |                       |                                 |                       |   |
| Accounts Payable                                       | 1,616,019                 | 4,689,162             | 386,634                         | 6,691,815             | 326,241   |
| Accrued Payroll Liabilities                            | 296,004                   | 713,428               | 84,869                          | 1,094,301             | 129,760   |
| Accrued Interest Payable                               |                           |                       | 7,077                           | 7,077                 | 35,121  |
| Interfund Payable                                      |                           |                       | 1,535,914                       | 1,535,914             | 11,199,506  |
| Due to Other Agencies                                  | 2,327                     | 974,357               | 42,029                          | 1,018,713             | 389,698   |
| Refundable Deposits                                    | 31,571                    | 3,117,302             | 319                             | 3,149,192             | 8,874   |
| Current Portion of Bonds Payable                       |                           | 13,191,746            |                                 | 13,191,746            |   |
| Current Portion of Contracts Payable                   | 1,590,232                 | 231,563               | 335,000                         | 2,156,795             | 25,835  |
| Current Portion of Claims Payable                      |                           |                       |                                 |                       | 10,232,018  |
| Current Portion of Compensated Absences                | 581,121                   | 1,926,045             | 83,500                          | 2,590,666             |   |
| Liabilities Payable from Restricted Assets             | 1,051,941                 | 22,688,300            |                                 | 23,740,241            |   |
| Deferred Revenue                                       |                           |                       | 15,192                          | 15,192                |   |
| Current portion of Long Term Liabilities               | 3,072,216                 |                       |                                 | 3,072,216             |   |
| <b>Total current liabilities</b>                       | <b>8,241,431</b>          | <b>47,531,903</b>     | <b>2,490,534</b>                | <b>58,263,868</b>     | <b>22,347,053</b>                                       |
| Noncurrent liabilities:                                |                           |                       |                                 |                       |   |
| Bonds Payable  | 41,967,500                | 371,113,840           |                                 | 413,081,340           |   |
| Contracts Payable                                      | 5,754,682                 | 706,356               | 3,503,879                       | 9,964,917             | 13,355  |
| Claims Payable   |                           |                       |                                 |                       | 15,485,628  |
| Compensated Absences                                   | 658,042                   | 1,444,961             | 124,655                         | 2,227,658             |   |
| Long Term Liabilities                                  | 38,215,559                |                       |                                 | 38,215,559            |   |
| <b>Total non-current liabilities</b>                   | <b>86,595,783</b>         | <b>373,265,157</b>    | <b>3,628,534</b>                | <b>463,489,474</b>    | <b>15,498,983</b>                                       |
| <b>Total liabilities</b>                               | <b>94,837,214</b>         | <b>420,797,060</b>    | <b>6,119,068</b>                | <b>521,753,342</b>    | <b>37,846,036</b>                                       |
| <b>NET ASSETS</b>                                      |                           |                       |                                 |                       |   |
| Invested in Capital Assets,<br>Net of Related Debt     | (3,733,746)               | 602,171,824           | 16,953,767                      | 615,391,845           | 29,949,444  |
| Restricted for Debt Service                            |                           | 225,213               |                                 | 225,213               |   |
| Restricted for Capital                                 |                           | 3,029,602             |                                 | 3,029,602             |   |
| Restricted for Other Purposes                          |                           |                       |                                 |                       | 19,577,581  |
| Unrestricted   | (47,816,407)              | 29,866,572            | (2,074,184)                     | (20,024,019)          | (34,231,321)  |
| <b>Total net assets</b>                                | <b>\$ (51,550,153)</b>    | <b>\$ 635,293,211</b> | <b>\$ 14,879,583</b>            | <b>\$ 598,622,641</b> | <b>\$ 15,295,704</b>                                    |

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, 2006**

|   | Enterprise Funds          |                       |                                 | Total                 | Governmental<br>Activities<br>Internal Service<br>Funds |
|---|---------------------------|-----------------------|---------------------------------|-----------------------|---|
|   | Environmental<br>Services | Water<br>Utility Fund | Non-Major<br>Enterprise<br>Fund |                       |   |
| <b>Operating revenues:</b>  |                           |                       |                                 |                       |   |
| Fines and Forfeitures   | \$ 6,514                  | \$                    | \$                              | \$ 6,514              | \$  |
| Charges for Services  | 38,472,249                | 116,626,079           | 8,230,509                       | 163,328,837           | 32,078,227  |
| Miscellaneous   | 1,330,824                 | 3,212,343             |                                 | 4,543,167             | 111,868   |
| Other Agencies  | 310,846                   |                       |                                 | 310,846               |   |
| <b>Total operating revenues</b>                                     | <u>40,120,433</u>         | <u>119,838,422</u>    | <u>8,230,509</u>                | <u>168,189,364</u>    | <u>32,190,095</u>                                       |
| <b>Operating expenses:</b>  |                           |                       |                                 |                       |   |
| Personal Services   | 15,709,085                | 32,200,131            | 4,263,150                       | 52,172,366            | 6,957,812   |
| Contractual Services  | 16,169,208                | 38,701,325            | 1,562,699                       | 56,433,232            | 7,082,087   |
| Commodities   | 4,491,125                 | 8,114,769             | 1,816,344                       | 14,422,238            | 11,834,708  |
| Cost of Goods Sold  |                           |                       | 309,843                         | 309,843               |   |
| Benefits and Claims   |                           |                       |                                 |                       | (11,371,734)  |
| Depreciation/Amortization   | 4,330,431                 | 20,621,135            | 760,936                         | 25,712,502            | 5,435,121   |
| <b>Total operating expenses</b>                                     | <u>40,699,849</u>         | <u>99,637,360</u>     | <u>8,712,972</u>                | <u>149,050,181</u>    | <u>19,937,994</u>                                       |
| <b>Operating income (loss)</b>                                      | <u>(579,416)</u>          | <u>20,201,062</u>     | <u>(482,463)</u>                | <u>19,139,183</u>     | <u>12,252,101</u>                                       |
| <b>Nonoperating revenues (expenses):</b>                            |                           |                       |                                 |                       |   |
| Investment Income   | 377,893                   | 2,360,314             | 2,591                           | 2,740,798             | 676,208   |
| Gain (Loss) on Sale of Property/Equipment                           | (214,725)                 | 283,831               |                                 | 69,106                | 610,355   |
| Federal Grants and Contributions                                    | 230,337                   | 10,564                |                                 | 240,901               |   |
| Interest Expense  | (2,177,100)               | (18,880,623)          | (285,596)                       | (21,343,319)          | (2,323)   |
| Amortization of Cost Issuance                                       | (110,798)                 | (154,379)             | (5,269)                         | (270,446)             |   |
| Other Nonoperating Income (Expenses)                                |                           | (514,749)             |                                 | (514,749)             |   |
| <b>Total nonoperating revenues<br/>(expenses)</b>                   | <u>(1,894,393)</u>        | <u>(16,895,042)</u>   | <u>(288,274)</u>                | <u>(19,077,709)</u>   | <u>1,284,240</u>  |
| <b>Income (loss) before capital<br/>contributions and transfers</b> | <u>(2,473,809)</u>        | <u>3,306,020</u>      | <u>(770,737)</u>                | <u>61,474</u>         | <u>13,536,341</u>                                       |
| <b>Capital Contributions</b>  |                           | 22,757,718            |                                 | 22,757,718            | 1,941,371   |
| <b>Transfers In</b>   |                           | 5,000                 |                                 | 5,000                 | 5,418,914   |
| <b>Transfers Out</b>  |                           |                       | (64,894)                        | (64,894)              |   |
| <b>Changes in net assets</b>  | <u>(2,473,809)</u>        | <u>26,068,738</u>     | <u>(835,631)</u>                | <u>22,759,298</u>     | <u>20,896,626</u>                                       |
| <b>Total net assets, beginning of year</b>                          | <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>                                      |
| <b>Total net assets, end of year</b>                                | <u>\$ (51,550,153)</u>    | <u>\$ 635,293,211</u> | <u>\$ 14,879,583</u>            | <u>\$ 598,622,641</u> | <u>\$ 15,295,704</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, 2006**

|   | Enterprise Funds          |                       |                                 | Total                | Governmental<br>Activities<br>Internal Service<br>Funds |
|---|---------------------------|-----------------------|---------------------------------|----------------------|---|
|   | Environmental<br>Services | Water<br>Utility Fund | Non-Major<br>Enterprise<br>Fund |                      |   |
| <b>Cash Flows from Operating Activities:</b>                                    |                           |                       |                                 |                      |   |
| Cash Received from Customers  | \$ 38,275,660             | \$ 120,420,836        | \$ 8,228,967                    | \$ 166,925,463       | \$ 30,072,037   |
| Cash Payments to Suppliers for Goods<br>and Services                            | (17,437,704)              | (49,516,083)          | (3,537,447)                     | (70,491,234)         | (24,380,394)  |
| Cash Payments to Employees for Services   | (15,630,611)              | (31,852,027)          | (4,233,792)                     | (51,716,430)         | (6,927,537)   |
| Cash Payments to Claimants  |                           |                       |                                 |                      | (7,975,391)   |
| Other Operating Revenues  | 1,641,670                 |                       |                                 | 1,641,670            | 74,377  |
| <b>Net Cash Provided (Used) by<br/>Operating Activities</b>                     | <u>6,849,015</u>          | <u>39,052,726</u>     | <u>457,728</u>                  | <u>46,359,469</u>    | <u>(9,136,908)</u>                                      |
| <b>Cash Flows from Noncapital Financing<br/>Activities:</b>                     |                           |                       |                                 |                      |   |
| Advances from Other Funds   |                           |                       | 1,535,914                       | 1,535,914            | 11,199,506  |
| Transfers to Other Funds  |                           |                       | (64,893)                        | (64,893)             |   |
| Subsidy from Federal Grant  | 253,441                   | 10,564                |                                 | 264,005              |   |
| <b>Net Cash Provided (Used) by<br/>Noncapital Financing Activities</b>          | <u>253,441</u>            | <u>10,564</u>         | <u>1,471,021</u>                | <u>1,735,026</u>     | <u>11,199,506</u>                                       |
| <b>Cash Flows from Capital and Related<br/>Financing Activities:</b>            |                           |                       |                                 |                      |   |
| Bond Proceeds   |                           | 5,497,000             |                                 | 5,497,000            |   |
| Acquisition and Construction of Capital Assets                                  | (106,555)                 | (41,547,859)          | (3,583,881)                     | (45,238,295)         | (6,077,428)   |
| Principal Paid on Capital Debt  | (1,031,805)               | (11,201,882)          | (320,000)                       | (12,553,687)         | (24,711)  |
| Interest Paid on Capital Debt   | (2,263,176)               | (18,955,177)          | (239,708)                       | (21,458,061)         | (2,600)   |
| Landfill Closure Costs  | (3,614,675)               |                       |                                 | (3,614,675)          |   |
| Fiscal Agent Fees Paid on Capital Debt  |                           | (514,749)             |                                 | (514,749)            |   |
| Proceeds from Sale of Assets/Equipment  | 550,134                   | 285,767               |                                 | 835,901              | 610,355   |
| <b>Net Cash Provided (Used) by Capital<br/>and Related Financing Activities</b> | <u>(6,466,077)</u>        | <u>(66,436,900)</u>   | <u>(4,143,589)</u>              | <u>(77,046,566)</u>  | <u>(5,494,384)</u>                                      |
| <b>Cash Flows from Investing Activities:</b>                                    |                           |                       |                                 |                      |   |
| Interest on Investments   | 319,260                   | 2,480,250             | 3,923                           | 2,803,433            | (652,454)   |
| Proceeds from Sale of Investment  |                           |                       |                                 |                      | (18,310,000)  |
| Purchase of Investment  |                           |                       |                                 |                      | 18,956,666  |
| <b>Net Cash Provided (Used) by<br/>Investing Activities</b>                     | <u>319,260</u>            | <u>2,480,250</u>      | <u>3,923</u>                    | <u>2,803,433</u>     | <u>(5,788)</u>  |
| <b>Net Increase (Decrease) in Cash<br/>and Cash Equivalents</b>                 | <u>955,639</u>            | <u>(24,893,360)</u>   | <u>(2,210,917)</u>              | <u>(26,148,638)</u>  | <u>(3,437,574)</u>                                      |
| <b>Cash and Cash Equivalents - July 1</b>                                       | <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>  |
| <b>Cash and Cash Equivalents - June 30</b>                                      | <u>\$ 11,576,596</u>      | <u>\$ 38,072,170</u>  | <u>\$</u>                       | <u>\$ 49,648,766</u> | <u>\$</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, 2006**

|   | Enterprise Funds          |                       |                                 | Total                | Governmental<br>Activities<br>Internal Service<br>Funds |
|---|---------------------------|-----------------------|---------------------------------|----------------------|---|
|   | Environmental<br>Services | Water<br>Utility Fund | Non-Major<br>Enterprise<br>Fund |                      |   |
| <b>Reconciliation of Operating Income (Loss) to Net<br/>Cash Provided (Used) by Operating Activities:</b> |                           |                       |                                 |                      |   |
| Operating Income (Loss)   | \$ (579,416)              | \$ 20,201,062         | \$ (482,463)                    | \$ 19,139,183        | \$ 12,252,101   |
| Adjustments to Reconcile Operating Income to<br>Net Cash Provided by Operating Activities:                |                           |                       |                                 |                      |   |
| Depreciation/Goodwill Amortization  | 4,330,431                 | 20,621,135            | 760,936                         | 25,712,502           | 5,435,121   |
| Provision for Landfill Closure  | 2,366,779                 |                       |                                 | 2,366,779            |   |
| Other Adjustments:  |                           |                       |                                 |                      |   |
| Decrease (Increase) in Assets:  |                           |                       |                                 |                      |   |
| Accounts Receivable   | (1,194)                   | 131,785               | 4,096                           | 134,687              | (2,050,125)   |
| Prepaid Expense   |                           | (2,013,409)           |                                 | (2,013,409)          |   |
| Inventory   |                           | (1,393,906)           | 45,836                          | (1,348,070)          | (1,081,755)   |
| Long Term Accounts Receivable   |                           | 128,359               |                                 | 128,359              |   |
| Other Assets  | 236,140                   |                       |                                 | 236,140              |   |
| Increase(Decrease) in Liabilities:  |                           |                       |                                 |                      |   |
| Accounts Payable  | 415,041                   | 774,928               | 74,666                          | 1,264,635            | (4,772,898)   |
| Accrued Payroll Liabilities   | 80,778                    | 170,257               | 22,863                          | 273,898              | 30,276  |
| Accrued Compensated Absences  | (2,304)                   | 177,847               |                                 | 175,543              |   |
| Customer/Refundable Deposits  | 2,667                     | 322,271               |                                 | 324,938              | 8,676   |
| Due to Other Agencies   | 93                        | (67,603)              | 30,938                          | (36,572)             | 388,821   |
| Claims and Judgements Payable   |                           |                       |                                 |                      | (19,347,125)  |
| Increase in Other Operating Liabilities   |                           |                       | 856                             | 856                  |   |
| <b>Net Cash Provided (Used) by<br/>Operating Activities</b>   | <u>\$ 6,849,015</u>       | <u>\$ 39,052,726</u>  | <u>\$ 457,728</u>               | <u>\$ 46,359,469</u> | <u>\$ (9,136,908)</u>                                   |
| <b>Noncash investing, capital, and<br/>financing activities:</b>  |                           |                       |                                 |                      |   |
| Contributions of capital assets from government   | \$                        | \$ 5,000              | \$                              | \$ 5,000             | \$ 5,418,914  |
| Contributions of capital assets from developers   |                           | 12,185,316            |                                 | 12,185,316           |   |
| Borrowing under capital lease   | 4,431,774                 | 515,332               |                                 | 4,947,106            |   |
| Write off of Rita Ranch payable   |                           | (223,575)             |                                 | (223,575)            |   |
| <b>Total Noncash investing, capital, and<br/>financing activities:</b>                                    | <u>\$ 4,431,774</u>       | <u>\$ 12,482,073</u>  | <u>\$</u>                       | <u>\$ 16,913,847</u> | <u>\$ 5,418,914</u>                                     |

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, 2006**

|                               | <u>Pension Trust</u>  | <u>Agency</u>       |
|-------------------------------|-----------------------|---------------------|
| <b><u>ASSETS</u></b>          |                       |                     |
| Pooled Cash and Investments   | \$ 2,556,658          | \$ 2,454,266        |
| Accounts Receivable, Net      |                       | 3,403,347           |
| Employer Contributions        | 952,300               |                     |
| Employee Contributions        | 636,477               |                     |
| Due from Other Agencies       |                       | 1,914,399           |
| Interest Receivable           |                       | 17,200              |
| Interest and Dividends        | 1,487,187             |                     |
| Due from Brokers              | 12,409,329            |                     |
| Short-term Investments        | 103,482,956           |                     |
| Securities Lending Collateral | 54,345,243            |                     |
| U.S. Government Obligations   | 81,768,212            |                     |
| Bonds and Preferred Stocks    | 23,401,093            |                     |
| Common Stocks                 | 295,296,426           |                     |
| International Investments     | 88,276,611            |                     |
| Mutual Funds                  | 63,757,699            |                     |
| Real Estate                   | 47,587,953            |                     |
| Other Capital Assets, Net     | 8,122                 |                     |
| <b>Total assets</b>           | <u>775,966,266</u>    | <u>\$ 7,789,212</u> |
| <b><u>LIABILITIES</u></b>     |                       |                     |
| Accounts Payable              | 603,100               | 404,063             |
| Accrued Payroll Liabilities   | 5,520                 |                     |
| Due to Other Agencies         |                       | 7,385,149           |
| Due to Securities Borrowers   | 54,345,243            |                     |
| Due to Brokers                | 34,580,909            |                     |
| Refundable Deposits           | 1,291                 |                     |
| <b>Total liabilities</b>      | <u>89,536,063</u>     | <u>\$ 7,789,212</u> |
| <b><u>NET ASSETS</u></b>      |                       |                     |
| Held in trust                 | <u>\$ 686,430,203</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, 2006**

|   | <u>Pension Trust</u>  |
|---|-----------------------|
| <b>Additions:</b>                                   |                       |
| Employer  | \$ 24,319,911         |
| Employees   | 15,258,186            |
| Other Plans   | 620,601               |
| Net Increase (Decrease) in Fair Value of Investment | 46,946,363            |
| Interest, Dividends and Other Income                | 14,651,649            |
| Securities Lending Income                           | 1,960,075             |
| Less: Investment Activity Expense                   | (3,114,621)           |
| Less: Securities Lending Expense                    | (1,877,309)           |
| Miscellaneous Additions                             | 55,050                |
| <b>Total additions</b>                              | <u>98,819,905</u>     |
| <b>Deductions:</b>                                  |                       |
| Payments to Participants                            | 35,370,466            |
| Refunds and Transfers to Other Plans                | 5,993,543             |
| Administrative Expense                              | 513,746               |
| <b>Total deductions</b>                             | <u>41,877,755</u>     |
| <b>Changes in net assets</b>                        | <u>56,942,150</u>     |
| <b>Net assets, beginning of year</b>                | 629,488,053           |
| <b>Net assets, end of year</b>                      | <u>\$ 686,430,203</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, 2006

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**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, 2006

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**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 Funds:

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.

Mass Transit Fund – This fund is used to account for all the financial resources necessary to operate the fixed route and paratransit services within the Tucson metropolitan area.

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, 2006

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**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 predominant users of the internal service funds are governmental activities, the assets and liabilities of the internal service funds are allocated to the governmental column 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, 2006

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**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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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. Reserve for Loss and Loss Adjustment Expenses**

The Self-Insurance Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

**F. 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, 2006

**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 purposes, such as Neighborhood Services and Support Services, 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, 2006.

**G. 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, 2006, the City intended to honor \$51,224,809 of outstanding encumbrances in the new year.

|                                      |               |
|--------------------------------------|---------------|
| General Fund                         | \$ 24,916,822 |
| Public Safety Academy                | 86,722        |
| TEAM/Parkwise Fund                   | 201,342       |
| Convention Center Fund               | 478,126       |
| H.U.R.F. Fund                        | 3,293,295     |
| Civic Contribution Fund              | 75,215        |
| Human and Community Development Fund | 1,854,790     |
| Public Housing Fund                  | 56,765        |
| Public Housing HOME Program Fund     | 1,861,517     |
| Miscellaneous Housing Grant fund     | 2,690,766     |
| 2000 Street and Highway              | 128,389       |
| 1994 General Obligation              | 3,105         |
| 2000 General Obligation              | 5,582,808     |
| Other Federal Grants Fund            | 3,426,708     |
| Non-Federal Grants Fund              | 29,750        |
| Mass Transit Fund                    | 6,538,689     |
|                                      | \$ 51,224,809 |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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

**H. 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.

**I. 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.

**J. Accounts/Notes Receivable**

Accounts Receivable of the major and nonmajor governmental and proprietary funds and fiduciary funds as of June 30, 2006, are reported in the accompanying basic financial statements net of allowance for doubtful accounts, as follows:

| Fund                             | Receivables          | Allowance for<br>Doubtful<br>Accounts | Net                  |
|----------------------------------|----------------------|---------------------------------------|----------------------|
| <b>Governmental Activities:</b>  |                      |                                       |                      |
| General Fund                     | \$ 16,012,063        | \$ 2,508,711                          | \$ 13,503,352        |
| Mass Transit Fund                | 502,900              |                                       | 502,900              |
| Non-major Governmental Funds     | 8,038,592            | 54,292                                | 7,984,300            |
| Internal Service Funds           | 147,757              | 20,065                                | 127,692              |
| Total Governmental Activities    | <u>24,701,312</u>    | <u>2,583,068</u>                      | <u>22,118,244</u>    |
| <b>Business-Type Activities:</b> |                      |                                       |                      |
| Environmental Services Fund      | 2,991,935            | 80,694                                | 2,911,241            |
| Water Utility Fund               | 15,848,458           | 353,076                               | 15,495,382           |
| Total Business-Type Activities   | <u>18,840,393</u>    | <u>433,770</u>                        | <u>18,406,623</u>    |
| Fiduciary Funds                  | <u>3,403,347</u>     |                                       | <u>3,403,347</u>     |
| Total All Funds                  | <u>\$ 46,945,052</u> | <u>\$ 3,016,838</u>                   | <u>\$ 43,928,214</u> |

The Water Utility Funds' assets and revenues include \$6,131,178 for water sales delivered, but unbilled at June 30, 2006.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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

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, 2006, these loans totaled \$6,871,941. 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.

**K. 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.

**L. 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.

**M. 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.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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

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

|                                     | Estimated<br>Useful Life (Years) |
|-------------------------------------|----------------------------------|
| 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.

**N. 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, 2006, were \$1,122,154/\$991,148 and \$65,184/\$62,054 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, 2006 were \$801,657/\$42,143 for the Water Utility Fund.

**O. 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.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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

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.

**P. 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.

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 (\$72,980,694); funds reserved for equipment purchases and construction projects (\$5,391,650) in the Special Revenue Funds; and bond proceeds reserved for construction projects (\$17,314,876) 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 (\$615,375,947) and the Deferred Compensation Fund (\$71,054,256), 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:

|  |    |                  |
|--|----|------------------|
| Low Income Housing Programs                    | \$ | 1,757,395        |
| City Courts Projects                           |    | 1,113,139        |
| Police Projects                                |    | 483,920          |
| Civano   |    | 234,026          |
| Information Technology                         |    | 199,292          |
| Community Resources Center                     |    | 164,591          |
| Communications 911                             |    | 63,044           |
| Zoo Train Express                              |    | 59,163           |
| Open Spaces                                    |    | 54,149           |
| Total General Fund Reserved for Other Purposes | \$ | <u>4,128,719</u> |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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

2. The City had the following designations of unreserved fund balance in the General Fund as of June 30, 2006:

|                                    |                      |
|------------------------------------|----------------------|
| Carry Forward Designation          | \$ 9,795,761         |
| Development Services               | 3,512,668            |
| Emergency Communication            | 1,722,508            |
| Facility Maintenance Major Repairs | 1,000,000            |
| Energy Rate Adjustments            | 1,000,000            |
| Neighborhood Reinvestment          | 1,308                |
| Total General Fund Designated      | <u>\$ 17,032,245</u> |

**Q. 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.

**R. Donor-Restricted Endowments**

The City receives gifts and donations from individuals/organizations to support various City functions. The net appreciation of investments was \$94,656 and is included in restricted net assets as Expendable Permanent Endowments (\$4,795) and as Restricted for Other Purposes (\$89,862). 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.

**S. 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 – NEW ACCOUNTING PRONOUNCEMENTS:**

The City implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, for fiscal year 2006. The adoption of GASB Statement No. 44 requires some additional information and schedules in the statistical section of the Comprehensive Annual Financial Report (CAFR). There was no impact to the financial statements. See Statistical Section.

The City also implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – An Amendment of GASB Statement No. 34*. Enabling Legislation authorizes the raising of new revenue that contains a legally enforceable law. There were no such new restrictions for this fiscal year.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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**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.

**Note 4 - INDIVIDUAL FUND DISCLOSURES:**

At June 30, 2006, the following funds had deficit fund balances/net assets:

|                                      |                 |
|--------------------------------------|-----------------|
| Special Assessment Construction Fund | \$ (3,140,518)  |
| Self Insurance Fund                  | \$ (11,683,641) |
| Environmental Services Fund          | \$ (51,550,153) |

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.

**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.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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**Note 5 - DEPOSITS AND INVESTMENTS (Continued):**

**A. Deposits**

At year-end, the book value of the City's cash and deposits was \$115,333,492 and the bank balance was \$109,451,611. The difference of \$5,881,881 represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2006. 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 \$74,331,037, the other non-major governmental funds \$29,479,106, and the enterprise funds \$21,278,971 on June 30, 2006, 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.

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, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 5 - DEPOSITS AND INVESTMENTS (Continued):**

**City of Tucson Investments**

|  |                       |
|--|-----------------------|
| <b>U.S. Issues:</b>  |                       |
| U.S. Treasury Notes & Bonds not on Securities Loan                                 | \$ 15,894,615         |
| U.S. Agency & Other Bonds not on Securities Loan                                   | 157,549,716           |
| Corporate Bonds not on Securities Loan   | 20,767,875            |
| Corporate Stock not on Securities Loan   | 271,972,932           |
| <b>Non-U.S. Issues:</b>  |                       |
| International Bonds not on Securities Loan   | 849,051               |
| International Stock not on Securities Loan   | 78,676,179            |
| Investments Held by Broker-Dealers Under Securities Loans<br>with Cash Collateral: |                       |
| U.S. Treasury Notes & Bonds  | 7,228,183             |
| U.S. Agency & Other Bonds  | 10,547,309            |
| U.S. Corporate Bonds   | 2,633,218             |
| U.S. Stock   | 23,323,494            |
| International Stock  | 8,751,381             |
| Securities Lending Short-Term Collateral Investment Pool                           | 54,345,244            |
| Money Market Funds/Short-Term Investments  | 235,102,396           |
| Bond Mutual Funds  | 63,757,699            |
| Real Estate  | 47,587,953            |
| Total Investments  | <u>\$ 998,987,245</u> |

**C. Credit Risk**

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

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 5- DEPOSITS AND INVESTMENTS (Continued):**

- 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 that 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 rated by Moody's Investors Service, as of June 30, 2006:

| Investment Pool Account<br>Credit Risk Structure |               |                |                        |
|--|---------------|----------------|------------------------|
| Investment Type                                  | Credit Rating | Fair Value     | Percent of Grand Total |
| Money Market Funds:                              |               |                |                        |
| Wells Fargo Treasury Plus MM                     | AAA           | \$ 27,657,625  | 23.75%                 |
| Federal Agency:                                  |               |                |                        |
| Federal Home Loan Mortgage Corp                  | AAA           | 29,210,198     | 25.09                  |
| Federal Home Loan Bank                           | AAA           | 20,276,598     | 17.41                  |
| Federal Farm Credit Bank                         | AAA           | 19,637,500     | 16.87                  |
| Federal National Mortgage Corp                   | AAA           | 19,653,200     | 16.88                  |
| Total  |               | \$ 116,435,121 | 100.00%                |

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, 2006 these funds consisted of: a U.S. Treasury Note with a fair market value of \$19,552,365, a U.S. Agency Bond with a fair market value of \$1,121,750 and several cash and investment balance accounts totaling \$197,524,316. 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:

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 5- DEPOSITS AND INVESTMENTS (Continued):**

- 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.

The TSRS and Deferred Compensation funds had the following credit risk structure as of June 30, 2006:

Fixed Income Accounts Credit Risk Structure  
Tucson Supplemental Retirement System (TSRS)

| Investment Type                            | Holdings   | Moody's<br>Average<br>Credit Rating | Fair Value            | Percent of<br>Grand<br>Total |
|--|------------|-------------------------------------|-----------------------|------------------------------|
| Cash and Cash Equivalents:                 |            |                                     |                       |                              |
| Short-Term Investment Fund                 | 1          | AA3                                 | \$ 13,636,246         | 6.67%                        |
| Commercial Paper                           | 3          | AA3                                 | 5,489,723             | 2.68                         |
| U.S. Treasury Bills – Less than 1 year     | 2          | AAA                                 | 558,499               | 0.27                         |
| U.S. Agency Discount Notes                 | 4          | AAA                                 | 10,597,817            | 5.17                         |
| Repurchase Agreements                      | 1          | AAA                                 | 4,800,000             | 2.34                         |
| U.S. Treasury Issues                       | 13         |                                     | 3,570,433             | 1.74                         |
| U.S. Agency & Other Government Obligations | 48         | AA1                                 | 78,197,779            | 38.18                        |
| Asset Backed Securities                    | 1          | AAA                                 | 271,461               | .13                          |
| Call Options                               | 2          | AA3                                 | (692)                 | 0.00                         |
| U.S. Corporate Bonds:                      |            |                                     |                       |                              |
| CMO Corporate                              | 3          | AAA                                 | 1,204,786             | 0.59                         |
| Banks & Finance                            | 14         | A2                                  | 11,453,660            | 5.59                         |
| Industrials                                | 12         | A3                                  | 8,941,686             | 4.37                         |
| Utilities                                  | 2          | BA3                                 | 1,578,960             | 0.77                         |
| International Bonds                        | 5          | BA1                                 | 748,331               | 0.37                         |
| Fixed Income Swaps                         | 78         | A2                                  | (2,420)               | 0.00                         |
| Bond Mutual Funds                          | 5          | AAA – BA3                           | 63,757,699            | 31.13                        |
| <b>Total</b>                               | <u>194</u> |                                     | <u>\$ 204,803,968</u> | <u>100.00%</u>               |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 5- DEPOSITS AND INVESTMENTS (Continued):**

| Deferred Compensation Fund |                 |  |                      |                                       |
|----------------------------|-----------------|--|----------------------|---------------------------------------|
| <u>Investment Type</u>     | <u>Holdings</u> | <u>Moody's<br/>Average<br/>Credit Rating</u> | <u>Fair Value</u>    | <u>Percent of<br/>Grand<br/>Total</u> |
| Cash and Cash Equivalents: |                 |  |                      |                                       |
| Short Term Investment Fund | 1               | AA3  | \$ 399,050           | 0.57%                                 |
| Commercial Paper           | 7               | AA3  | 24,570,419           | 34.82                                 |
| U.S. Agency Discount Notes | 12              | AAA  | 45,582,927           | 64.61                                 |
| Total                      | <u>20</u>       |  | <u>\$ 70,552,396</u> | <u>100.00%</u>                        |

**D. Interest Rate Risk**

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, 2006

**Note 5- DEPOSITS AND INVESTMENTS (Continued):**

The City's investment pool account had the following maturity structure as of June 30, 2006:

| <b>Investment Pool Account</b>      |               |                    |                                    |                        |
|-------------------------------------|---------------|--------------------|------------------------------------|------------------------|
| Maturity Structure                  |               |                    |                                    |                        |
| Investment Type                     | Maturity Date | Next Call Date (1) | Fair Value                         | Percent of Grand Total |
| <b>Money Market Funds:</b>          |               |                    |                                    |                        |
| Wells Fargo Treasury Plus MM        |               |                    | \$ 27,657,625                      | 23.75%                 |
| <b>Due in Less Than 1 Year:</b>     |               |                    |                                    |                        |
| Federal Agency:                     |               |                    |                                    |                        |
| FHLMC Coupon Note                   | 10/06/06      | B                  | 4,568,398                          |                        |
| FHLMC Coupon Note                   | 12/15/06      | B                  | 4,945,300                          |                        |
| FHLMC Coupon Note                   | 04/27/07      | 10/27/06           | 4,898,900                          |                        |
| FHLB Coupon Note                    | 06/29/07      | C                  | 1,296,461                          |                        |
| FHLB Coupon Note                    | 06/29/07      | B                  | 4,180,138                          |                        |
| FFCB Coupon Note                    | 06/06/07      | B                  | 4,887,500                          |                        |
| FFCB Coupon Note                    | 06/15/07      | B                  | 4,906,250                          |                        |
| FFCB Coupon Note                    | 12/15/06      | B                  | 4,951,550                          |                        |
| FFCB Coupon Note                    | 04/12/07      | C                  | 4,892,200                          |                        |
| FNMA Coupon Note                    | 01/26/07      | B                  | 4,959,400                          |                        |
|                                     |               |                    | <b>Due in Less Than 1 Year</b>     | <b>38.21%</b>          |
| <b>Due Between 1 &amp; 2 Years:</b> |               |                    |                                    |                        |
| Federal Agency:                     |               |                    |                                    |                        |
| FHLMC Coupon Note                   | 08/10/07      | 08/10/06           | 4,934,050                          |                        |
| FHLMC Coupon Note                   | 03/06/08      | B                  | 4,913,700                          |                        |
| FHLB Coupon Note                    | 05/16/08      | M                  | 4,914,050                          |                        |
| FHLB Coupon Note                    | 11/28/07      | 08/28/06           | 4,931,250                          |                        |
| FHLB Coupon Note                    | 05/30/08      | 11/30/06           | 4,954,700                          |                        |
| FNMA Coupon Note                    | 09/17/07      | C                  | 4,912,500                          |                        |
| FNMA Coupon Note                    | 02/25/08      | C                  | 4,884,400                          |                        |
|                                     |               |                    | <b>Due Between 1 &amp; 2 Years</b> | <b>29.58%</b>          |
| <b>Due in More than 2 Years:</b>    |               |                    |                                    |                        |
| Federal Agency:                     |               |                    |                                    |                        |
| FHLMC Coupon Note                   | 11/28/06      | 11/28/06           | 4,949,850                          |                        |
| FNMA Coupon Note                    | 07/21/08      | 08/28/06           | 4,896,900                          |                        |
|                                     |               |                    | <b>Due in More Than 2 Years</b>    | <b>8.46%</b>           |
| <b>Total</b>                        |               |                    | <b>\$ 116,435,122</b>              | <b>100.00%</b>         |

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

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.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 5 - DEPOSITS AND INVESTMENTS (Continued):**

The TSRS and Deferred Compensation funds had the following maturity structure as of June 30, 2006:

Fixed Income Accounts  
Maturity Structure

**Tucson Supplemental Retirement System (TSRS)**

| Investment Type                                 | Investment Maturities (In Years) |                     |                     |                     | Total Fair           |
|---|----------------------------------|---------------------|---------------------|---------------------|----------------------|
|   | Less Than 1                      | 1 – 5               | 6 – 10              | More Than           |                      |
| Short Term Investment fund                      | \$ 13,636,246                    | \$                  | \$                  | \$                  | \$ 13,636,246        |
| U.S. Treasury Issues                            | 5,358,499                        | 4,088,944           | (3,284,173)         | 2,765,662           | 8,928,932            |
| U.S. Agency & Other<br>Government Obligations   | 11,603,607                       | 17,722,860          | 14,325,245          | 45,143,884          | 88,795,596           |
| Asset Backed Securities                         |                                  |                     |                     | 271,462             | 271,462              |
| Call Options                                    | (692)                            |                     |                     |                     | (692)                |
| U.S. Corporate Bonds                            | 7,596,309                        | 7,817,491           | 9,344,888           | 3,910,126           | 28,668,814           |
| International Bonds                             | 113,721                          |                     | 26,176              | 608,434             | 748,331              |
| Fixed Income Swaps                              | 838                              | (18,372)            | (4,809)             | 19,923              | (2,420)              |
| Bond Mutual Funds<br>(5.7 yrs weighted average) |                                  |                     |                     |                     | 63,757,699           |
| <b>Total</b>                                    | <b>\$ 38,308,528</b>             | <b>\$29,610,923</b> | <b>\$20,407,327</b> | <b>\$52,719,491</b> | <b>\$204,803,968</b> |
| Average Modified Duration:                      |                                  |                     |                     |                     |                      |
| Internal Account                                | 3.80 yrs                         |                     |                     |                     |                      |
| External Account                                | 2.95 yrs                         |                     |                     |                     |                      |

**Deferred Compensation Fund**

| Investment Type            | Investment Maturities (In Years) |           |           |           | Total Fair          |
|----------------------------|----------------------------------|-----------|-----------|-----------|---------------------|
|                            | Less Than 1                      | 1 – 5     | 6 – 10    | More Than |                     |
| Short Term Investment Fun  | 399,050                          |           |           |           | 399,050             |
| Commercial Paper           | 24,570,419                       |           |           |           | 24,570,419          |
| U.S. Agency Discount Notes | 45,582,927                       |           |           |           | 45,582,927          |
| <b>Total</b>               | <b>\$ 70,552,396</b>             | <b>\$</b> | <b>\$</b> | <b>\$</b> | <b>\$70,552,396</b> |
| Average Modified Duration: |                                  |           |           |           |                     |
| Internal Account           | .16 yrs                          |           |           |           |                     |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 5 - DEPOSITS AND INVESTMENTS (Continued):**

**E. Foreign Currency Risk**

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, 2006:

| Tucson Supplemental Retirement System (TSRS) |                |                  |
|--|----------------|------------------|
| Foreign Currency Risk Exposure               |                |                  |
| Currency                                     | Fair Value (1) | Percent of Total |
| Australian Dollar                            | \$ 60,998      | 0.05%            |
| British Pound Sterling                       | 11,314,346     | 1.85             |
| Canadian Dollar                              | 1,836,952      | 0.30             |
| Euro Currency Unit                           | 18,320,786     | 3.00             |
| Hong Kong Dollar                             | 2,141,254      | 0.35             |
| Japanese Yen                                 | 6,948,582      | 1.14             |
| Chinese Yuan Renminbi                        | 1,139,234      | 0.19             |
| Norwegian Krone                              | 1,565,044      | 0.26             |
| Singapore Dollar                             | 424,195        | 0.07             |
| South Korean Won                             | 2,175,724      | 0.36             |
| Swiss Franc                                  | 2,756,734      | 0.45             |
| U.S. Dollar                                  | 561,766,927    | 91.98            |
| Total  | \$ 610,750,776 | 100.00%          |

(1) Over 50% of the total asset value is held in equity securities

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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**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, 2006, 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, 2006 was (\$20,059,391). Money market futures were also used to gain exposure to future short-term interest rates. The net market exposure as of June 30, 2006 was \$77,716,675. 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 (\$4,862,851) and \$27,422,563, respectively. As of the same date, the portfolio contained net market exposure to put and call options (including swaptions) of \$53,808.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**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 (\$36,540) and \$9,273, 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.

| Fund                               | Interfund<br>Receivables | Interfund<br>Payables |
|------------------------------------|--------------------------|-----------------------|
| Governmental Funds:                |                          |                       |
| General Fund                       | \$ 32,145,393            | \$ 3,586,668          |
| Mass Transit Fund                  |                          | 10,184,858            |
| Other Non-major Governmental Funds | 3,586,668                | 9,225,115             |
| Total Governmental Funds           | <u>35,732,061</u>        | <u>\$22,996,641</u>   |
| Internal Service Funds:            |                          |                       |
| Fleet Services Fund                |                          | 3,442,931             |
| Self Insurance Fund                |                          | 7,756,575             |
| Total Internal Service Funds       |                          | <u>11,199,506</u>     |
| Enterprise Funds:                  |                          |                       |
| Golf Course Fund                   |                          | 1,535,914             |
| Total Enterprise Funds             |                          | <u>1,535,914</u>      |
| Total All Funds                    | <u>\$ 35,732,061</u>     | <u>\$ 35,732,061</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.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 6 - INTERFUND BALANCES AND TRANSFERS (Continued):**

The Due from/to Other Agencies balances at June 30, 2006, were as follows:

| Fund                               | Due From<br>Other<br>Agencies | Due To<br>Other<br>Agencies |
|------------------------------------|-------------------------------|-----------------------------|
| Governmental Funds:                |                               |                             |
| General Fund                       | \$ 10,593,147                 | \$ 102,778                  |
| Mass Transit                       | 7,686,049                     | 69,201                      |
| Other Non-major Governmental Funds | 292,683                       | 1,014,722                   |
| Total Governmental Funds           | <u>18,571,879</u>             | <u>1,186,701</u>            |
| Internal Service Funds:            |                               |                             |
| Fleet Services Fund                |                               | 389,578                     |
| Self Insurance Fund                | 2,143,358                     | 120                         |
| Total Internal Service Funds       | <u>2,143,358</u>              | <u>389,698</u>              |
| Enterprise Funds:                  |                               |                             |
| Environmental Services Fund        | 25,449                        | 2,327                       |
| Golf Course Fund                   |                               | 42,029                      |
| Water Utility Fund                 |                               | 974,357                     |
| Total Enterprise Funds             | <u>25,449</u>                 | <u>1,018,713</u>            |
| Total All Funds                    | <u>\$ 20,740,686</u>          | <u>\$ 2,595,112</u>         |

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, 2006, were as follows:

| Fund                               | Advances<br>To      | Advances<br>From    |
|------------------------------------|---------------------|---------------------|
| Governmental Funds:                |                     |                     |
| General Fund                       | \$ 6,147,855        | \$                  |
| Other Non-major Governmental Funds |                     | 6,147,855           |
| Total Governmental Funds           | <u>\$ 6,147,855</u> | <u>\$ 6,147,855</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.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 6 - INTERFUND BALANCES AND TRANSFERS (Continued):**

Transfers made during the year ended June 30, 2006, were as follows:

| Fund                               | Transfers To         | Transfers From       |
|------------------------------------|----------------------|----------------------|
| Governmental Funds:                |                      |                      |
| General Fund                       | \$ 1,726,973         | \$ 62,238,212        |
| Mass Transit Fund                  | 35,349,527           | 44,091               |
| Other Non-major Governmental Funds | 32,019,163           | 12,172,380           |
| Total Governmental Funds           | <u>69,095,663</u>    | <u>74,454,683</u>    |
| Internal Service Funds:            |                      |                      |
| Fleet Services Fund                | 5,418,914            |                      |
| Total Internal Service Funds       | <u>5,418,914</u>     |                      |
| Enterprise Funds:                  |                      |                      |
| Golf Course Fund                   |                      | 64,894               |
| Water Utility Fund                 | 5,000                |                      |
| Total Enterprise Funds             | <u>5,000</u>         | <u>64,894</u>        |
| Total All Funds                    | <u>\$ 74,519,577</u> | <u>\$ 74,519,577</u> |

**Note 7 - CAPITAL ASSETS:**

The following is a summary of changes in capital assets as of June 30, 2006:

|  | Beginning<br>Balance   | Additions             | Retirements           | Ending<br>Balance      |
|--|------------------------|-----------------------|-----------------------|------------------------|
| Governmental Activities:                       |                        |                       |                       |                        |
| Land   | \$ 625,774,275         | \$ 12,703,298         | \$ (3,043,137)        | \$ 635,434,436         |
| Construction-in-Progress                       | 190,497,316            | 51,550,169            | (50,893,266)          | 191,154,219            |
| Capital Assets being Depreciated:              |                        |                       |                       |                        |
| Buildings and Improvements                     | 363,321,917            | 43,834,713            | (208,157)             | 406,948,473            |
| Equipment                                      | 181,855,818            | 36,166,798            | (12,568,918)          | 205,453,698            |
| Infrastructure                                 | 675,125,915            | 11,537,044            |                       | 686,662,959            |
| Totals at Historical Cost                      | <u>2,036,575,241</u>   | <u>155,792,022</u>    | <u>(66,713,478)</u>   | <u>2,125,653,785</u>   |
| Less Accumulated Depreciation for:             |                        |                       |                       |                        |
| Buildings and Improvements                     | 145,893,047            | 12,205,118            | (214,009)             | 157,884,156            |
| Equipment                                      | 119,638,742            | 16,271,751            | (10,532,112)          | 125,378,381            |
| Infrastructure                                 | 310,269,018            | 16,411,805            |                       | 326,680,823            |
| Total Accumulated Depreciation                 | <u>575,800,807</u>     | <u>44,888,674</u>     | <u>(10,746,121)</u>   | <u>609,943,360</u>     |
| Governmental Activities<br>Capital Assets, Net | <u>\$1,460,774,434</u> | <u>\$ 110,903,348</u> | <u>\$(55,967,357)</u> | <u>\$1,515,710,425</u> |

Depreciation expense was charged to government functions as follows:

|                             |                      |
|-----------------------------|----------------------|
| Elected and Official        | \$ 72,117            |
| Support Services            | 7,281,848            |
| Neighborhood Services       | 11,780,571           |
| Environment and Development | 24,537,297           |
| Strategic Initiatives       | 480,777              |
| Non-Departmental            | 736,064              |
| Total Depreciation Expense  | <u>\$ 44,888,674</u> |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 7 - CAPITAL ASSETS (Continued):**

**Business-Type Activities:**

|   | Beginning<br>Balance  | Additions             | Retirements            | Ending<br>Balance       |
|---|-----------------------|-----------------------|------------------------|-------------------------|
| Business-Type Activities:                             |                       |                       |                        |                         |
| Land  | \$ 55,730,118         | \$ 193,308            | \$ (16,930)            | \$ 55,906,496           |
| Construction-in-Progress                              | 153,167,335           | 52,035,218            | (48,638,673)           | 156,563,880             |
| Capital Assets being Depreciated:                     |                       |                       |                        |                         |
| Buildings and Improvements                            | 143,040,923           | 18,755,992            | (4,550,364)            | 157,246,550             |
| Equipment   | 58,157,359            | 6,710,651             | (4,723,175)            | 60,144,835              |
| Distribution & Collection Systems                     | 865,226,041           | 49,240,029            |                        | 914,466,070             |
| Water Rights  | 749,157               | 52,500                |                        | 801,657                 |
| Goodwill  | 1,187,338             |                       |                        | 1,187,338               |
| Totals at Historical Cost                             | <u>1,277,258,271</u>  | <u>126,987,697</u>    | <u>(57,929,142)</u>    | <u>1,346,316,826</u>    |
| Less Accumulated Depreciation or<br>Amortization for: |                       |                       |                        |                         |
| Buildings and Improvements                            | 40,966,805            | 4,007,444             |                        | 44,974,249              |
| Equipment   | 34,900,381            | 6,302,337             | (3,396,798)            | 37,805,920              |
| Distribution & Collection Systems                     | 224,787,761           | 15,354,151            | (90,277)               | 240,051,635             |
| Water Rights  | 23,415                | 18,728                |                        | 42,143                  |
| Goodwill  | 1,023,360             | 29,842                |                        | 1,053,202               |
| Total Accumulated Depreciation                        | <u>301,701,722</u>    | <u>25,712,502</u>     | <u>(3,487,075)</u>     | <u>323,927,149</u>      |
| Business-Type Activities                              |                       |                       |                        |                         |
| Capital Assets, Net                                   | <u>\$ 975,556,549</u> | <u>\$ 101,275,195</u> | <u>\$ (54,442,067)</u> | <u>\$ 1,022,389,677</u> |

**Discretely presented component unit:**

Activity for the Rio Nuevo District for the fiscal year ended June 30, 2006 was as follows:

|                                    | Beginning<br>Balance | Additions           | Retirements         | Ending<br>Balance    |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|
| <b>Component Unit:</b>             |                      |                     |                     |                      |
| Land                               | \$ 9,370,701         | \$ 681,912          | \$ (426,933)        | \$ 9,625,680         |
| Construction-in-Progress           | 11,618,960           | 9,378,513           | (251,607)           | 20,745,866           |
| Capital Assets being Depreciated:  |                      |                     |                     |                      |
| Buildings and Improvements         | 29,593,850           | 328,122             |                     | 29,921,972           |
| Equipment                          | 59,583               | 5,799               |                     | 65,382               |
| Totals at Historical Cost          | <u>50,643,094</u>    | <u>10,394,346</u>   | <u>(678,540)</u>    | <u>60,358,900</u>    |
| Less Accumulated Depreciation for: |                      |                     |                     |                      |
| Buildings and Improvements         | 2,286,183            | 740,450             |                     | 3,026,633            |
| Equipment                          | 32,006               | 9,930               |                     | 41,936               |
| Total Accumulated Depreciation     | <u>2,318,189</u>     | <u>750,380</u>      |                     | <u>3,068,569</u>     |
| District Capital Assets, Net       | <u>\$ 48,324,905</u> | <u>\$ 9,643,966</u> | <u>\$ (678,540)</u> | <u>\$ 57,290,331</u> |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 8 - CHANGES IN LONG-TERM DEBT:**

The following is a summary of changes in long-term debt as of June 30, 2006:

|  | Beginning<br>Balance  | Additions            | Reductions             | Ending<br>Balance     | Amounts Due<br>Within One Yr. |
|--|-----------------------|----------------------|------------------------|-----------------------|-------------------------------|
| <b>Governmental Activities:</b>                |                       |                      |                        |                       |                               |
| Bonds and Notes Payable:                       |                       |                      |                        |                       |                               |
| General Obligation Debt                        | \$ 248,797,182        | \$                   | \$ (9,695,000)         | \$ 239,102,182        | \$ 11,558,460                 |
| Street & Highway Revenue Bonds                 | 153,515,000           |                      | (9,250,000)            | 144,265,000           | 9,600,000                     |
| Certificates of Participation                  | 89,875,000            | 68,650,000           | (6,040,000)            | 152,485,000           | 8,300,000                     |
| Federal Highway Loan                           | 1,300,000             |                      | (1,300,000)            |                       |                               |
| Special Assessment Bonds                       | 3,575,600             | 347,766              | (441,600)              | 3,481,766             | 430,266                       |
| Deferred Amount:                               |                       |                      |                        |                       |                               |
| on Premiums                                    | 15,114,785            | 1,095,521            | (1,484,428)            | 14,725,878            |                               |
| on Discounts                                   | (133,054)             |                      | 7,392                  | (125,662)             |                               |
| on Refundings                                  | (9,724,845)           |                      | 1,067,905              | (8,656,940)           |                               |
| Total Bonds and Notes Payable                  | <u>502,319,668</u>    | <u>70,093,287</u>    | <u>(27,135,731)</u>    | <u>545,277,224</u>    | <u>29,888,726</u>             |
| Other Liabilities:                             |                       |                      |                        |                       |                               |
| Capital Leases                                 | 4,661,279             | 3,947,366            | (1,390,542)            | 7,218,103             | 1,957,628                     |
| Compensated Absences                           | 28,051,169            | 20,906,382           | (17,945,303)           | 31,012,248            | 17,402,999                    |
| Claims and Judgments                           | 45,064,770            |                      | (19,347,124)           | 25,717,646            | 10,232,018                    |
| Total Other Liabilities                        | <u>77,777,218</u>     | <u>24,853,748</u>    | <u>(38,682,969)</u>    | <u>63,947,997</u>     | <u>29,592,645</u>             |
| Governmental Activities Long Term Liabilities  | <u>\$ 580,096,886</u> | <u>\$ 94,947,035</u> | <u>\$ (65,818,700)</u> | <u>\$ 609,225,221</u> | <u>\$ 59,481,371</u>          |
| <b>Business-type Activities:</b>               |                       |                      |                        |                       |                               |
| Bonds and Notes Payable:                       |                       |                      |                        |                       |                               |
| Enterprise Bonds                               | \$ 388,324,735        | \$ 6,214,163         | \$ (11,201,884)        | \$ 383,337,014        | \$ 13,191,746                 |
| General Obligation Bonds                       | 42,386,887            |                      |                        | 42,386,887            |                               |
| Certificate of Participation                   | 4,320,000             | 1,495,000            | (320,000)              | 5,495,000             | 415,000                       |
| Deferred Amount:                               |                       |                      |                        |                       |                               |
| on Premiums                                    | 12,228,018            | 39,424               | (951,552)              | 11,315,890            |                               |
| on Discounts                                   | (37,950)              | (24,861)             |                        | (62,811)              |                               |
| on Refundings                                  | (11,814,048)          |                      | 949,033                | (10,865,015)          |                               |
| Total Bonds and Notes Payable                  | <u>435,407,642</u>    | <u>7,723,726</u>     | <u>(11,524,403)</u>    | <u>431,606,965</u>    | <u>13,606,746</u>             |
| Other Liabilities:                             |                       |                      |                        |                       |                               |
| Landfill Closure/Post Closure Costs            | 42,535,670            | 6,483,158            | (7,731,053)            | 41,287,775            | 3,072,216                     |
| Capital Leases                                 | 3,049,416             | 5,406,405            | (1,667,988)            | 6,787,833             | 1,741,795                     |
| Compensation Absences                          | 4,637,854             | 308,742              | (128,272)              | 4,818,324             | 2,590,666                     |
| Total Other Liabilities                        | <u>50,222,940</u>     | <u>12,198,305</u>    | <u>(9,527,313)</u>     | <u>52,893,932</u>     | <u>7,404,677</u>              |
| Business-type Activities Long Term Liabilities | <u>\$ 485,630,582</u> | <u>\$ 19,922,031</u> | <u>\$ (21,051,716)</u> | <u>\$ 484,500,897</u> | <u>\$ 21,011,423</u>          |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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

**Discreetly presented component unit:**

Activity for the Rio Nuevo District for the fiscal year ended June 30, 2006, was as follows:

|   | Beginning<br>Balance | Additions           | Reductions            | Ending<br>Balance    | Amounts Due<br>Within One Yr. |
|---|----------------------|---------------------|-----------------------|----------------------|-------------------------------|
| <b>Component Unit Activities:</b>               |                      |                     |                       |                      |                               |
| Bonds and Notes Payable:                        |                      |                     |                       |                      |                               |
| Revenue Bonds                                   | \$                   | \$ 5,800,000        | \$ (580,000)          | \$ 5,220,000         | \$ 510,000                    |
| Certificate of Participation                    | 21,510,000           |                     | (2,665,000)           | 18,845,000           | 2,800,000                     |
| Deferred Amount:                                |                      |                     |                       |                      |                               |
| on Premiums                                     | 618,566              |                     | (88,366)              | 530,200              |                               |
| on Discounts                                    |                      | (17,775)            | 1,525                 | (16,250)             |                               |
| Component Unit Activities Long Term Liabilities | <u>\$ 22,128,566</u> | <u>\$ 5,782,225</u> | <u>\$ (3,331,841)</u> | <u>\$ 24,578,950</u> | <u>\$ 3,310,000</u>           |

**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, 2006.

| Years ending June 30,  | Governmental<br>Activities | Business-Type<br>Activities |
|--|----------------------------|-----------------------------|
| 2007   | \$ 17,310,627              | 2,669,804                   |
| 2008   | 17,381,586                 | 2,575,409                   |
| 2009   | 17,358,788                 | 2,405,034                   |
| 2010   | 16,163,161                 | 1,940,875                   |
| 2011   | 15,218,371                 | 1,250,682                   |
| 2012-2016  | 60,508,355                 | 3,223,606                   |
| 2017-2021  | 50,296,472                 | 591,800                     |
| 2022-2024  | 34,412,150                 |                             |
| Total Minimum Lease Payments   | 228,649,510                | 14,657,210                  |
| Less: Amount Representing Interest (interest rates range from 3.85% to 12.00%) | 68,946,406                 | 2,374,378                   |
| Net Minimum Future Lease Payments  | <u>\$ 159,703,103</u>      | <u>\$ 12,282,832</u>        |

Assets purchased through capital leases for Governmental Activities include buildings (\$38,283,000), improvements other than buildings (\$46,057), equipment (\$11,871,768) and land (\$9,950,000).

Assets purchased through capital leases for Business-Type Activities include equipment (\$8,297,548).

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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**Note 9 - LEASE OBLIGATIONS (Continued):**

**B. Operating Leases**

Operating lease expenditures for the fiscal year were \$7,677,369. Minimum future lease payments on non-cancelable operating leases at June 30, 2006, were as follows:

|                                   |                      |
|-----------------------------------|----------------------|
| Years ending June 30,             |                      |
| 2007                              | \$ 5,807,636         |
| 2008                              | 5,423,808            |
| 2009                              | 4,488,624            |
| 2010                              | 4,387,931            |
| 2011                              | 4,175,460            |
| 2012-2016                         | 4,765,963            |
| 2017-2021                         | 1,084,671            |
| 2022-2026                         | 1,227,205            |
| 2027-2031                         | 1,388,470            |
| 2032-2036                         | 1,570,926            |
| 2037-2041                         | 1,777,359            |
| 2042-2046                         | 2,010,919            |
| 2047-2051                         | 2,275,170            |
| 2052-2054                         | 1,506,205            |
| Net Minimum Future Lease Payments | <u>\$ 41,890,347</u> |

**Note 10 - BOND ISSUES:**

**A. 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.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 10 - BOND ISSUES (Continued):**

At June 30, 2006, bonds payable were:

General Obligation Bonds Issued and Outstanding

| Series                  | Interest Rates | Maturity Date | Original Amount       | Balance Outstanding June 30, 2006 |
|-------------------------|----------------|---------------|-----------------------|-----------------------------------|
| 1991 Refunding          | 6.20-7.50 %    | 2008          | \$ 21,555,000         | \$ 3,970,000                      |
| 1984 Series E and F     | 6.17           | 2012          | 25,000,000            | 2,143,060                         |
| 1992 Refunding          | 6.40-6.5       | 2012          | 51,550,000            | 9,965,000                         |
| 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            | 19,545,000                        |
| 1998 Refunding          | 4.25-5.50      | 2021          | 26,470,000            | 17,883,628                        |
| 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            | 1,764,508                         |
| 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            | 17,430,000                        |
| 2003 Refunding          | 2.25-5.00      | 2020          | 22,465,000            | 16,695,168                        |
| 2000 Series C (2003)    | 2.50-4.50      | 2021          | 29,840,000            | 27,639,000                        |
| 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            | 25,412,554                        |
| 2005-B Series Refunding | 4.00-5.00      | 2021          | 20,288,052            | 17,998,052                        |
| 2000-E Series (2005)    | 3.00-5.00      | 2017          | 17,894,000            | 17,394,000                        |
| <b>Total</b>            |                |               | <b>\$ 468,595,606</b> | <b>\$ 239,102,183</b>             |

Street and Highway Issued and Outstanding

| Series                                      | Interest Rates | Maturity Date | Original Amount       | Balance Outstanding June 30, 2006 |
|---|----------------|---------------|-----------------------|-----------------------------------|
| 1994 Series A (1995)                        | 5.00-7.00      | 2015          | \$ 10,900,000         | \$ 3,900,000                      |
| 1994 Series B (1996)                        | 5.50-7.50      | 2016          | 10,025,000            | 2,275,000                         |
| 1996 Refunding                              | 4.20-6.00      | 2010          | 7,425,000             | 7,310,000                         |
| 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            | 19,535,000                        |
| 2003 Refunding                              | 4.50           | 2012          | 30,665,000            | 22,695,000                        |
| 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                         |
| <b>Total</b>                                |                |               | <b>\$ 221,900,000</b> | <b>\$ 144,265,000</b>             |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 10 - BOND ISSUES (Continued):**

**B. Enterprise Funds**

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, 2006 |
|---|----------------|---------------|-----------------------|-----------------------------------|
| 1984 Series D (1991)                                | 9.75 %         | 2010          | \$ 48,000,000         | \$ 2,500,000                      |
| 1993 Refunding                                      | 5.25-5.50      | 2014          | 35,360,000            | 14,955,000                        |
| 1994 Series A (1996)                                | 6.0-8.0        | 2018          | 33,000,000            | 3,000,000                         |
| 1994 Series B (1997)                                | 4.50-6.25      | 2007          | 11,700,000            | 1,000,000                         |
| 1994 Series C (1999)                                | 4.75-6.75      | 2009          | 33,400,000            | 3,500,000                         |
| 1994 Series D (2000)                                | 5.25-7.25      | 2024          | 23,740,000            | 11,315,000                        |
| 1997 Refunding                                      | 4.20-5.125     | 2021          | 32,980,000            | 32,100,000                        |
| 1999A Refunding                                     | 5.00           | 2010          | 14,045,000            | 8,570,000                         |
| 2000 Series A (2001)                                | 5.0-7.5        | 2023          | 37,800,000            | 36,000,000                        |
| 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                         |
| 2000 Series D (2004)                                | 4.0-5.0        | 2023          | 18,765,000            | 18,765,000                        |
| 2001A Refunding                                     | 5.00           | 2016          | 40,850,000            | 31,320,000                        |
| 2002 Refunding                                      | 5.50           | 2018          | 57,820,000            | 54,910,000                        |
| 2003 Refunding                                      | 5.00           | 2018          | 12,000,000            | 12,000,000                        |
| 2005 Refunding                                      | 4.00-5.00      | 2022          | 55,110,000            | 55,020,000                        |
| 2005 Series A (2005)                                | 3.00-5.00      | 2025          | 31,665,000            | 31,135,000                        |
| 1998A Water Infrastructure Finance Authority (WIFA) | 3.425          | 2017          | 6,000,000             | 4,086,130                         |
| 2000 Water Infrastructure Finance Authority (WIF1)  | 4.125          | 2020          | 5,120,000             | 4,127,527                         |
| 2000 Water Infrastructure Finance Authority (WIF2)  | 4.125          | 2020          | 7,780,000             | 6,372,311                         |
| 2001 Water Infrastructure Finance Authority (WIF3)  | 3.430          | 2021          | 8,800,000             | 7,384,647                         |
| 2003 Water Infrastructure Finance Authority (WIF4)  | 3.48           | 2022          | 8,300,000             | 7,316,934                         |
| 2000 Water Infrastructure Finance Authority (WIF5)  | 3.75           | 2023          | 3,000,000             | 2,760,750                         |
| 2004 Water Infrastructure Finance Authority (WIF6)  | 3.255          | 2023          | 2,500,000             | 2,302,592                         |
| 2005 Water Infrastructure Finance Authority (WIF7)  | 3.113          | 2024          | 2,997,000             | 2,878,960                         |
| 2006 Water Infrastructure Finance Authority (WIF8)  | 3.424          | 2026          | 2,500,000             | 2,500,000                         |
| 2007 Water Infrastructure Finance Authority (WIF9)  | 3.210          | 2026          | 2,000,000             | 717,162 <sup>1</sup>              |
|   |                |               | <u>\$ 570,432,000</u> | <u>\$ 383,337,014</u>             |

(1) WIF9 was not fully drawn down during FY 2006. The balance of the loan will be recognized in FY2007.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 10 - BOND ISSUES (Continued):**

Environmental Services General Obligation Bonds Issued and Outstanding

| Series                           | Interest Rates | Maturity Date | Original Amount      | Balance Outstanding June 30, 2006 |
|----------------------------------|----------------|---------------|----------------------|-----------------------------------|
| GO Series 2000-A (2000)          | 7.250          | 2013          | \$ 430,000           | \$ 430,000                        |
| GO Series 1994-A (1995)          | 7.375          | 2013          | 2,449,830            | 2,449,830                         |
| GO Series 1994-B (1996)          | 7.625          | 2015          | 1,178,967            | 1,178,967                         |
| GO Bonds Series 2000-E (2005)    | 3.000          | 2017          | 7,921,000            | 7,921,000                         |
| GO Series 1999                   | 4.500          | 2019          | 1,520,492            | 1,520,492                         |
| GO Series 2000-B (2001)          | 4.875          | 2020          | 3,630,000            | 3,630,000                         |
| GO Refunding Bonds Series 2003   | 3.000          | 2020          | 4,639,832            | 4,639,832                         |
| GO Refunding Bonds Series 2005   | 5.000          | 2020          | 8,697,446            | 8,697,446                         |
| GO Refunding Bonds Series 1998   | 5.250          | 2021          | 8,281,372            | 8,281,372                         |
| GO Series 2000-C (2003)          | 3.300          | 2021          | 2,201,000            | 2,201,000                         |
| GO Refunding Bonds Series 2005-B | 4.000          | 2021          | 1,436,948            | 1,436,948                         |
|                                  |                |               | <u>\$ 42,386,887</u> | <u>\$ 42,386,887</u>              |

**C. Special Assessments**

Special assessments on City-owned property were \$35,986 of the \$3,481,766 total assessment. The remaining assessments of \$3,445,780 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.

**D. Annual Principal and Interest Requirements**

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

| Years Ending<br>June 30, | Governmental Activities |                       |                       |                      |                     |                   |
|--------------------------|-------------------------|-----------------------|-----------------------|----------------------|---------------------|-------------------|
|                          | General Obligation      |                       | Street and Highway    |                      | Special Assessment  |                   |
|                          | Principal               | Interest              | Principal             | Interest             | Principal           | Interest          |
| 2007                     | \$ 11,558,460           | \$ 13,136,322         | \$ 9,600,000          | \$ 7,263,235         | \$ 430,266          | \$ 160,515        |
| 2008                     | 13,884,437              | 11,020,692            | 10,000,000            | 6,831,205            | 382,500             | 140,369           |
| 2009                     | 14,326,846              | 10,331,031            | 10,645,000            | 6,381,660            | 330,000             | 123,025           |
| 2010                     | 15,061,846              | 9,620,376             | 11,160,000            | 5,903,175            | 339,000             | 106,849           |
| 2011                     | 14,960,307              | 8,943,236             | 11,745,000            | 5,292,600            | 348,000             | 90,244            |
| 2012-2016                | 77,562,353              | 40,122,707            | 62,570,000            | 16,450,788           | 1,237,000           | 243,703           |
| 2017-2021                | 91,747,934              | 13,245,314            | 28,545,000            | 2,086,700            | 415,000             | 21,125            |
| Total                    | <u>\$239,102,183</u>    | <u>\$ 106,419,679</u> | <u>\$ 144,265,000</u> | <u>\$ 50,209,363</u> | <u>\$ 3,481,766</u> | <u>\$ 885,830</u> |

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 10 - BOND ISSUES (Continued):**

| Years Ending<br>June 30, | Business-type Activities |                      |                       |                       |
|--------------------------|--------------------------|----------------------|-----------------------|-----------------------|
|                          | Environmental Services   |                      | Water Services        |                       |
|                          | General Obligation       |                      | Revenue Bonds         |                       |
|                          | Principal                | Interest             | Principal             | Interest              |
| 2007                     | \$                       | \$ 2,103,883         | \$ 13,191,746         | \$ 19,082,475         |
| 2008                     |                          | 2,103,883            | 14,562,244            | 18,353,614            |
| 2009                     |                          | 2,094,266            | 15,775,761            | 17,600,321            |
| 2010                     |                          | 2,072,871            | 17,417,231            | 16,785,985            |
| 2011                     |                          | 2,047,911            | 18,651,816            | 15,863,229            |
| 2012-2016                |                          | 8,894,473            | 109,460,777           | 64,042,011            |
| 2017-2021                |                          | 4,160,949            | 135,238,483           | 35,309,551            |
| 2022-2026                |                          |                      | 59,038,956            | 5,502,770             |
| Total                    |                          | <u>\$ 23,478,236</u> | <u>\$ 383,337,014</u> | <u>\$ 192,539,956</u> |

**Note 11 - ADVANCE REFUNDING/DEFEASANCE OF DEBT:**

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 \$56,225,000 and General Obligation and Street and Highway debt of \$62,362,000 and \$40,575,000, respectively.

**Note 12 - 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, 2006. The total closure and post-closure cost estimates are based on what it would cost to perform those functions in 2006. 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, 2006

**Note 12 – LANDFILLS (Continued):**

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

| Landfill Site | Landfill Capacity<br>Used as of<br>6/30/06 | Estimated<br>Closure/Post-<br>Closure Costs | Liability<br>Recognized<br>at 6/30/06 | Estimated Closure/<br>Postclosure Cost<br>to be Recognized<br>in Future Years | Estimated<br>Remaining<br>Life in Years |
|---------------|--|---|---------------------------------------|---|---|
| Los Reales    | 89 %                                       | \$ 30,518,000                               | \$ 25,744,785                         | \$ 4,773,215  | 3                                       |
| Harrison      | 100 %                                      | 6,527,155                                   | 6,527,155                             |   |   |
| Irvington     | 100 %                                      | 4,819,926                                   | 4,819,926                             |   |   |
| Mullins       | 100 %                                      | 2,985,909                                   | 2,985,909                             |   |   |
| Silverbell    | 100 %                                      | 1,210,000                                   | 1,210,000                             |   |   |
| <b>Totals</b> |  | <b>\$ 46,060,990</b>                        | <b>\$ 41,287,775</b>                  | <b>\$ 4,773,215</b>   |   |

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, 2006, liability for closure and post-closure costs is \$41,287,775 which represents the cumulative amount reported to date based on the estimated capacity of the landfills.

**Note 13 - 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 14 - 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, 2006

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**Note 14 - 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, 2006, the City had 7 covered officials. Covered payroll for the year then ended was \$186,000 (out of the total City payroll of \$343,247,294). 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 \$38,204 and elected officials contributed \$13,021 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, 2006 was 14.83%.
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, 2006, the required employer contribution rates were 17.47% and 19.12%, 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, 2006

**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, 2006, 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, 2006, 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  |   |
|                                  |                                     | Police  | Fire  |
| Actuarial Valuation Date         | June 30, 2006                       | June 30, 2006   | June 30, 2006   |
| Actuarial Cost Method            | Individual Entry Age                | Projected Unit Credit   | Projected Unit Credit   |
| Amortization Method              | Level Percent of Payroll,<br>Closed | Level Percent of Payroll,<br>Open   | Level Percent of Payroll,<br>Open   |
| Remaining Amortization<br>Period | Open 16 Years from<br>June 30, 2006 | 30 years for unfunded<br>actuarial accred liability,<br>20 years for excess | 30 years for unfunded<br>actuarial accred liability,<br>20 years for excess |
| 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%                       | 5.50% - 8.50%   | 5.50% - 8.50%   |
| Inflation                        | 4.25%                               | 5.50%   | 5.50%   |
| Cost-of-Living Adjustment        | As approved by<br>TSRS Board        | None  | None  |

\*Projected salary increases include inflation.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 14 – 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<br>Ended 6/30 | Annual Pension<br>Cost (APC) | Percentage of<br>APC Contributed | Net Pension<br>Obligation |
| TSRS                         | 2006                      | \$ 25,232                    | 100 %                            | \$ 0                      |
|                              | 2005                      | 25,958                       | 100                              | 0                         |
|                              | 2004                      | 23,644                       | 100                              | 0                         |
| Police                       | 2006                      | 9,876                        | 100                              | 0                         |
|                              | 2005                      | 7,141                        | 100                              | 0                         |
|                              | 2004                      | 5,140                        | 100                              | 0                         |
| Fire                         | 2006                      | 5,100                        | 100                              | 0                         |
|                              | 2005                      | 4,621                        | 100                              | 0                         |
|                              | 2004                      | 2,653                        | 100                              | 0                         |

*Dollar amounts are in thousands*

**Schedule of Funding Progress**

|               | Actuarial<br>Valuation<br>Date<br>June 30 | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued Liability<br>Entry Age<br>(b) | Unfunded<br>(Overfunded)<br>AAL<br>(b) - (a) | Funded<br>Ratio<br>(a) / (b) | Active<br>Member<br>Covered<br>Payroll<br>(c) | Infunded(Overfunded)<br>AAL as a Percentage<br>of Active Annual<br>Member Covered<br>Payroll<br>(b-a) / (c) |
|---------------|---|--|--|--|------------------------------|---|---|
| <b>TSRS</b>   |   |  |  |  |                              |   |   |
|               | 2006                                      | \$ 588,228                             | \$ 734,377   | \$ 146,149                                   | 80.1 %                       | \$ 155,855                                    | 94.7 %  |
|               | 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   |
| <b>Police</b> |   |  |  |  |                              |   |   |
|               | 2006                                      | 337,246                                | 441,670  | 104,424                                      | 76.4                         | 50,962  | 204.9   |
|               | 2005                                      | 333,251                                | 441,424  | 108,173                                      | 81.0                         | 52,700  | 148.3   |
|               | 2004                                      | 328,655                                | 364,754  | 36,099                                       | 90.1                         | 50,399  | 71.6  |
| <b>Fire</b>   |   |  |  |  |                              |   |   |
|               | 2006                                      | 225,202                                | 303,330  | 78,128                                       | 90.3                         | 29,829  | 261.9   |
|               | 2005                                      | 228,850                                | 285,745  | 56,895                                       | 80.1                         | 29,843  | 190.6   |
|               | 2004                                      | 228,828                                | 253,304  | 24,475                                       | 90.3                         | 27,426  | 89.2  |

*Dollar amounts are in thousands.*

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**Note 15 - 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, 2006, and 2005, are as follows:

|  | 2006          | 2005          |
|--|---------------|---------------|
| Beginning of fiscal year liability           | \$ 45,064,770 | \$ 39,712,642 |
| Current year claims and changes in estimates | (11,371,733)  | 24,419,951    |
| Claim Payments                               | ( 7,975,391)  | (19,067,823)  |
| Balance at fiscal year end                   | \$ 25,717,646 | \$ 45,064,770 |

**Note 16 - 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, 2006, the City contributed towards the medical premiums of 713 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 2005-06 fiscal year, the City's portion of retiree medical insurance premiums was \$4,264,478.

On June 30, 2006, there were 2,343 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 \$94,007.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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**Note 17 - 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 \$3,263,184. 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 \$5,022,149.

**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 \$16,146,623 at June 30, 2006.

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, 2006

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**Note 17 - 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. 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 \$14,065,901 at June 30, 2006.

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.

In prior years the note receivable and deferred revenue for Posadas Sentinel were recorded in the Miscellaneous Housing Grants Fund. In fiscal year 2006 the note receivable and deferred revenue were transferred to the General Fund. One of the Miscellaneous Housing Grants is complete and the purpose of the fund no longer exists.

**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, 2006.

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.

In prior years, \$1,604,961 of the note receivable and deferred revenue for South Park were recorded in the Miscellaneous Housing Grants Fund. In fiscal year 2006 the note receivable and deferred revenue were transferred to the General Fund. One of the Miscellaneous Housing Grants is complete and the purpose of the fund no longer exists.

**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. The notes receivable balance due to the City is \$2,560,000 at June 30, 2006.

**CITY OF TUCSON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

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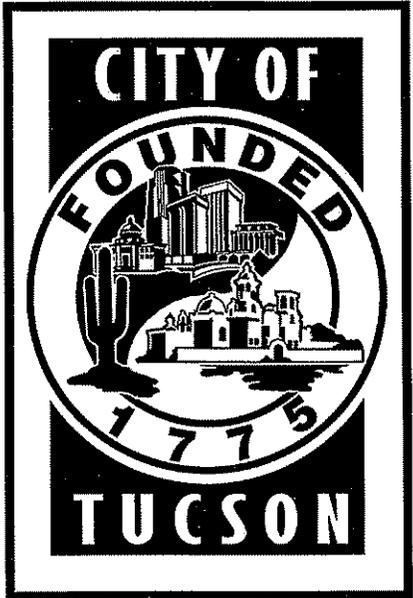
**Note 18 - SIGNIFICANT DISCRETELY PRESENTED COMPONENT UNIT TRANSACTIONS:**

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, 2006. This coverage resulted in the City's recording a long-term receivable in the amount of \$14,577,549.

**Note 19 – SUBSEQUENT EVENTS:**

On July 1, 2006, the City of Tucson executed an Intergovernmental Agreement for transitioning the administration and funding of the Public Library System to Pima County. The City will contribute to the funding of the Library in order to assist with the operation of the District Library. The following amounts will be paid to the Public Library District in future years: fiscal year 2006-2007 \$6,000,000, fiscal year 2007-2008 \$4,000,000 and fiscal year 2008-2009 \$2,000,000.

On September 29, 2006 the City of Tucson transferred the assets of the Deferred Compensation Plan to third party administrators. The City combined its three deferred compensation plans and contracted with ICMA-Retirement Corporation for an initial period of five years. A separate contract authorizes Nationwide Retirement Solutions as an additional plan available on to local members of the IAFF for the same period of time. Consequently, in fiscal year 2007, the plan will not be included in the Statement of Fiduciary Funds Net Assets and Statement of Changes in Fiduciary Net Assets.



# Required Supplementary Information



**CITY OF TUCSON, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

|  | Budgeted Amounts    |                       | Actual                | Variance with<br>Final Budget |
|--|---------------------|-----------------------|-----------------------|-------------------------------|
|  | Original            | Final                 |                       | Positive<br>(Negative)        |
| <b>Revenues:</b>   |                     |                       |                       |                               |
| Taxes  | \$ 219,664,950      | \$ 219,664,950        | \$ 228,178,760        | \$ 8,513,810                  |
| Licenses and Permits                                     | 18,780,700          | 18,780,700            | 20,265,264            | 1,484,564                     |
| Fines and Forfeitures                                    | 12,785,330          | 12,785,330            | 11,425,947            | (1,359,383)                   |
| Use of Money and Property                                | 1,550,000           | 1,550,000             | 3,290,428             | 1,740,428                     |
| Federal Grants and Contributions                         |                     |                       | 621,274               | 621,274                       |
| Other Agencies   | 144,258,400         | 144,258,400           | 138,214,017           | (6,044,383)                   |
| Charges for Services                                     | 28,044,910          | 28,044,910            | 42,682,660            | 14,637,750                    |
| Miscellaneous  | 13,320,700          | 13,320,700            | 6,192,572             | (7,128,128)                   |
| <b>Total revenues</b>                                    | <u>438,404,990</u>  | <u>438,404,990</u>    | <u>450,870,922</u>    | <u>12,465,932</u>             |
| <b>Expenditures:</b>                                     |                     |                       |                       |                               |
| Current -  |                     |                       |                       |                               |
| Elected and Official                                     | 17,949,100          | 17,926,900            | 17,263,973            | 662,927                       |
| Support Services   | 43,160,010          | 50,034,569            | 56,743,263            | (6,708,694)                   |
| Neighborhood Services                                    | 253,714,230         | 253,682,049           | 253,425,503           | 256,546                       |
| Environment and Development                              | 19,563,550          | 20,116,649            | 18,969,216            | 1,147,433                     |
| Strategic Initiatives                                    | 2,622,260           | 2,622,260             | 1,999,643             | 622,617                       |
| Non-Departmental   | 9,907,830           | 9,465,230             | 11,855,383            | (2,390,153)                   |
| Capital Outlay   | 4,776,360           | 5,573,184             | 6,762,516             | (1,189,332)                   |
| Capital Projects   | 40,198,400          | 40,617,530            | 19,336,252            | 21,281,278                    |
| Debt service -   |                     |                       |                       |                               |
| Principal  | 8,668,500           | 8,568,500             | 7,644,706             | 923,794                       |
| Interest   | 3,569,760           | 3,569,760             | 3,594,711             | (24,951)                      |
| Fiscal Agent Fees and Other                              | 32,300              | 32,300                | 40,389                | (8,089)                       |
| Issuance Cost of Debt                                    |                     |                       | 1,334,278             | (1,334,278)                   |
| <b>Total expenditures</b>                                | <u>404,162,300</u>  | <u>412,208,931</u>    | <u>398,969,833</u>    | <u>13,239,098</u>             |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>34,242,690</u>   | <u>26,196,059</u>     | <u>51,901,089</u>     | <u>25,705,030</u>             |
| <b>Other financing sources (uses):</b>                   |                     |                       |                       |                               |
| Face Amount of Bond Proceeds                             | 2,304,110           | 2,304,110             |                       | (2,304,110)                   |
| Lease Purchase and Contracts Proceeds                    | 19,335,200          | 19,335,200            | 69,676,558            | 50,341,358                    |
| Premium on Issuance of Debt                              |                     |                       | 1,095,521             | 1,095,521                     |
| Transfers from Other Funds                               | 23,910              | 29,410                | 1,726,973             | 1,697,563                     |
| Transfers to Other Funds                                 | (55,905,910)        | (55,905,910)          | (62,238,212)          | (6,332,302)                   |
| <b>Total other financing sources (uses)</b>              | <u>(34,242,690)</u> | <u>(34,237,190)</u>   | <u>10,260,840</u>     | <u>44,498,030</u>             |
| <b>Change in fund balances</b>                           |                     | <u>(8,041,131)</u>    | <u>62,161,929</u>     | <u>70,203,060</u>             |
| <b>Fund balances, July 1, 2005</b>                       |                     |                       | 98,061,492            | 98,061,492                    |
| <b>Fund balances (deficits), June 30, 2006</b>           | <u>\$</u>           | <u>\$ (8,041,131)</u> | <u>\$ 160,223,421</u> | <u>\$ 168,264,552</u>         |

See accompanying notes to this schedule.

**CITY OF TUCSON, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - MASS TRANSIT FUND  
YEAR ENDED JUNE 30, 2006**

|  | Budgeted Amounts    |                     | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------|---|
|  | Original            | Final               |                     |   |
| <b>Revenues:</b>   |                     |                     |                     |   |
| Use of Money and Property                                | \$                  | \$                  | \$ 7,410            | \$ 7,410  |
| Federal Grants and Contributions                         | 31,806,450          | 31,806,450          | 15,489,047          | (16,317,403)  |
| Other Agencies   | 5,692,000           | 5,692,000           | 6,973,995           | 1,281,995   |
| Charges for Services                                     | 8,620,000           | 8,620,000           | 8,879,485           | 259,485   |
| Miscellaneous  | 3,077,920           | 3,077,920           | 107,460             | (2,970,460)   |
| <b>Total revenues</b>                                    | <u>49,196,370</u>   | <u>49,196,370</u>   | <u>31,457,397</u>   | <u>(17,738,973)</u>                                     |
| <b>Expenditures:</b>                                     |                     |                     |                     |   |
| Current -  |                     |                     |                     |   |
| Environment and Development                              | 55,277,340          | 53,505,330          | 53,153,810          | 351,520   |
| Capital Outlay   | 22,484,800          | 19,337,259          | 12,674,347          | 6,662,912   |
| Capital Projects   | 7,497,200           | 12,898,061          | 1,068,547           | 11,829,514  |
| <b>Total expenditures</b>                                | <u>85,259,340</u>   | <u>85,740,650</u>   | <u>66,896,704</u>   | <u>18,843,946</u>                                       |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>(36,062,970)</u> | <u>(36,544,280)</u> | <u>(35,439,307)</u> | <u>1,104,973</u>  |
| <b>Other financing sources (uses):</b>                   |                     |                     |                     |   |
| Transfers from Other Funds                               | 36,062,970          | 36,062,970          | 35,349,527          | (713,443)   |
| Transfers to Other Funds                                 |                     |                     | (44,091)            | (44,091)  |
| <b>Total other financing sources (uses)</b>              | <u>36,062,970</u>   | <u>36,062,970</u>   | <u>35,305,436</u>   | <u>(757,534)</u>  |
| <b>Change in fund balances</b>                           |                     | <u>(481,310)</u>    | <u>(133,871)</u>    | <u>347,439</u>  |
| <b>Fund balances, July 1, 2005</b>                       |                     |                     | 805,944             | 805,944   |
| <b>Fund balances (deficits), June 30, 2006</b>           | <u>\$</u>           | <u>\$ (481,310)</u> | <u>\$ 672,073</u>   | <u>\$ 1,153,383</u>                                     |

See accompanying notes to this schedule.

**CITY OF TUCSON, ARIZONA**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 2006

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**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



**CITY OF TUCSON, ARIZONA**  
**COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**  
**JUNE 30, 2006**

|  | Special<br>Revenue   | Debt Service         | Capital<br>Projects  | Civic<br>Endowment<br>Fund | Total<br>Non-Major<br>Governmental<br>Funds |
|--|----------------------|----------------------|----------------------|----------------------------|---|
| <b>ASSETS</b>  |                      |                      |                      |                            |   |
| Pooled Cash and Investments                                  | \$ 30,930,908        | \$ 9,447,745         | \$ 16,884,380        | \$ 153,366                 | \$ 57,416,399                               |
| Cash/Investments with Fiscal Agent                           | 603,716              | 28,875,390           |                      |                            | 29,479,106                                  |
| Long Term Investments  | 1,170,557            |                      |                      |                            | 1,170,557                                   |
| Accounts Receivable, Net                                     | 7,984,300            |                      |                      |                            | 7,984,300                                   |
| Special Assessments Receivable                               |                      | 3,253,624            |                      |                            | 3,253,624                                   |
| Notes and Loans Receivable                                   | 30,555,142           |                      |                      |                            | 30,555,142                                  |
| Due from Other Agencies                                      | 292,683              |                      |                      |                            | 292,683                                     |
| Interfund Receivable   |                      |                      | 3,586,668            |                            | 3,586,668                                   |
| Grants and Entitlements Receivable                           | 12,012,212           |                      |                      |                            | 12,012,212                                  |
| Interest Receivable  | 190,654              | 10,093               | 150,312              | 944                        | 352,003                                     |
| Other Assets   | 1,848,551            |                      |                      |                            | 1,848,551                                   |
| <b>Total assets</b>  | <b>\$ 85,588,723</b> | <b>\$ 41,586,852</b> | <b>\$ 20,621,360</b> | <b>\$ 154,310</b>          | <b>\$ 147,951,245</b>                       |
| <b>LIABILITIES AND FUND BALANCES</b>                         |                      |                      |                      |                            |   |
| Liabilities:   |                      |                      |                      |                            |   |
| Accounts Payable   | \$ 4,546,670         | \$ 5,803             | \$ 3,280,207         | \$                         | \$ 7,832,680                                |
| Accrued Payroll Liabilities                                  | 1,246,488            |                      |                      |                            | 1,246,488                                   |
| Accrued Interest Payable                                     | 5,542                |                      |                      |                            | 5,542                                       |
| Advances from Other Funds                                    | 3,012,321            |                      | 3,135,534            |                            | 6,147,855                                   |
| Interfund Payable  | 9,225,115            |                      |                      |                            | 9,225,115                                   |
| Due to Other Agencies  | 987,122              |                      | 27,600               |                            | 1,014,722                                   |
| Refundable Deposits  | 4,178,580            | 69,553               | 3,661                |                            | 4,251,794                                   |
| Bonds and Interest Payable,<br>including Special Assessments |                      | 28,875,390           |                      |                            | 28,875,390                                  |
| Deferred Revenue   | 27,611,894           | 3,206,592            |                      |                            | 30,818,486                                  |
| <b>Total liabilities</b>                                     | <b>50,813,732</b>    | <b>32,157,338</b>    | <b>6,447,002</b>     |                            | <b>89,418,072</b>                           |
| Fund balances:   |                      |                      |                      |                            |   |
| Reserved for Debt Service                                    | 182,794              | 9,429,514            |                      |                            | 9,612,308                                   |
| Reserved for Capital Improvements                            | 5,391,650            |                      | 17,314,876           |                            | 22,706,526                                  |
| Reserved for Advances and Deposits                           | 11,874               |                      |                      |                            | 11,874                                      |
| Reserve for Other Purposes                                   | 20,115,577           |                      |                      | 154,310                    | 20,269,887                                  |
| Unreserved:  |                      |                      |                      |                            |   |
| Undesignated   | 9,073,096            |                      | (3,140,518)          |                            | 5,932,578                                   |
| <b>Total fund balances</b>                                   | <b>34,774,991</b>    | <b>9,429,514</b>     | <b>14,174,358</b>    | <b>154,310</b>             | <b>58,533,173</b>                           |
| <b>Total liabilities and fund balances</b>                   | <b>\$ 85,588,723</b> | <b>\$ 41,586,852</b> | <b>\$ 20,621,360</b> | <b>\$ 154,310</b>          | <b>\$ 147,951,245</b>                       |

**CITY OF TUCSON, ARIZONA**  
**COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS**  
**JUNE 30, 2006**

|   | <u>Library Fund</u> | <u>Public Safety<br/>Academy Fund</u> | <u>Team/Parkwise</u> | <u>Convention<br/>Center Fund</u> |
|---|---------------------|---------------------------------------|----------------------|-----------------------------------|
| <b><u>ASSETS</u></b>                        |                     |                                       |                      |                                   |
| Pooled Cash and Investments                 | \$ 1,326,822        | \$ 144,810                            | \$ 2,500             | \$ 4,540,762                      |
| Cash/Investments with Fiscal Agent          |                     |                                       | 172,296              |                                   |
| Long Term Investments                       |                     |                                       | 1,170,557            |                                   |
| Accounts Receivable, Net                    | 56,011              |                                       | 203,486              | 295,152                           |
| Notes and Loans Receivable                  |                     |                                       |                      |                                   |
| Due from Other Agencies                     |                     |                                       | 192,609              |                                   |
| Grants and Entitlements Receivable          |                     |                                       |                      |                                   |
| Interest Receivable                         |                     |                                       | 643                  |                                   |
| Other Assets                                |                     |                                       | 11,805               |                                   |
| <b>Total assets</b>                         | <u>\$ 1,382,833</u> | <u>\$ 144,810</u>                     | <u>\$ 1,753,896</u>  | <u>\$ 4,835,914</u>               |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |                     |                                       |                      |                                   |
| Liabilities:                                |                     |                                       |                      |                                   |
| Accounts Payable                            | \$ 256,330          | \$ 28,889                             | \$ 74,320            | \$ 168,859                        |
| Accrued Payroll Liabilities                 | 409,080             | 115,816                               | 19,431               | 49,442                            |
| Accrued Interest Payable                    |                     |                                       | 5,542                |                                   |
| Advances from Other Funds                   |                     |                                       |                      |                                   |
| Interfund Payable                           |                     |                                       | 1,621,279            |                                   |
| Due to Other Agencies                       | 656,279             | 105                                   |                      | 392                               |
| Refundable Deposits                         | 262                 |                                       | 5,702                | 3,461,384                         |
| Deferred Revenue                            |                     |                                       |                      |                                   |
| <b>Total liabilities</b>                    | <u>1,321,951</u>    | <u>144,810</u>                        | <u>1,726,274</u>     | <u>3,680,077</u>                  |
| Fund balances (deficits):                   |                     |                                       |                      |                                   |
| Reserved for Debt Service                   |                     | 182,794                               |                      |                                   |
| Reserved for Capital Improvements           |                     |                                       | 172,939              |                                   |
| Reserved for Advances and Deposits          | 2,474               |                                       |                      | 9,400                             |
| Reserve for Other Purposes                  | 58,408              | 202,684                               | 1,170,557            | 1,146,437                         |
| Unreserved:                                 |                     |                                       |                      |                                   |
| Undesignated                                |                     | (385,478)                             | (1,315,874)          |                                   |
| <b>Total fund balances</b>                  | <u>60,882</u>       | <u>(385,478)</u>                      | <u>(1,315,874)</u>   | <u>1,155,837</u>                  |
| <b>Total liabilities and fund balances</b>  | <u>\$ 1,382,833</u> | <u>\$ 144,810</u>                     | <u>\$ 1,753,896</u>  | <u>\$ 4,835,914</u>               |

| H.U.R.F. Fund           | Civic Contribution Fund | Human and Community Development Fund | Development Fee Fund | Miscellaneous Housing Grant Fund | Public Housing Fund   |
|-------------------------|-------------------------|--------------------------------------|----------------------|----------------------------------|-----------------------|
| \$ 8,675,205<br>34,422  | \$ 2,845,287            | \$                                   | \$ 8,195,889         | \$                               | \$ 5,199,633          |
| 7,061,164               |                         | 4,516,984                            |                      | 818                              | 367,361               |
|                         |                         | 1,153,395                            |                      | 6,498,759                        | 11,467,578            |
| 119,471                 | 18,191                  |                                      | 35,143               | 100,074                          | 831,028               |
|                         |                         |                                      |                      | 2,895,535                        | 17,206                |
|                         |                         |                                      |                      | 20,427                           | 1,812,929             |
| <u>\$ 15,890,262</u>    | <u>\$ 2,863,478</u>     | <u>\$ 5,670,379</u>                  | <u>\$ 8,231,032</u>  | <u>\$ 9,515,613</u>              | <u>\$ 19,695,735</u>  |
| \$ 1,824,396<br>436,701 | \$ 16,125               | \$ 497,501<br>29,034                 | \$                   | \$ 505,380<br>14,465             | \$ 240,460<br>103,799 |
|                         |                         |                                      | 3,012,321            |                                  |                       |
|                         |                         | 570,762                              |                      | 1,761,186                        |                       |
| 1,487                   | 2                       | 51,023                               |                      |                                  | 272,006               |
| 80                      |                         | 7,202                                |                      | 10,490                           | 680,031               |
|                         |                         | 21,333                               |                      | 6,498,759                        | 12,154,075            |
| <u>2,262,664</u>        | <u>16,127</u>           | <u>1,176,855</u>                     | <u>3,012,321</u>     | <u>8,790,280</u>                 | <u>13,450,371</u>     |
|                         |                         |                                      | 5,218,711            |                                  |                       |
| 3,750,814               | 2,847,351               | 4,493,524                            |                      | 131,124                          | 5,917,680             |
| 9,876,784               |                         |                                      |                      | 594,209                          | 327,684               |
| <u>13,627,598</u>       | <u>2,847,351</u>        | <u>4,493,524</u>                     | <u>5,218,711</u>     | <u>725,333</u>                   | <u>6,245,364</u>      |
| <u>\$ 15,890,262</u>    | <u>\$ 2,863,478</u>     | <u>\$ 5,670,379</u>                  | <u>\$ 8,231,032</u>  | <u>\$ 9,515,613</u>              | <u>\$ 19,695,735</u>  |

(Continued)

**CITY OF TUCSON, ARIZONA**  
**COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS**  
**JUNE 30, 2006**  
**(Concluded)**

|   | Public Housing<br>HOME<br>Program Fund | Other Federal<br>Grants Fund | Non-Federal<br>Grants Fund | Totals               |
|---|--|------------------------------|----------------------------|----------------------|
| <b><u>ASSETS</u></b>                        |  |                              |                            |                      |
| Pooled Cash and Investments                 | \$                                     | \$                           | \$                         | \$ 30,930,908        |
| Cash/Investments with Fiscal Agent          |  | 396,998                      |                            | 603,716              |
| Long Term Investments                       |  |                              |                            | 1,170,557            |
| Accounts Receivable, Net                    |  | 308                          |                            | 7,984,300            |
| Notes and Loans Receivable                  | 8,071,821                              |                              |                            | 30,555,142           |
| Due from Other Agencies                     |  |                              |                            | 292,683              |
| Grants and Entitlements Receivable          | 642,993                                | 5,653,281                    | 835,980                    | 12,012,212           |
| Interest Receivable                         |  |                              |                            | 190,654              |
| Other Assets                                |  | 3,390                        |                            | 1,848,551            |
| <b>Total assets</b>                         | <b>\$ 8,714,814</b>                    | <b>\$ 6,053,977</b>          | <b>\$ 835,980</b>          | <b>\$ 85,588,723</b> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |  |                              |                            |                      |
| Liabilities:                                |  |                              |                            |                      |
| Accounts Payable                            | \$ 274,783                             | \$ 510,051                   | \$ 149,576                 | \$ 4,546,670         |
| Accrued Payroll Liabilities                 | 12,079                                 | 39,865                       | 16,776                     | 1,246,488            |
| Accrued Interest Payable                    |  |                              |                            | 5,542                |
| Advances from Other Funds                   |  |                              |                            | 3,012,321            |
| Interfund Payable                           | 347,870                                | 4,337,666                    | 586,352                    | 9,225,115            |
| Due to Other Agencies                       |  | 5,828                        |                            | 987,122              |
| Refundable Deposits                         | 8,261                                  | 5,040                        | 128                        | 4,178,580            |
| Deferred Revenue                            | 8,071,821                              | 782,758                      | 83,148                     | 27,611,894           |
| <b>Total liabilities</b>                    | <b>8,714,814</b>                       | <b>5,681,208</b>             | <b>835,980</b>             | <b>50,813,732</b>    |
| Fund balances (deficits):                   |  |                              |                            |                      |
| Reserved for Debt Service                   |  |                              |                            | 182,794              |
| Reserved for Capital Improvements           |  |                              |                            | 5,391,650            |
| Reserved for Advances and Deposits          |  |                              |                            | 11,874               |
| Reserve for Other Purposes                  |  | 396,998                      |                            | 20,115,577           |
| Unreserved:                                 |  |                              |                            |                      |
| Undesignated                                |  | (24,229)                     |                            | 9,073,096            |
| <b>Total fund balances</b>                  |  | <b>372,769</b>               |                            | <b>34,774,991</b>    |
| <b>Total liabilities and fund balances</b>  | <b>\$ 8,714,814</b>                    | <b>\$ 6,053,977</b>          | <b>\$ 835,980</b>          | <b>\$ 85,588,723</b> |

**CITY OF TUCSON, ARIZONA**  
**COMBINING BALANCE SHEET - NON-MAJOR DEBT SERVICE FUNDS**  
**JUNE 30, 2006**

|  | Special<br>Assessment<br>Bond and<br>Interest Fund | General<br>Obligation<br>Bond and<br>Interest Fund | Street and<br>Highway Bond<br>and Interest<br>Fund | Totals               |
|--|--|--|--|----------------------|
| <b><u>ASSETS</u></b>   |  |  |  |                      |
| Pooled Cash and Investments                                  | \$ 1,604,556                                       | \$ 7,843,189                                       | \$   | \$ 9,447,745         |
| Cash/Investments with Fiscal Agent                           | 86,898   | 15,698,742   | 13,089,750   | 28,875,390           |
| Special Assessments Receivable                               | 3,253,624  |  |  | 3,253,624            |
| Interest Receivable  | 10,093   |  |  | 10,093               |
| <b>Total assets</b>  | <b>\$ 4,955,171</b>                                | <b>\$ 23,541,931</b>                               | <b>\$ 13,089,750</b>                               | <b>\$ 41,586,852</b> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>                  |  |  |  |                      |
| Liabilities:   |  |  |  |                      |
| Accounts Payable   | \$ 2,353   | \$ 3,450   | \$   | \$ 5,803             |
| Refundable Deposits  | 69,553   |  |  | 69,553               |
| Bonds and Interest Payable,<br>including Special Assessments | 86,898   | 15,698,742   | 13,089,750   | 28,875,390           |
| Deferred Revenue   | 3,206,592  |  |  | 3,206,592            |
| <b>Total liabilities</b>                                     | <b>3,365,396</b>                                   | <b>15,702,192</b>                                  | <b>13,089,750</b>                                  | <b>32,157,338</b>    |
| Fund balances:   |  |  |  |                      |
| Reserved for Debt Service                                    | 1,589,775  | 7,839,739  |  | 9,429,514            |
| <b>Total fund balances</b>                                   | <b>1,589,775</b>                                   | <b>7,839,739</b>                                   |  | <b>9,429,514</b>     |
| <b>Total liabilities and fund<br/>balances</b>               | <b>\$ 4,955,171</b>                                | <b>\$ 23,541,931</b>                               | <b>\$ 13,089,750</b>                               | <b>\$ 41,586,852</b> |

**CITY OF TUCSON, ARIZONA**  
**COMBINING BALANCE SHEET - NON-MAJOR CAPITAL PROJECTS FUNDS**  
**JUNE 30, 2006**

|   | Special<br>Assessment<br>Construction<br>Fund | 2000 Street<br>and Highway<br>Improvement | 2000 General<br>Obligation Fund | 1994 General<br>Obligation Fund |
|---|---|---|---------------------------------|---------------------------------|
| <b><u>ASSETS</u></b>                        |   |   |                                 |                                 |
| Pooled Cash and Investments                 | \$  | \$ 3,164,738                              | \$ 13,329,770                   | \$ 389,872                      |
| Interfund Receivable                        |   |   | 3,586,668                       |                                 |
| Interest Receivable                         |   | 24,907                                    | 121,725                         | 3,680                           |
| <b>Total assets</b>                         | <b>\$</b>                                     | <b>\$ 3,189,645</b>                       | <b>\$ 17,038,163</b>            | <b>\$ 393,552</b>               |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |   |   |                                 |                                 |
| Liabilities:                                |   |   |                                 |                                 |
| Accounts Payable                            | \$ 4,268                                      | \$ 203,313                                | \$ 3,071,401                    | \$ 1,225                        |
| Advances from Other Funds                   | 3,135,534                                     |   |                                 |                                 |
| Due to Other Agencies                       |   | 1,483                                     | 26,117                          |                                 |
| Refundable Deposits                         | 716   |   | 2,945                           |                                 |
| <b>Total liabilities</b>                    | <b>3,140,518</b>                              | <b>204,796</b>                            | <b>3,100,463</b>                | <b>1,225</b>                    |
| Fund balances (deficits):                   |   |   |                                 |                                 |
| Reserved for Capital Improvements           |   | 2,984,849                                 | 13,937,700                      | 392,327                         |
| Unreserved:                                 |   |   |                                 |                                 |
| Undesignated                                | (3,140,518)                                   |   |                                 |                                 |
| <b>Total fund balances</b>                  | <b>(3,140,518)</b>                            | <b>2,984,849</b>                          | <b>13,937,700</b>               | <b>392,327</b>                  |
| <b>Total liabilities and fund balances</b>  | <b>\$</b>                                     | <b>\$ 3,189,645</b>                       | <b>\$ 17,038,163</b>            | <b>\$ 393,552</b>               |

Totals

\$ 16,884,380  
3,586,668  
150,312  
\$ 20,621,360

\$ 3,280,207  
3,135,534  
27,600  
3,661  
6,447,002

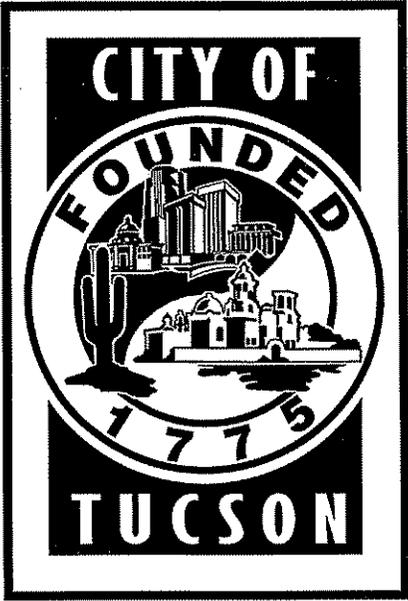
17,314,876

(3,140,518)  
14,174,358

\$ 20,621,360

CITY OF TUCSON, ARIZONA  
COMBINING BALANCE SHEET - ALL PERMANENT FUNDS  
JUNE 30, 2006

|  | Civic<br>Endowment<br>Fund |
|--|----------------------------|
| <b>ASSETS</b>                                  |                            |
| Pooled Cash and Investments                    | \$ 153,366                 |
| Interest Receivable                            | 944                        |
| <b>Total assets</b>                            | <u>\$ 154,310</u>          |
| Fund balances:                                 |                            |
| Reserve for Other Purposes                     | <u>154,310</u>             |
| <b>Total fund balances</b>                     | <u>154,310</u>             |
| <b>Total liabilities and fund<br/>balances</b> | <u>\$ 154,310</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, 2006**

|  | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
|--|------------------------|---------------------|-------------------------|
| <b>Revenues:</b>   |                        |                     |                         |
| Taxes  | \$                     | \$ 24,220,337       | \$                      |
| Licenses and Permits                                     | 749,147                |                     |                         |
| Fines and Forfeitures                                    | 1,105,578              | 4,745               |                         |
| Developer Fees   | 8,585,307              |                     |                         |
| Use of Money and Property                                | 1,248,084              | 50,500              | 914,539                 |
| Federal Grants and Contributions                         | 63,890,742             |                     |                         |
| Other Agencies   | 56,416,690             | 8,395,293           |                         |
| Charges for Services                                     | 8,728,195              |                     |                         |
| Special Assessments                                      |                        | 687,315             | 650,661                 |
| Miscellaneous  | 3,402,655              | 1,791               |                         |
| <b>Total revenues</b>                                    | <u>144,126,398</u>     | <u>33,359,981</u>   | <u>1,565,200</u>        |
| <b>Expenditures:</b>                                     |                        |                     |                         |
| Current -  |                        |                     |                         |
| Elected and Official                                     | 375,010                |                     |                         |
| Support Services   | 19,332                 |                     |                         |
| Neighborhood Services                                    | 84,922,672             |                     | 300,528                 |
| Environment and Development                              | 37,936,745             |                     | 1,206,284               |
| Strategic Initiatives                                    | 10,369,335             |                     |                         |
| Non-Departmental   | 494,398                |                     |                         |
| Capital Outlay   | 2,694,444              |                     |                         |
| Capital Projects   | 15,304,365             |                     | 22,710,251              |
| Debt service -   |                        |                     |                         |
| Principal  | 1,061,124              | 19,386,600          |                         |
| Interest   | 698,731                | 19,815,091          |                         |
| Fiscal Agent Fees and Other                              |                        | 34,224              |                         |
| <b>Total expenditures</b>                                | <u>153,876,156</u>     | <u>39,235,915</u>   | <u>24,217,063</u>       |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>(9,749,758)</u>     | <u>(5,875,934)</u>  | <u>(22,651,863)</u>     |
| <b>Other financing sources (uses):</b>                   |                        |                     |                         |
| Face Amount of Bond Proceeds                             |                        |                     | 347,766                 |
| Lease Purchase and Contracts Proceeds                    | 2,920,808              |                     |                         |
| Transfers from Other Funds                               | 23,233,815             | 8,522,508           | 262,840                 |
| Transfers to Other Funds                                 | (11,802,444)           |                     | (369,936)               |
| <b>Total other financing sources (uses)</b>              | <u>14,352,179</u>      | <u>8,522,508</u>    | <u>240,670</u>          |
| <b>Change in fund balances</b>                           | <u>4,602,421</u>       | <u>2,646,574</u>    | <u>(22,411,193)</u>     |
| <b>Fund balances, beginning of year</b>                  | 30,172,570             | 6,782,940           | 36,585,551              |
| <b>Fund balances, end of year</b>                        | <u>\$ 34,774,991</u>   | <u>\$ 9,429,514</u> | <u>\$ 14,174,358</u>    |

| Civic<br>Endowment Fund | Total<br>Non-Major<br>Governmental<br>Funds |
|-------------------------|---|
| \$                      | \$ 24,220,337                               |
|                         | 749,147                                     |
|                         | 1,110,323                                   |
|                         | 8,585,307                                   |
| 4,795                   | 2,217,918                                   |
|                         | 63,890,742                                  |
|                         | 64,811,983                                  |
|                         | 8,728,195                                   |
|                         | 1,337,976                                   |
|                         | <u>3,404,446</u>                            |
| <u>4,795</u>            | <u>179,056,374</u>                          |
|                         | 375,010                                     |
|                         | 19,332                                      |
| 87                      | 85,223,287                                  |
|                         | 39,143,029                                  |
|                         | 10,369,335                                  |
|                         | 494,398                                     |
|                         | 2,694,444                                   |
|                         | 38,014,616                                  |
|                         | 20,447,724                                  |
|                         | 20,513,822                                  |
|                         | <u>34,224</u>                               |
| <u>87</u>               | <u>217,329,221</u>                          |
| <u>4,708</u>            | <u>(38,272,847)</u>                         |
|                         | 347,766                                     |
|                         | 2,920,808                                   |
|                         | 32,019,163                                  |
|                         | <u>(12,172,380)</u>                         |
|                         | <u>23,115,357</u>                           |
| <u>4,708</u>            | <u>(15,157,490)</u>                         |
| 149,602                 | 73,690,663                                  |
| <u>\$ 154,310</u>       | <u>\$ 58,533,173</u>                        |

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2006**

|  | Library Fund | Public Safety<br>Academy Fund | Team/Parkwise |
|--|--------------|-------------------------------|---------------|
| <b>Revenues:</b>   |              |                               |               |
| Licenses and Permits                                     | \$           | \$                            | \$            |
| Fines and Forfeitures                                    | 510,008      |                               | 595,570       |
| Developer Fees   |              |                               |               |
| Use of Money and Property                                |              | 7,098                         | 107,089       |
| Federal Grants and Contributions                         |              |                               |               |
| Other Agencies   | 11,871,008   | 150,009                       |               |
| Charges for Services                                     | 112,486      | 237,713                       | 2,107,148     |
| Miscellaneous  |              | 22                            | 7             |
| <b>Total revenues</b>                                    | 12,493,502   | 394,842                       | 2,809,814     |
| <b>Expenditures:</b>                                     |              |                               |               |
| Current -  |              |                               |               |
| Elected and Official                                     |              |                               |               |
| Support Services   |              |                               |               |
| Neighborhood Services                                    | 22,419,903   | 6,616,919                     |               |
| Environment and Development                              |              |                               | 2,892,208     |
| Strategic Initiatives                                    |              |                               |               |
| Non-Departmental   |              |                               |               |
| Capital Outlay   |              | 17,141                        |               |
| Capital Projects   |              |                               | 2,455,791     |
| Debt service -   |              |                               |               |
| Principal  |              | 255,000                       | 523,713       |
| Interest   |              | 23,675                        | 471,467       |
| <b>Total expenditures</b>                                | 22,419,903   | 6,912,735                     | 6,343,179     |
| <b>Excess (deficiency) of revenues over expenditures</b> | (9,926,401)  | (6,517,893)                   | (3,533,365)   |
| <b>Other financing sources (uses):</b>                   |              |                               |               |
| Lease Purchase and Contracts Proceeds                    |              |                               | 1,246,853     |
| Transfers from Other Funds                               | 9,978,957    | 6,517,893                     |               |
| Transfers to Other Funds                                 |              |                               | (37,853)      |
| <b>Total other financing sources (uses)</b>              | 9,978,957    | 6,517,893                     | 1,209,000     |
| <b>Change in fund balances</b>                           | 52,556       |                               | (2,324,365)   |
| <b>Fund balances (deficits), beginning of year</b>       | 8,326        |                               | 2,351,987     |
| <b>Fund balances, end of year</b>                        | \$ 60,882    | \$                            | \$ 27,622     |

| Convention<br>Center Fund | H.U.R.F. Fund        | Civic<br>Contribution<br>Fund | Human and<br>Community<br>Development<br>Fund | Development<br>Fee Fund | Miscellaneous<br>Housing Grant<br>Fund |
|---------------------------|----------------------|-------------------------------|---|-------------------------|--|
| \$                        | \$ 749,147           | \$                            | \$  | \$                      | \$                                     |
| 38,356                    | 777,289              | 89,862                        | 23,876  | 8,585,307               |  |
| 140,840                   |                      |                               | 7,894,118                                     | 110,570                 | 5,911,073                              |
| 8,010                     | 41,975,903           |                               |   |                         |  |
| 3,380,196                 |                      |                               |   |                         |  |
| 169,134                   | 806,096              | 963,606                       |   |                         | 376,450                                |
| <u>3,736,536</u>          | <u>44,308,435</u>    | <u>1,053,468</u>              | <u>7,917,994</u>                              | <u>8,695,877</u>        | <u>6,287,523</u>                       |
|                           |                      | 168                           |   |                         |  |
|                           |                      | 4,332                         |   |                         |  |
|                           | 745,082              | 363,929                       | 6,439,794                                     |                         | 5,646,932                              |
| 10,369,335                | 33,158,079           |                               |   |                         |  |
|                           | 458,523              |                               |   |                         |  |
| 138,928                   | 170,368              | 228,841                       | 600,000                                       |                         |  |
| 124,608                   | 5,702,793            | 65,142                        | 795,177                                       | 170,272                 | 546,749                                |
|                           | 170,390              |                               | 12,972  |                         |  |
|                           | 148,146              |                               | 8,118   |                         |  |
| <u>10,632,871</u>         | <u>40,553,381</u>    | <u>662,412</u>                | <u>7,856,061</u>                              | <u>170,272</u>          | <u>6,193,681</u>                       |
| (6,896,335)               | 3,755,054            | 391,056                       | 61,933  | 8,525,605               | 93,842                                 |
|                           | 1,673,955            |                               |   |                         |  |
| 6,736,965                 | (10,676,189)         |                               |   |                         |  |
| <u>6,736,965</u>          | <u>(9,002,234)</u>   |                               |   |                         |  |
| (159,370)                 | (5,247,180)          | 391,056                       | 61,933  | 8,525,605               | 93,842                                 |
| 1,315,207                 | 18,874,778           | 2,456,295                     | 4,431,591                                     | (3,306,894)             | 631,491                                |
| <u>\$ 1,155,837</u>       | <u>\$ 13,627,598</u> | <u>\$ 2,847,351</u>           | <u>\$ 4,493,524</u>                           | <u>\$ 5,218,711</u>     | <u>\$ 725,333</u>                      |

(Continued)

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2006**  
**(Concluded)**

|  | Public Housing<br>Fund | Public Housing<br>HOME<br>Program Fund | Other Federal<br>Grants Fund |
|--|------------------------|--|------------------------------|
| <b>Revenues:</b>   |                        |  |                              |
| Licenses and Permits                                     | \$                     | \$                                     | \$                           |
| Fines and Forfeitures                                    |                        |  |                              |
| Developer Fees   |                        |  |                              |
| Use of Money and Property                                | 83,277                 |  | 10,667                       |
| Federal Grants and Contributions                         | 32,854,839             | 2,617,141                              | 14,472,731                   |
| Other Agencies   |                        |  |                              |
| Charges for Services                                     | 2,890,652              |  |                              |
| Miscellaneous  | 266,728                | 820,612                                |                              |
| <b>Total revenues</b>                                    | <u>36,095,496</u>      | <u>3,437,753</u>                       | <u>14,483,398</u>            |
| <b>Expenditures:</b>                                     |                        |  |                              |
| Current -  |                        |  |                              |
| Elected and Official                                     |                        |  | 299,442                      |
| Support Services   |                        |  |                              |
| Neighborhood Services                                    | 32,023,832             | 3,156,627                              | 5,795,941                    |
| Environment and Development                              |                        |  | 992,088                      |
| Strategic Initiatives                                    |                        |  |                              |
| Non-Departmental   |                        |  | 35,875                       |
| Capital Outlay   |                        | 177,550                                | 932,612                      |
| Capital Projects   |                        | 103,576                                | 5,227,495                    |
| Debt service -   |                        |  |                              |
| Principal  | 99,049                 |  |                              |
| Interest   | 47,325                 |  |                              |
| <b>Total expenditures</b>                                | <u>32,170,206</u>      | <u>3,437,753</u>                       | <u>13,283,453</u>            |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>3,925,290</u>       |  | <u>1,199,945</u>             |
| <b>Other financing sources (uses):</b>                   |                        |  |                              |
| Lease Purchase and Contracts Proceeds                    |                        |  |                              |
| Transfers from Other Funds                               |                        |  |                              |
| Transfers to Other Funds                                 |                        |  | (1,088,402)                  |
| <b>Total other financing sources (uses)</b>              |                        |  | <u>(1,088,402)</u>           |
| <b>Change in fund balances</b>                           | <u>3,925,290</u>       |  | <u>111,543</u>               |
| <b>Fund balances (deficits), beginning of year</b>       | 2,320,074              |  | 261,226                      |
| <b>Fund balances, end of year</b>                        | <u>\$ 6,245,364</u>    | <u>\$</u>                              | <u>\$ 372,769</u>            |

| Non-Federal<br>Grants Fund | Totals               |
|----------------------------|----------------------|
| \$                         | \$ 749,147           |
|                            | 1,105,578            |
|                            | 8,585,307            |
|                            | 1,248,084            |
|                            | 63,890,742           |
| 2,411,760                  | 56,416,690           |
|                            | 8,728,195            |
|                            | 3,402,655            |
| <u>2,411,760</u>           | <u>144,126,398</u>   |
| 75,400                     | 375,010              |
| 15,000                     | 19,332               |
| 1,713,713                  | 84,922,672           |
| 894,370                    | 37,936,745           |
|                            | 10,369,335           |
|                            | 494,398              |
| 429,004                    | 2,694,444            |
| 112,762                    | 15,304,365           |
|                            | 1,061,124            |
|                            | 698,731              |
| <u>3,240,249</u>           | <u>153,876,156</u>   |
| <u>(828,489)</u>           | <u>(9,749,758)</u>   |
|                            | 2,920,808            |
|                            | 23,233,815           |
|                            | (11,802,444)         |
|                            | <u>14,352,179</u>    |
| <u>(828,489)</u>           | <u>4,602,421</u>     |
| 828,489                    | 30,172,570           |
| <u>\$</u>                  | <u>\$ 34,774,991</u> |

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NON-MAJOR DEBT SERVICE FUNDS**  
**YEAR ENDED JUNE 30, 2006**

|  | Special<br>Assessment<br>Bond and<br>Interest Fund | General<br>Obligation<br>Bond and<br>Interest Fund | Street and<br>Highway Bond<br>and Interest<br>Fund |
|--|--|--|--|
| <b>Revenues:</b>   |  |  |  |
| Taxes  | \$   | \$ 24,220,337                                      | \$   |
| Fines and Forfeitures                                    | 4,745  |  |  |
| Use of Money and Property                                | 50,500   |  |  |
| Other Agencies   |  |  | 8,395,293  |
| Special Assessments                                      | 687,315  |  |  |
| Miscellaneous  | 1,791  |  |  |
| <b>Total revenues</b>                                    | <u>744,351</u>                                     | <u>24,220,337</u>                                  | <u>8,395,293</u>                                   |
| <b>Expenditures:</b>                                     |  |  |  |
| Debt service -   |  |  |  |
| Principal  | 441,600  | 9,695,000  | 9,250,000  |
| Interest   | 168,055  | 11,986,718   | 7,660,318  |
| Fiscal Agent Fees and Other                              | 10,700   | 16,220   | 7,304  |
| <b>Total expenditures</b>                                | <u>620,355</u>                                     | <u>21,697,938</u>                                  | <u>16,917,622</u>                                  |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>123,996</u>                                     | <u>2,522,399</u>                                   | <u>(8,522,329)</u>                                 |
| <b>Other financing sources (uses):</b>                   |  |  |  |
| Transfers from Other Funds                               | 179  |  | 8,522,329  |
| <b>Total other financing sources (uses)</b>              | <u>179</u>   |  | <u>8,522,329</u>                                   |
| <b>Change in fund balances</b>                           | <u>124,175</u>                                     | <u>2,522,399</u>                                   |  |
| <b>Fund balances, beginning of year</b>                  | 1,465,600  | 5,317,340  |  |
| <b>Fund balances, end of year</b>                        | <u>\$ 1,589,775</u>                                | <u>\$ 7,839,739</u>                                | <u>\$</u>  |

Totals

\$ 24,220,337  
4,745  
50,500  
8,395,293  
687,315  
1,791  
33,359,981

19,386,600  
19,815,091  
34,224  
39,235,915

(5,875,934)

8,522,508  
8,522,508

2,646,574

6,782,940

\$ 9,429,514

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
**YEAR ENDED JUNE 30, 2006**

|  | Special<br>Assessment<br>Construction<br>Fund | 2000 Street<br>and Highway<br>Improvement | 2000 General<br>Obligation Fund |
|--|---|---|---------------------------------|
| <b>Revenues:</b>   |   |   |                                 |
| Use of Money and Property                                | \$  | \$ 129,104                                | \$ 763,512                      |
| Special Assessments                                      | 650,661                                       |   |                                 |
| <b>Total revenues</b>                                    | <u>650,661</u>                                | <u>129,104</u>                            | <u>763,512</u>                  |
| <b>Expenditures:</b>                                     |   |   |                                 |
| Current -  |   |   |                                 |
| Neighborhood Services                                    |   |   | 17,899                          |
| Environment and Development                              |   | 1,206,284                                 |                                 |
| Capital Projects   | 458,176                                       | 1,720,425                                 | 20,440,938                      |
| <b>Total expenditures</b>                                | <u>458,176</u>                                | <u>2,926,709</u>                          | <u>20,458,837</u>               |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>192,485</u>                                | <u>(2,797,605)</u>                        | <u>(19,695,325)</u>             |
| <b>Other financing sources (uses):</b>                   |   |   |                                 |
| Face Amount of Bond Proceeds                             | 347,766                                       |   |                                 |
| Transfers from Other Funds                               |   | 262,840                                   |                                 |
| Transfers to Other Funds                                 | (179)   |   | (369,757)                       |
| <b>Total other financing sources (uses)</b>              | <u>347,587</u>                                | <u>262,840</u>                            | <u>(369,757)</u>                |
| <b>Change in fund balances</b>                           | <u>540,072</u>                                | <u>(2,534,765)</u>                        | <u>(20,065,082)</u>             |
| <b>Fund balances (deficits), beginning of year</b>       | (3,680,590)                                   | 5,519,614                                 | 34,002,782                      |
| <b>Fund balances (deficits), end of year</b>             | <u>\$ (3,140,518)</u>                         | <u>\$ 2,984,849</u>                       | <u>\$ 13,937,700</u>            |

| 1994 General<br>Obligation Fund | Totals               |
|---------------------------------|----------------------|
| \$ 21,923                       | \$ 914,539           |
|                                 | 650,661              |
| <u>21,923</u>                   | <u>1,565,200</u>     |
| 282,629                         | 300,528              |
|                                 | 1,206,284            |
| 90,712                          | <u>22,710,251</u>    |
| <u>373,341</u>                  | <u>24,217,063</u>    |
| <u>(351,418)</u>                | <u>(22,651,863)</u>  |
|                                 | 347,766              |
|                                 | 262,840              |
|                                 | <u>(369,936)</u>     |
|                                 | <u>240,670</u>       |
| <u>(351,418)</u>                | <u>(22,411,193)</u>  |
| 743,745                         | 36,585,551           |
| <u>\$ 392,327</u>               | <u>\$ 14,174,358</u> |

**CITY OF TUCSON, ARIZONA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 ALL PERMANENT FUNDS  
 YEAR ENDED JUNE 30, 2006**

|   | Civic<br>Endowment<br>Fund |
|---|----------------------------|
| <b>Revenues:</b>                        |                            |
| Use of Money and Property               | \$ 4,795                   |
| <b>Total revenues</b>                   | <b>4,795</b>               |
| <br>                                    |                            |
| <b>Expenditures:</b>                    |                            |
| Current -                               |                            |
| Neighborhood Services                   | 87                         |
| <b>Total expenditures</b>               | <b>87</b>                  |
| <br>                                    |                            |
| <b>Change in fund balances</b>          | <b>4,708</b>               |
| <br>                                    |                            |
| <b>Fund balances, beginning of year</b> | 149,602                    |
| <br>                                    |                            |
| <b>Fund balances, end of year</b>       | <b>\$ 154,310</b>          |

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF NET ASSETS - ALL INTERNAL SERVICE FUNDS**  
**JUNE 30, 2006**

|  | Fleet Services<br>Fund | Self Insurance<br>Fund | Totals        |
|--|------------------------|------------------------|---------------|
| <b><u>ASSETS</u></b>                               |                        |                        |               |
| Current assets:                                    |                        |                        |               |
| Accounts Receivable, Net                           | \$ 106,846             | \$ 20,846              | \$ 127,692    |
| Due from Other Agencies                            |                        | 2,143,358              | 2,143,358     |
| Interest Receivable                                | 51,506                 | 171,214                | 222,720       |
| Inventories  | 1,081,755              |                        | 1,081,755     |
| Other Assets - Restricted                          |                        | 19,577,581             | 19,577,581    |
| Total current assets                               | 1,240,107              | 21,912,999             | 23,153,106    |
| Noncurrent assets:                                 |                        |                        |               |
| Land and Construction in Progress                  |                        | 30,242                 | 30,242        |
| Other Capital Assets, Net                          | 29,872,356             | 86,036                 | 29,958,392    |
| Total noncurrent assets                            | 29,872,356             | 116,278                | 29,988,634    |
| <b>Total assets</b>                                | 31,112,463             | 22,029,277             | 53,141,740    |
| <b><u>LIABILITIES</u></b>                          |                        |                        |               |
| Current liabilities:                               |                        |                        |               |
| Accounts Payable                                   | \$ 147,386             | \$ 178,855             | \$ 326,241    |
| Accrued Payroll Liabilities                        | 106,952                | 22,808                 | 129,760       |
| Accrued Interest Payable                           | 442                    | 34,679                 | 35,121        |
| Interfund Payable                                  | 3,442,931              | 7,756,575              | 11,199,506    |
| Due to Other Agencies                              | 389,578                | 120                    | 389,698       |
| Refundable Deposits                                | 6,639                  | 2,235                  | 8,874         |
| Current Portion of Contracts Payable               | 25,835                 |                        | 25,835        |
| Current Portion of Claims Payable                  |                        | 10,232,018             | 10,232,018    |
| Total current liabilities                          | 4,119,763              | 18,227,290             | 22,347,053    |
| Noncurrent liabilities:                            |                        |                        |               |
| Contracts Payable                                  | 13,355                 |                        | 13,355        |
| Claims Payable                                     |                        | 15,485,628             | 15,485,628    |
| Total non-current liabilities                      | 13,355                 | 15,485,628             | 15,498,983    |
| <b>Total liabilities</b>                           | 4,133,118              | 33,712,918             | 37,846,036    |
| <b><u>NET ASSETS</u></b>                           |                        |                        |               |
| Invested in Capital Assets, Net of<br>Related Debt | 29,833,166             | 116,278                | 29,949,444    |
| Restricted for Other Purposes                      |                        | 19,577,581             | 19,577,581    |
| Unrestricted                                       | (2,853,821)            | (31,377,500)           | (34,231,321)  |
| <b>Total net assets</b>                            | \$ 26,979,345          | \$ (11,683,641)        | \$ 15,295,704 |

**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, 2006**

|   | Fleet Services<br>Fund | Self Insurance<br>Fund | Totals               |
|---|------------------------|------------------------|----------------------|
| <b>Operating revenues:</b>  |                        |                        |                      |
| Charges for Services  | \$ 20,051,619          | \$ 12,026,608          | \$ 32,078,227        |
| Miscellaneous   | 74,376                 | 37,492                 | 111,868              |
| <b>Total operating revenues</b>                                     | <u>20,125,995</u>      | <u>12,064,100</u>      | <u>32,190,095</u>    |
| <b>Operating expenses:</b>  |                        |                        |                      |
| Personal Services   | 5,896,380              | 1,061,432              | 6,957,812            |
| Contractual Services  | 2,550,568              | 4,531,519              | 7,082,087            |
| Commodities   | 11,580,930             | 253,778                | 11,834,708           |
| Benefits and Claims   |                        | (11,371,734)           | (11,371,734)         |
| Depreciation/Amortization   | 5,432,049              | 3,072                  | 5,435,121            |
| <b>Total operating expenses</b>                                     | <u>25,459,927</u>      | <u>(5,521,933)</u>     | <u>19,937,994</u>    |
| <b>Operating income (loss)</b>                                      | <u>(5,333,932)</u>     | <u>17,586,033</u>      | <u>12,252,101</u>    |
| <b>Nonoperating revenues (expenses):</b>                            |                        |                        |                      |
| Investment Income   | 152,159                | 524,049                | 676,208              |
| Gain (Loss) on Sale of Property/<br>Equipment                       | 609,973                | 382                    | 610,355              |
| Interest Expense  | (2,323)                |                        | (2,323)              |
| <b>Total nonoperating revenues<br/>(expenses)</b>                   | <u>759,809</u>         | <u>524,431</u>         | <u>1,284,240</u>     |
| <b>Income (loss) before capital<br/>contributions and transfers</b> | <u>(4,574,123)</u>     | <u>18,110,464</u>      | <u>13,536,341</u>    |
| <b>Capital Contributions</b>  | 1,941,371              |                        | 1,941,371            |
| <b>Transfers In</b>   | 5,418,914              |                        | 5,418,914            |
| <b>Change in net assets</b>   | <u>2,786,162</u>       | <u>18,110,464</u>      | <u>20,896,626</u>    |
| <b>Total net assets, beginning of year</b>                          | 24,193,183             | (29,794,105)           | (5,600,922)          |
| <b>Total net assets, end of year</b>                                | <u>\$ 26,979,345</u>   | <u>\$ (11,683,641)</u> | <u>\$ 15,295,704</u> |

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF CASH FLOWS -**  
**ALL INTERNAL SERVICE FUNDS**  
**YEAR ENDED JUNE 30, 2006**

|   | Fleet<br>Services<br>Fund | Self<br>Insurance<br>Fund | Totals                |
|---|---------------------------|---------------------------|-----------------------|
| <b>Cash Flows from Operating Activities:</b>  |                           |                           |                       |
| Cash Received from Customers  | \$ 20,159,798             | \$ 9,912,239              | \$ 30,072,037         |
| Cash Payments to Suppliers for Goods and Services   | (14,999,386)              | (9,381,008)               | (24,380,394)          |
| Cash Payments to Employees for Services   | (5,874,602)               | (1,052,935)               | (6,927,537)           |
| Cash Payments to Claimants  |                           | (7,975,391)               | (7,975,391)           |
| Other Operating Revenues  | 74,377                    |                           | 74,377                |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <u>(639,813)</u>          | <u>(8,497,095)</u>        | <u>(9,136,908)</u>    |
| <b>Cash Flows from Noncapital Financing Activities:</b>   |                           |                           |                       |
| Advances from Other Funds   | 3,442,931                 | 7,756,575                 | 11,199,506            |
| <b>Net Cash Provided (Used) by Noncapital Financing Activities</b>                                    | <u>3,442,931</u>          | <u>7,756,575</u>          | <u>11,199,506</u>     |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                                      |                           |                           |                       |
| Acquisition and Construction of Capital Assets  | (6,077,428)               |                           | (6,077,428)           |
| Principal Paid on Capital Debt  | (24,711)                  |                           | (24,711)              |
| Interest Paid on Capital Debt   | (2,600)                   |                           | (2,600)               |
| Proceeds from Sale of Property/Equipment  | 609,973                   | 382                       | 610,355               |
| <b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>                           | <u>(5,494,766)</u>        | <u>382</u>                | <u>(5,494,384)</u>    |
| <b>Cash Flows from Investing Activities:</b>  |                           |                           |                       |
| Investment Income   | 118,540                   | (770,994)                 | (652,454)             |
| Proceeds from Sale of Investments   |                           | (18,310,000)              | (18,310,000)          |
| Purchase of Investments   |                           | 18,956,666                | 18,956,666            |
| <b>Net Cash Provided (Used) by Investing Activities</b>   | <u>118,540</u>            | <u>(124,328)</u>          | <u>(5,788)</u>        |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>   | <u>(2,573,108)</u>        | <u>(864,466)</u>          | <u>(3,437,574)</u>    |
| <b>Cash and Cash Equivalents - July 1</b>   | <u>2,573,108</u>          | <u>864,466</u>            | <u>3,437,574</u>      |
| <b>Cash and Cash Equivalents - June 30</b>  | <u>\$</u>                 | <u>\$</u>                 | <u>\$</u>             |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b> |                           |                           |                       |
| Operating Income(Loss)  | \$ (5,333,932)            | \$ 17,586,033             | \$ 12,252,101         |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: |                           |                           |                       |
| Depreciation/Goodwill Amortization  | 5,432,049                 | 3,072                     | 5,435,121             |
| Decrease (Increase) in Assets:  |                           |                           |                       |
| Accounts Receivable   | 101,737                   | (2,151,862)               | (2,050,125)           |
| Inventories   | (1,081,755)               |                           | (1,081,755)           |
| (Decrease) Increase in Liabilities:   |                           |                           |                       |
| Accounts Payable  | (175,644)                 | (4,597,254)               | (4,772,898)           |
| Accrued Payroll Liabilities   | 21,779                    | 8,497                     | 30,276                |
| Due to Other Agencies   | 389,512                   | (691)                     | 388,821               |
| Customer/Refundable Deposits  | 6,441                     | 2,235                     | 8,676                 |
| Claims and Judgments Payable  |                           | (19,347,125)              | (19,347,125)          |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <u>\$ (639,813)</u>       | <u>\$ (8,497,095)</u>     | <u>\$ (9,136,908)</u> |

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS -**  
**ALL PENSION TRUST FUNDS**  
**JUNE 30, 2006**

|                               | Deferred<br>Compensation<br>Plan | Supplemental<br>Retirement<br>Fund | Totals                |
|-------------------------------|----------------------------------|------------------------------------|-----------------------|
| <b>ASSETS</b>                 |                                  |                                    |                       |
| Pooled Cash and Investments   | \$ 102,359                       | \$ 2,454,299                       | \$ 2,556,658          |
| Employer Contributions        |                                  | 952,300                            | 952,300               |
| Employee Contributions        | 301,874                          | 334,603                            | 636,477               |
| Interest and Dividends        | 108,955                          | 1,378,232                          | 1,487,187             |
| Due from Brokers              |                                  | 12,409,329                         | 12,409,329            |
| Short-term Investments        | 70,552,396                       | 32,930,560                         | 103,482,956           |
| Securities Lending Collateral |                                  | 54,345,243                         | 54,345,243            |
| U.S. Government Obligations   |                                  | 81,768,212                         | 81,768,212            |
| Bonds and Preferred Stocks    |                                  | 23,401,093                         | 23,401,093            |
| Common Stocks                 |                                  | 295,296,426                        | 295,296,426           |
| International Investments     |                                  | 88,276,611                         | 88,276,611            |
| Mutual Funds                  |                                  | 63,757,699                         | 63,757,699            |
| Real Estate                   |                                  | 47,587,953                         | 47,587,953            |
| Other Capital Assets, Net     |                                  | 8,122                              | 8,122                 |
| <b>Total assets</b>           | <b>71,065,584</b>                | <b>704,900,682</b>                 | <b>775,966,266</b>    |
| <b>LIABILITIES</b>            |                                  |                                    |                       |
| Accounts Payable              | 10,996                           | 592,104                            | 603,100               |
| Accrued Payroll Liabilities   | 332                              | 5,188                              | 5,520                 |
| Due to Securities Borrowers   |                                  | 54,345,243                         | 54,345,243            |
| Due to Brokers                |                                  | 34,580,909                         | 34,580,909            |
| Refundable Deposits           |                                  | 1,291                              | 1,291                 |
| <b>Total liabilities</b>      | <b>11,328</b>                    | <b>89,524,735</b>                  | <b>89,536,063</b>     |
| <b>NET ASSETS</b>             |                                  |                                    |                       |
| Held in trust                 | <b>\$ 71,054,256</b>             | <b>\$ 615,375,947</b>              | <b>\$ 686,430,203</b> |

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS-**  
**ALL PENSION TRUST FUNDS**  
**YEAR ENDED JUNE 30, 2006**

|   | Deferred<br>Compensation<br>Plan | Supplemental<br>Retirement Fund | Totals                |
|---|----------------------------------|---------------------------------|-----------------------|
| <b>Additions:</b>                                   |                                  |                                 |                       |
| Employer  | \$                               | \$ 24,319,911                   | \$ 24,319,911         |
| Employees   | 5,903,177                        | 9,355,009                       | 15,258,186            |
| Other Plans   |                                  | 620,601                         | 620,601               |
| Net Increase (Decrease) in Fair Value of Investment | (1,137,507)                      | 48,083,870                      | 46,946,363            |
| Interest, Dividends and Other Income                | 2,208,621                        | 12,443,028                      | 14,651,649            |
| Securities Lending Income                           | 277,014                          | 1,683,061                       | 1,960,075             |
| Less: Investment Activity Expense                   | (18,298)                         | (3,096,323)                     | (3,114,621)           |
| Less: Securities Lending Expense                    | (259,077)                        | (1,618,232)                     | (1,877,309)           |
| Miscellaneous Additions                             | 1,195                            | 53,855                          | 55,050                |
| <b>Total additions</b>                              | <u>6,975,125</u>                 | <u>91,844,780</u>               | <u>98,819,905</u>     |
| <b>Deductions:</b>                                  |                                  |                                 |                       |
| Payments to Participants                            | 1,894,516                        | 33,475,950                      | 35,370,466            |
| Refunds and Transfers to Other Plans                | 4,291,811                        | 1,701,732                       | 5,993,543             |
| Administrative Expense                              | 80,397                           | 433,349                         | 513,746               |
| <b>Total deductions</b>                             | <u>6,266,724</u>                 | <u>35,611,031</u>               | <u>41,877,755</u>     |
| <b>Changes in net assets</b>                        | <u>708,401</u>                   | <u>56,233,749</u>               | <u>56,942,150</u>     |
| <b>Net assets, beginning of year</b>                | 70,345,855                       | 559,142,198                     | 629,488,053           |
| <b>Net assets, end of year</b>                      | <u>\$ 71,054,256</u>             | <u>\$ 615,375,947</u>           | <u>\$ 686,430,203</u> |

**CITY OF TUCSON, ARIZONA**  
**COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**JUNE 30, 2006**

|  | Balance<br>July 1, 2005 | Additions             | Deductions            | Balance<br>June 30, 2006 |
|--|-------------------------|-----------------------|-----------------------|--------------------------|
| <b>Sewer User Fee Fund</b>             |                         |                       |                       |                          |
| <b><u>Assets</u></b>                   |                         |                       |                       |                          |
| Pooled Cash and Investments            | \$ 2,723,611            | \$ 159,271,852        | \$ 159,552,137        | \$ 2,443,326             |
| Accounts Receivable, Net               | 2,889,335               | 80,825,543            | 80,322,277            | 3,392,601                |
| Interest Receivable                    | 5,896                   | 101,593               | 90,289                | 17,200                   |
| <b>Total assets</b>                    | <b>\$ 5,618,842</b>     | <b>\$ 240,198,988</b> | <b>\$ 239,964,703</b> | <b>\$ 5,853,127</b>      |
| <b><u>Liabilities</u></b>              |                         |                       |                       |                          |
| Accounts Payable                       | 2,379,266               |                       | 2,379,266             |                          |
| Due to Other Agencies                  | 3,239,576               | 190,968,051           | 188,354,500           | 5,853,127                |
| <b>Total liabilities</b>               | <b>\$ 5,618,842</b>     | <b>\$ 190,968,051</b> | <b>\$ 190,733,766</b> | <b>\$ 5,853,127</b>      |
| <b>Employee Prepaid Insurance Fund</b> |                         |                       |                       |                          |
| <b><u>Assets</u></b>                   |                         |                       |                       |                          |
| Pooled Cash and Investments            | \$ 92,339               | \$ 161,265,994        | \$ 161,347,393        | \$ 10,940                |
| Accounts Receivable, Net               | 35,365                  | 2,214,222             | 2,238,841             | 10,746                   |
| Due From Other Agencies                |                         | 1,914,399             |                       | 1,914,399                |
| Prepaid Expenses                       | 292,330                 |                       | 292,330               |                          |
| <b>Total assets</b>                    | <b>\$ 420,034</b>       | <b>\$ 165,394,615</b> | <b>\$ 163,878,564</b> | <b>\$ 1,936,085</b>      |
| <b><u>Liabilities</u></b>              |                         |                       |                       |                          |
| Accounts Payable                       | 420,034                 | 162,622,702           | 162,638,673           | 404,063                  |
| Due to Other Agencies                  |                         | 1,532,022             |                       | 1,532,022                |
| <b>Total liabilities</b>               | <b>\$ 420,034</b>       | <b>\$ 164,154,724</b> | <b>\$ 162,638,673</b> | <b>\$ 1,936,085</b>      |
| <b>Totals</b>                          |                         |                       |                       |                          |
| <b><u>Assets</u></b>                   |                         |                       |                       |                          |
| Pooled Cash and Investments            | \$ 2,815,950            | \$ 320,537,846        | \$ 320,899,530        | \$ 2,454,266             |
| Accounts Receivable, Net               | 2,924,700               | 83,039,765            | 82,561,118            | 3,403,347                |
| Due From Other Agencies                |                         | 1,914,399             |                       | 1,914,399                |
| Interest Receivable                    | 5,896                   | 101,593               | 90,289                | 17,200                   |
| Prepaid Expenses                       | 292,330                 |                       | 292,330               |                          |
| <b>Total assets</b>                    | <b>\$ 6,038,876</b>     | <b>\$ 405,593,603</b> | <b>\$ 403,843,266</b> | <b>\$ 7,789,212</b>      |
| <b><u>Liabilities</u></b>              |                         |                       |                       |                          |
| Accounts Payable                       | 2,799,300               | 162,622,702           | 165,017,939           | 404,063                  |
| Due to Other Agencies                  | 3,239,576               | 192,500,073           | 188,354,500           | 7,385,149                |
| <b>Total liabilities</b>               | <b>\$ 6,038,876</b>     | <b>\$ 355,122,775</b> | <b>\$ 353,372,439</b> | <b>\$ 7,789,212</b>      |

BUDGET AND ACTUAL  
NONMAJOR  
GOVERNMENTAL FUNDS

**CITY OF TUCSON, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2006**

|  | Library Fund       |                    | Variance -<br>Positive<br>(Negative) |
|--|--------------------|--------------------|--------------------------------------|
|  | Budget             | Actual             |                                      |
| <b>Revenues:</b>   |                    |                    |                                      |
| Licenses and Permits                                     | \$                 | \$                 | \$                                   |
| Fines and Forfeitures                                    | 570,000            | 510,008            | (59,992)                             |
| Developer Fees   |                    |                    |                                      |
| Use of Money and Property                                |                    |                    |                                      |
| Federal Grants and Contributions                         |                    |                    |                                      |
| Other Agencies   | 13,915,830         | 11,871,008         | (2,044,822)                          |
| Charges for Services                                     |                    | 112,486            | 112,486                              |
| Miscellaneous  |                    |                    |                                      |
| <b>Total revenues</b>                                    | <b>14,485,830</b>  | <b>12,493,502</b>  | <b>(1,992,328)</b>                   |
| <b>Expenditures:</b>                                     |                    |                    |                                      |
| Current -  |                    |                    |                                      |
| Elected and Official                                     |                    |                    |                                      |
| Support Services   |                    |                    |                                      |
| Neighborhood Services                                    | 22,367,590         | 22,419,903         | (52,313)                             |
| Environment and Development                              |                    |                    |                                      |
| Strategic Initiatives                                    |                    |                    |                                      |
| Non-Departmental   |                    |                    |                                      |
| Capital Outlay   | 118,240            |                    | 118,240                              |
| Capital Projects   |                    |                    |                                      |
| Debt service -   |                    |                    |                                      |
| Principal  |                    |                    |                                      |
| Interest   |                    |                    |                                      |
| <b>Total expenditures</b>                                | <b>22,485,830</b>  | <b>22,419,903</b>  | <b>65,927</b>                        |
| <b>Excess (deficiency) of revenues over expenditures</b> | <b>(8,000,000)</b> | <b>(9,926,401)</b> | <b>(1,926,401)</b>                   |
| <b>Other financing sources (uses):</b>                   |                    |                    |                                      |
| Lease Purchase and Contracts Proceeds                    |                    |                    |                                      |
| Transfers from Other Funds                               | 8,000,000          | 9,978,957          | 1,978,957                            |
| Transfers to Other Funds                                 |                    |                    |                                      |
| <b>Total other financing sources (uses)</b>              | <b>8,000,000</b>   | <b>9,978,957</b>   | <b>1,978,957</b>                     |
| <b>Change in fund balances</b>                           |                    | <b>52,556</b>      | <b>52,556</b>                        |
| <b>Fund balances (deficits), July 1, 2005</b>            |                    | <b>8,326</b>       | <b>8,326</b>                         |
| <b>Fund balances (deficits), June 30, 2006</b>           | <b>\$</b>          | <b>\$ 60,882</b>   | <b>\$ 60,882</b>                     |

| Public Safety Academy Fund |             |                                | Team/Parkwise |             |                                |
|----------------------------|-------------|--------------------------------|---------------|-------------|--------------------------------|
| Budget                     | Actual      | Variance - Positive (Negative) | Budget        | Actual      | Variance - Positive (Negative) |
| \$                         | \$          | \$                             | \$            | \$          | \$                             |
|                            |             |                                | 590,000       | 595,570     | 5,570                          |
|                            | 7,098       | 7,098                          |               | 107,089     | 107,089                        |
|                            | 150,009     | 150,009                        |               |             |                                |
| 878,950                    | 237,713     | (641,237)                      | 2,936,000     | 2,107,148   | (828,852)                      |
|                            | 22          | 22                             | 678,570       | 7           | (678,563)                      |
| 878,950                    | 394,842     | (484,108)                      | 4,204,570     | 2,809,814   | (1,394,756)                    |
| 5,732,665                  | 6,616,919   | (884,254)                      | 118,230       |             | 118,230                        |
|                            |             |                                | 2,822,380     | 2,892,208   | (69,828)                       |
|                            |             |                                | 75,526        |             | 75,526                         |
| 42,500                     | 17,141      | 25,359                         | 3,368,000     | 2,455,791   | 912,209                        |
| 255,000                    | 255,000     |                                | 557,000       | 523,713     | 33,287                         |
| 23,680                     | 23,675      | 5                              | 477,560       | 471,467     | 6,093                          |
| 6,053,845                  | 6,912,735   | (858,890)                      | 7,418,696     | 6,343,179   | 1,075,517                      |
| (5,174,895)                | (6,517,893) | (1,342,998)                    | (3,214,126)   | (3,533,365) | (319,239)                      |
| 5,045,200                  | 6,517,893   | 1,472,693                      | 3,502,000     | 1,246,853   | (2,255,147)                    |
|                            |             |                                |               | (37,853)    | (37,853)                       |
| 5,045,200                  | 6,517,893   | 1,472,693                      | 3,502,000     | 1,209,000   | (2,293,000)                    |
| (129,695)                  |             | 129,695                        | 287,874       | (2,324,365) | (2,612,239)                    |
|                            |             |                                |               | 2,351,987   | 2,351,987                      |
| \$ (129,695)               | \$          | \$ 129,695                     | \$ 287,874    | \$ 27,622   | \$ (260,252)                   |

(Continued)

**CITY OF TUCSON, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

|  | Convention Center Fund |                     |                                      |
|--|------------------------|---------------------|--------------------------------------|
|  | Budget                 | Actual              | Variance -<br>Positive<br>(Negative) |
| <b>Revenues:</b>   |                        |                     |                                      |
| Licenses and Permits                                     | \$                     | \$                  | \$                                   |
| Fines and Forfeitures                                    |                        |                     |                                      |
| Developer Fees   |                        |                     |                                      |
| Use of Money and Property                                | 36,000                 | 38,356              | 2,356                                |
| Federal Grants and Contributions                         |                        | 140,840             | 140,840                              |
| Other Agencies   |                        | 8,010               | 8,010                                |
| Charges for Services                                     | 3,465,500              | 3,380,196           | (85,304)                             |
| Miscellaneous  | 490,500                | 169,134             | (321,366)                            |
| <b>Total revenues</b>                                    | <u>3,992,000</u>       | <u>3,736,536</u>    | <u>(255,464)</u>                     |
| <b>Expenditures:</b>                                     |                        |                     |                                      |
| Current -  |                        |                     |                                      |
| Elected and Official                                     |                        |                     |                                      |
| Support Services   |                        |                     |                                      |
| Neighborhood Services                                    |                        |                     |                                      |
| Environment and Development                              |                        |                     |                                      |
| Strategic Initiatives                                    | 9,889,740              | 10,369,335          | (479,595)                            |
| Non-Departmental   |                        |                     |                                      |
| Capital Outlay   | 900,000                | 138,928             | 761,072                              |
| Capital Projects   |                        | 124,608             | (124,608)                            |
| Debt service -   |                        |                     |                                      |
| Principal  |                        |                     |                                      |
| Interest   |                        |                     |                                      |
| <b>Total expenditures</b>                                | <u>10,789,740</u>      | <u>10,632,871</u>   | <u>156,869</u>                       |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>(6,797,740)</u>     | <u>(6,896,335)</u>  | <u>(98,595)</u>                      |
| <b>Other financing sources (uses):</b>                   |                        |                     |                                      |
| Lease Purchase and Contracts Proceeds                    |                        |                     |                                      |
| Transfers from Other Funds                               | 6,797,740              | 6,736,965           | (60,775)                             |
| Transfers to Other Funds                                 |                        |                     |                                      |
| <b>Total other financing sources (uses)</b>              | <u>6,797,740</u>       | <u>6,736,965</u>    | <u>(60,775)</u>                      |
| <b>Change in fund balances</b>                           |                        | <u>(159,370)</u>    | <u>(159,370)</u>                     |
| <b>Fund balances (deficits), July 1, 2005</b>            |                        | 1,315,207           | 1,315,207                            |
| <b>Fund balances (deficits), June 30, 2006</b>           | <u>\$</u>              | <u>\$ 1,155,837</u> | <u>\$ 1,155,837</u>                  |

| H.U.R.F. Fund       |                      |                                | Civic Contribution Fund |                     |                                |
|---------------------|----------------------|--------------------------------|-------------------------|---------------------|--------------------------------|
| Budget              | Actual               | Variance - Positive (Negative) | Budget                  | Actual              | Variance - Positive (Negative) |
| \$ 2,325,000        | \$ 749,147           | \$ (1,575,853)                 | \$                      | \$                  | \$                             |
| 550,000             | 777,289              | 227,289                        |                         | 89,862              | 89,862                         |
| 42,468,000          | 41,975,903           | (492,097)                      |                         |                     |                                |
| 9,714,350           | 806,096              | (8,908,254)                    | 3,100,000               | 963,606             | (2,136,394)                    |
| <u>55,057,350</u>   | <u>44,308,435</u>    | <u>(10,748,915)</u>            | <u>3,100,000</u>        | <u>1,053,468</u>    | <u>(2,046,532)</u>             |
|                     |                      |                                |                         | 168                 | (168)                          |
|                     |                      |                                |                         | 4,332               | (4,332)                        |
| 526,784             | 745,082              | (218,298)                      | 3,100,000               | 363,929             | 2,736,071                      |
| 32,603,918          | 33,158,079           | (554,161)                      |                         |                     |                                |
| 428,510             | 458,523              | (30,013)                       |                         |                     |                                |
| 424,284             | 170,368              | 253,916                        |                         | 228,841             | (228,841)                      |
| 11,231,416          | 5,702,793            | 5,528,623                      |                         | 65,142              | (65,142)                       |
| 238,740             | 170,390              | 68,350                         |                         |                     |                                |
| 648,590             | 148,146              | 500,444                        |                         |                     |                                |
| <u>46,102,242</u>   | <u>40,553,381</u>    | <u>5,548,861</u>               | <u>3,100,000</u>        | <u>662,412</u>      | <u>2,437,588</u>               |
|                     |                      |                                |                         |                     |                                |
| 8,955,108           | 3,755,054            | (5,200,054)                    |                         | 391,056             | 391,056                        |
|                     | 1,673,955            | 1,673,955                      |                         |                     |                                |
| (9,161,110)         | (10,676,189)         | (1,515,079)                    |                         |                     |                                |
| <u>(9,161,110)</u>  | <u>(9,002,234)</u>   | <u>158,876</u>                 |                         |                     |                                |
|                     |                      |                                |                         |                     |                                |
| (206,002)           | (5,247,180)          | (5,041,178)                    |                         | 391,056             | 391,056                        |
|                     | 18,874,778           | 18,874,778                     |                         | 2,456,295           | 2,456,295                      |
| <u>\$ (206,002)</u> | <u>\$ 13,627,598</u> | <u>\$ 13,833,600</u>           | <u>\$</u>               | <u>\$ 2,847,351</u> | <u>\$ 2,847,351</u>            |

(Continued)

**CITY OF TUCSON, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2006**  
(Continued)

|  | Human and Community Development Fund |                     |                                      |
|--|--------------------------------------|---------------------|--------------------------------------|
|  | Budget                               | Actual              | Variance -<br>Positive<br>(Negative) |
| <b>Revenues:</b>   |                                      |                     |                                      |
| Licenses and Permits                                     | \$                                   | \$                  | \$                                   |
| Fines and Forfeitures                                    |                                      |                     |                                      |
| Developer Fees   |                                      |                     |                                      |
| Use of Money and Property                                |                                      | 23,876              | 23,876                               |
| Federal Grants and Contributions                         | 13,153,730                           | 7,894,118           | (5,259,612)                          |
| Other Agencies   |                                      |                     |                                      |
| Charges for Services                                     |                                      |                     |                                      |
| Miscellaneous  |                                      |                     |                                      |
| <b>Total revenues</b>                                    | <u>13,153,730</u>                    | <u>7,917,994</u>    | <u>(5,235,736)</u>                   |
| <b>Expenditures:</b>                                     |                                      |                     |                                      |
| Current -  |                                      |                     |                                      |
| Elected and Official                                     |                                      |                     |                                      |
| Support Services   |                                      |                     |                                      |
| Neighborhood Services                                    | 10,936,637                           | 6,439,794           | 4,496,843                            |
| Environment and Development                              |                                      |                     |                                      |
| Strategic Initiatives                                    | 171,470                              |                     | 171,470                              |
| Non-Departmental   |                                      |                     |                                      |
| Capital Outlay   | 500,000                              | 600,000             | (100,000)                            |
| Capital Projects   | 3,511,646                            | 795,177             | 2,716,469                            |
| Debt service -   |                                      |                     |                                      |
| Principal  | 17,980                               | 12,972              | 5,008                                |
| Interest   | 11,250                               | 8,118               | 3,132                                |
| <b>Total expenditures</b>                                | <u>15,148,983</u>                    | <u>7,856,061</u>    | <u>7,292,922</u>                     |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>(1,995,253)</u>                   | <u>61,933</u>       | <u>2,057,186</u>                     |
| <b>Other financing sources (uses):</b>                   |                                      |                     |                                      |
| Lease Purchase and Contracts Proceeds                    |                                      |                     |                                      |
| Transfers from Other Funds                               |                                      |                     |                                      |
| Transfers to Other Funds                                 |                                      |                     |                                      |
| <b>Total other financing sources (uses)</b>              |                                      |                     |                                      |
| <b>Change in fund balances</b>                           | <u>(1,995,253)</u>                   | <u>61,933</u>       | <u>2,057,186</u>                     |
| <b>Fund balances (deficits), July 1, 2005</b>            |                                      | 4,431,591           | 4,431,591                            |
| <b>Fund balances (deficits), June 30, 2006</b>           | <u>\$ (1,995,253)</u>                | <u>\$ 4,493,524</u> | <u>\$ 6,488,777</u>                  |

\*The Development Fee Fund Fund was included in the budget, however, the budget was -0-.



**CITY OF TUCSON, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2006**  
(Continued)

|  | Public Housing Fund |                     |                                      |
|--|---------------------|---------------------|--------------------------------------|
|  | Budget              | Actual              | Variance -<br>Positive<br>(Negative) |
| <b>Revenues:</b>   |                     |                     |                                      |
| Licenses and Permits                                     | \$                  | \$                  | \$                                   |
| Fines and Forfeitures                                    |                     |                     |                                      |
| Developer Fees   |                     |                     |                                      |
| Use of Money and Property                                |                     | 83,277              | 83,277                               |
| Federal Grants and Contributions                         | 31,231,990          | 32,854,839          | 1,622,849                            |
| Other Agencies   |                     |                     |                                      |
| Charges for Services                                     | 2,280,000           | 2,890,652           | 610,652                              |
| Miscellaneous  |                     | 266,728             | 266,728                              |
| <b>Total revenues</b>                                    | <u>33,511,990</u>   | <u>36,095,496</u>   | <u>2,583,506</u>                     |
| <b>Expenditures:</b>                                     |                     |                     |                                      |
| Current -  |                     |                     |                                      |
| Elected and Official                                     |                     |                     |                                      |
| Support Services   |                     |                     |                                      |
| Neighborhood Services                                    | 33,617,090          | 32,023,832          | 1,593,258                            |
| Environment and Development                              |                     |                     |                                      |
| Strategic Initiatives                                    |                     |                     |                                      |
| Non-Departmental   |                     |                     |                                      |
| Capital Outlay   |                     |                     |                                      |
| Capital Projects   |                     |                     |                                      |
| Debt service -   |                     |                     |                                      |
| Principal  | 53,630              | 99,049              | (45,419)                             |
| Interest   | 33,570              | 47,325              | (13,755)                             |
| <b>Total expenditures</b>                                | <u>33,704,290</u>   | <u>32,170,206</u>   | <u>1,534,084</u>                     |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>(192,300)</u>    | <u>3,925,290</u>    | <u>4,117,590</u>                     |
| <b>Other financing sources (uses):</b>                   |                     |                     |                                      |
| Lease Purchase and Contracts Proceeds                    |                     |                     |                                      |
| Transfers from Other Funds                               |                     |                     |                                      |
| Transfers to Other Funds                                 |                     |                     |                                      |
| <b>Total other financing sources (uses)</b>              |                     |                     |                                      |
| <b>Change in fund balances</b>                           | <u>(192,300)</u>    | <u>3,925,290</u>    | <u>4,117,590</u>                     |
| <b>Fund balances (deficits), July 1, 2005</b>            |                     | 2,320,074           | 2,320,074                            |
| <b>Fund balances (deficits), June 30, 2006</b>           | <u>\$ (192,300)</u> | <u>\$ 6,245,364</u> | <u>\$ 6,437,664</u>                  |

| Public Housing HOME Program Fund |           |                                | Other Federal Grants Fund |             |                                |
|----------------------------------|-----------|--------------------------------|---------------------------|-------------|--------------------------------|
| Budget                           | Actual    | Variance - Positive (Negative) | Budget                    | Actual      | Variance - Positive (Negative) |
| \$                               | \$        | \$                             | \$                        | \$          | \$                             |
| 8,125,390                        | 2,617,141 | (5,508,249)                    | 34,535,810                | 14,472,731  | (20,063,079)                   |
|                                  | 820,612   | 820,612                        |                           | 10,667      | 10,667                         |
| 8,125,390                        | 3,437,753 | (4,687,637)                    | 34,535,810                | 14,483,398  | (20,052,412)                   |
|                                  |           |                                | 424,700                   | 299,442     | 125,258                        |
|                                  |           |                                | 1,500,000                 |             | 1,500,000                      |
| 11,476,578                       | 3,156,627 | 8,319,951                      | 6,785,980                 | 5,795,941   | 990,039                        |
|                                  |           |                                | 1,008,820                 | 992,088     | 16,732                         |
|                                  |           |                                | 723,710                   |             | 723,710                        |
|                                  |           |                                |                           | 35,875      | (35,875)                       |
|                                  | 177,550   | (177,550)                      |                           | 932,612     | (932,612)                      |
| 275,134                          | 103,576   | 171,558                        | 24,092,600                | 5,227,495   | 18,865,105                     |
|                                  |           |                                |                           |             |                                |
|                                  | 3,740     | 3,740                          |                           |             |                                |
|                                  | 2,340     | 2,340                          |                           |             |                                |
| 11,757,792                       | 3,437,753 | 8,320,039                      | 34,535,810                | 13,283,453  | 21,252,357                     |
|                                  |           |                                |                           |             |                                |
| (3,632,402)                      |           | 3,632,402                      |                           | 1,199,945   | 1,199,945                      |
|                                  |           |                                |                           |             |                                |
|                                  |           |                                |                           | (1,088,402) | (1,088,402)                    |
|                                  |           |                                |                           | (1,088,402) | (1,088,402)                    |
|                                  |           |                                |                           |             |                                |
| (3,632,402)                      |           | 3,632,402                      |                           | 111,543     | 111,543                        |
|                                  |           |                                |                           |             |                                |
|                                  |           |                                |                           | 261,226     | 261,226                        |
|                                  |           |                                |                           |             |                                |
| \$ (3,632,402)                   | \$        | \$ 3,632,402                   | \$                        | \$ 372,769  | \$ 372,769                     |

(Continued)

**CITY OF TUCSON, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2006**  
**(Concluded)**

|  | Non-Federal Grants Fund |                  |                                      |
|--|-------------------------|------------------|--------------------------------------|
|  | Budget                  | Actual           | Variance -<br>Positive<br>(Negative) |
| <b>Revenues:</b>   |                         |                  |                                      |
| Licenses and Permits                                     | \$                      | \$               | \$                                   |
| Fines and Forfeitures                                    |                         |                  |                                      |
| Developer Fees   |                         |                  |                                      |
| Use of Money and Property                                |                         |                  |                                      |
| Federal Grants and Contributions                         |                         |                  |                                      |
| Other Agencies   | 8,645,930               | 2,411,760        | (6,234,170)                          |
| Charges for Services                                     |                         |                  |                                      |
| Miscellaneous  |                         |                  |                                      |
| <b>Total revenues</b>                                    | <u>8,645,930</u>        | <u>2,411,760</u> | <u>(6,234,170)</u>                   |
| <b>Expenditures:</b>                                     |                         |                  |                                      |
| Current -  |                         |                  |                                      |
| Elected and Official                                     | 148,870                 | 75,400           | 73,470                               |
| Support Services   | 781,731                 | 15,000           | 766,731                              |
| Neighborhood Services                                    | 4,699,424               | 1,713,713        | 2,985,711                            |
| Environment and Development                              | 1,828,548               | 894,370          | 934,178                              |
| Strategic Initiatives                                    | 277,650                 |                  | 277,650                              |
| Non-Departmental   |                         |                  |                                      |
| Capital Outlay   | 408,006                 | 429,004          | (20,998)                             |
| Capital Projects   | 64,578                  | 112,762          | (48,184)                             |
| Debt service -   |                         |                  |                                      |
| Principal  |                         |                  |                                      |
| Interest   |                         |                  |                                      |
| <b>Total expenditures</b>                                | <u>8,208,807</u>        | <u>3,240,249</u> | <u>4,968,558</u>                     |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>437,123</u>          | <u>(828,489)</u> | <u>(1,265,612)</u>                   |
| <b>Other financing sources (uses):</b>                   |                         |                  |                                      |
| Lease Purchase and Contracts Proceeds                    |                         |                  |                                      |
| Transfers from Other Funds                               |                         |                  |                                      |
| Transfers to Other Funds                                 |                         |                  |                                      |
| <b>Total other financing sources (uses)</b>              |                         |                  |                                      |
| <b>Change in fund balances</b>                           | <u>437,123</u>          | <u>(828,489)</u> | <u>(1,265,612)</u>                   |
| <b>Fund balances (deficits), July 1, 2005</b>            |                         | 828,489          | 828,489                              |
| <b>Fund balances (deficits), June 30, 2006</b>           | <u>\$ 437,123</u>       | <u>\$</u>        | <u>\$ (437,123)</u>                  |

| Totals                 |                      |                                      |
|------------------------|----------------------|--------------------------------------|
| Budget                 | Actual               | Variance -<br>Positive<br>(Negative) |
| \$ 2,325,000           | \$ 749,147           | \$ (1,575,853)                       |
| 1,160,000              | 1,105,578            | (54,422)                             |
|                        | 8,585,307            | 8,585,307                            |
| 586,000                | 1,248,084            | 662,084                              |
| 93,692,990             | 63,890,742           | (29,802,248)                         |
| 65,029,760             | 56,416,690           | (8,613,070)                          |
| 9,560,450              | 8,728,195            | (832,255)                            |
| 13,983,420             | 3,402,655            | (10,580,765)                         |
| <u>186,337,620</u>     | <u>144,126,398</u>   | <u>(42,211,222)</u>                  |
| 573,570                | 375,010              | 198,560                              |
| 2,281,731              | 19,332               | 2,262,399                            |
| 117,396,914            | 84,922,672           | 32,474,242                           |
| 38,263,666             | 37,936,745           | 326,921                              |
| 11,062,570             | 10,369,335           | 693,235                              |
| 504,036                | 494,398              | 9,638                                |
| 2,453,030              | 2,694,444            | (241,414)                            |
| 43,756,762             | 15,304,365           | 28,452,397                           |
| 1,126,090              | 1,061,124            | 64,966                               |
| 1,196,990              | 698,731              | 498,259                              |
| <u>218,615,359</u>     | <u>153,876,156</u>   | <u>64,739,203</u>                    |
| <u>(32,277,739)</u>    | <u>(9,749,758)</u>   | <u>22,527,981</u>                    |
| 3,502,000              | 2,920,808            | (581,192)                            |
| 19,842,940             | 23,233,815           | 3,390,875                            |
| <u>(9,161,110)</u>     | <u>(11,802,444)</u>  | <u>(2,641,334)</u>                   |
| <u>14,183,830</u>      | <u>14,352,179</u>    | <u>168,349</u>                       |
| <u>(18,093,909)</u>    | <u>4,602,421</u>     | <u>22,696,330</u>                    |
|                        | 30,172,570           | 30,172,570                           |
| <u>\$ (18,093,909)</u> | <u>\$ 34,774,991</u> | <u>\$ 52,868,900</u>                 |

**CITY OF TUCSON, ARIZONA  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUNDS  
 YEAR ENDED JUNE 30, 2006**

|  | <u>Special Assessment Bond and Interest Fund</u> |                     |   |
|--|--|---------------------|---|
|  | <u>Budget*</u>                                   | <u>Actual</u>       | <u>Variance -<br/>Positive<br/>(Negative)</u> |
| <b>Revenues:</b>   |  |                     |   |
| Taxes  | \$   | \$                  | \$  |
| Fines and Forfeitures                                    |  | 4,745               | 4,745   |
| Use of Money and Property                                |  | 50,500              | 50,500  |
| Other Agencies   |  |                     |   |
| Special Assessments                                      |  | 687,315             | 687,315                                       |
| Miscellaneous  |  | 1,791               | 1,791   |
| <b>Total revenues</b>                                    |  | <u>744,351</u>      | <u>744,351</u>                                |
| <b>Expenditures:</b>                                     |  |                     |   |
| Debt service -   |  |                     |   |
| Principal  |  | 441,600             | (441,600)                                     |
| Interest   |  | 168,055             | (168,055)                                     |
| Fiscal Agent Fees and Other                              |  | 10,700              | (10,700)                                      |
| <b>Total expenditures</b>                                |  | <u>620,355</u>      | <u>(620,355)</u>                              |
| <b>Excess (deficiency) of revenues over expenditures</b> |  | <u>123,996</u>      | <u>123,996</u>                                |
| <b>Other financing sources (uses):</b>                   |  |                     |   |
| Transfers from Other Funds                               |  | 179                 | 179   |
| <b>Total other financing sources (uses)</b>              |  | <u>179</u>          | <u>179</u>                                    |
| <b>Change in fund balances</b>                           |  | <u>124,175</u>      | <u>124,175</u>                                |
| <b>Fund balances, July 1, 2005</b>                       |  | 1,465,600           | 1,465,600                                     |
| <b>Fund balances, June 30, 2006</b>                      | <u>\$</u>  | <u>\$ 1,589,775</u> | <u>\$ 1,589,775</u>                           |

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

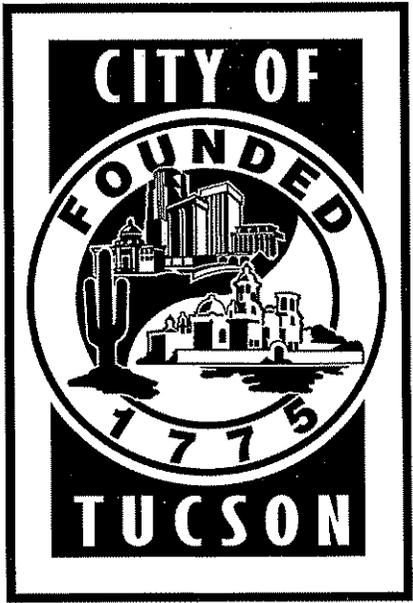
| General Obligation Bond and Interest Fund |               |                                      |
|---|---------------|--------------------------------------|
| Budget                                    | Actual        | Variance -<br>Positive<br>(Negative) |
| \$ 24,235,450                             | \$ 24,220,337 | \$ (15,113)                          |
| 24,235,450                                | 24,220,337    | (15,113)                             |
| 9,695,000                                 | 9,695,000     |                                      |
| 14,534,450                                | 11,986,718    | 2,547,732                            |
| 6,000                                     | 16,220        | (10,220)                             |
| 24,235,450                                | 21,697,938    | 2,537,512                            |
|   | 2,522,399     | 2,522,399                            |
|   |               |                                      |
|   |               |                                      |
|   | 2,522,399     | 2,522,399                            |
|   | 5,317,340     | 5,317,340                            |
| \$  | \$ 7,839,739  | \$ 7,839,739                         |

| Street and Highway Bond and Interest Fund |             |                                      |
|---|-------------|--------------------------------------|
| Budget                                    | Actual      | Variance -<br>Positive<br>(Negative) |
| \$  | \$          | \$                                   |
| 8,042,000                                 | 8,395,293   | 353,293                              |
| 8,042,000                                 | 8,395,293   | 353,293                              |
| 9,250,000                                 | 9,250,000   |                                      |
| 7,947,110                                 | 7,660,318   | 286,792                              |
| 6,000                                     | 7,304       | (1,304)                              |
| 17,203,110                                | 16,917,622  | 285,488                              |
| (9,161,110)                               | (8,522,329) | 638,781                              |
| 9,161,110                                 | 8,522,329   | (638,781)                            |
| 9,161,110                                 | 8,522,329   | (638,781)                            |
|   |             |                                      |
|   |             |                                      |
|   |             |                                      |
|   |             |                                      |
| \$  | \$          | \$                                   |

(Continued)

**CITY OF TUCSON, ARIZONA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUNDS**  
**YEAR ENDED JUNE 30, 2006**  
**(Concluded)**

|  | Totals             |                     | Variance -<br>Positive<br>(Negative) |
|--|--------------------|---------------------|--------------------------------------|
|  | Budget             | Actual              |                                      |
| <b>Revenues:</b>   |                    |                     |                                      |
| Taxes  | \$ 24,235,450      | \$ 24,220,337       | \$ (15,113)                          |
| Fines and Forfeitures                                    |                    | 4,745               | 4,745                                |
| Use of Money and Property                                |                    | 50,500              | 50,500                               |
| Other Agencies   | 8,042,000          | 8,395,293           | 353,293                              |
| Special Assessments                                      |                    | 687,315             | 687,315                              |
| Miscellaneous  |                    | 1,791               | 1,791                                |
| <b>Total revenues</b>                                    | <u>32,277,450</u>  | <u>33,359,981</u>   | <u>1,082,531</u>                     |
| <b>Expenditures:</b>                                     |                    |                     |                                      |
| Debt service -   |                    |                     |                                      |
| Principal  | 18,945,000         | 19,386,600          | (441,600)                            |
| Interest   | 22,481,560         | 19,815,091          | 2,666,469                            |
| Fiscal Agent Fees and Other                              | 12,000             | 34,224              | (22,224)                             |
| <b>Total expenditures</b>                                | <u>41,438,560</u>  | <u>39,235,915</u>   | <u>2,202,645</u>                     |
| <b>Excess (deficiency) of revenues over expenditures</b> | <u>(9,161,110)</u> | <u>(5,875,934)</u>  | <u>3,285,176</u>                     |
| <b>Other financing sources (uses):</b>                   |                    |                     |                                      |
| Transfers from Other Funds                               | 9,161,110          | 8,522,508           | (638,602)                            |
| <b>Total other financing sources (uses)</b>              | <u>9,161,110</u>   | <u>8,522,508</u>    | <u>(638,602)</u>                     |
| <b>Change in fund balances</b>                           |                    | <u>2,646,574</u>    | <u>2,646,574</u>                     |
| <b>Fund balances, July 1, 2005</b>                       |                    | 6,782,940           | 6,782,940                            |
| <b>Fund balances, June 30, 2006</b>                      | <u>\$</u>          | <u>\$ 9,429,514</u> | <u>\$ 9,429,514</u>                  |



**CITY OF TUCSON, ARIZONA  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2006**

|  | Special Assessment Construction Fund |                |                                      |
|--|--------------------------------------|----------------|--------------------------------------|
|  | Budget                               | Actual         | Variance -<br>Positive<br>(Negative) |
| <b>Revenues:</b>   |                                      |                |                                      |
| Use of Money and Property                                | \$                                   | \$             | \$                                   |
| Special Assessments                                      |                                      | 650,661        | 650,661                              |
| <b>Total revenues</b>                                    |                                      | 650,661        | 650,661                              |
| <b>Expenditures:</b>                                     |                                      |                |                                      |
| Current -  |                                      |                |                                      |
| Neighborhood Services                                    |                                      |                |                                      |
| Environment and Development                              |                                      |                |                                      |
| Capital Projects   | 1,353,236                            | 458,176        | 895,060                              |
| <b>Total expenditures</b>                                | 1,353,236                            | 458,176        | 895,060                              |
| <b>Excess (deficiency) of revenues over expenditures</b> | (1,353,236)                          | 192,485        | 1,545,721                            |
| <b>Other financing sources (uses):</b>                   |                                      |                |                                      |
| Face Amount of Bond Proceeds                             | 410,000                              | 347,766        | (62,234)                             |
| Transfers from Other Funds                               |                                      |                |                                      |
| Transfers to Other Funds                                 |                                      | (179)          | (179)                                |
| <b>Total other financing sources (uses)</b>              | 410,000                              | 347,587        | (62,413)                             |
| <b>Change in fund balances</b>                           | (943,236)                            | 540,072        | 1,483,308                            |
| <b>Fund balances (deficits), July 1, 2005</b>            |                                      | (3,680,590)    | (3,680,590)                          |
| <b>Fund balances (deficits), June 30, 2006</b>           | \$ (943,236)                         | \$ (3,140,518) | \$ (2,197,282)                       |

| 2000 Street and Highway Improvement |              |                                |
|-------------------------------------|--------------|--------------------------------|
| Budget                              | Actual       | Variance - Positive (Negative) |
| \$                                  | \$ 129,104   | \$ 129,104                     |
|                                     | 129,104      | 129,104                        |
| 1,602,440                           | 1,206,284    | 396,156                        |
| 3,887,389                           | 1,720,425    | 2,166,964                      |
| 5,489,829                           | 2,926,709    | 2,563,120                      |
| (5,489,829)                         | (2,797,605)  | 2,692,224                      |
| 2,727,200                           |              | (2,727,200)                    |
|                                     | 262,840      | 262,840                        |
| 2,727,200                           | 262,840      | (2,464,360)                    |
| (2,762,629)                         | (2,534,765)  | 227,864                        |
|                                     | 5,519,614    | 5,519,614                      |
| \$ (2,762,629)                      | \$ 2,984,849 | \$ 5,747,478                   |

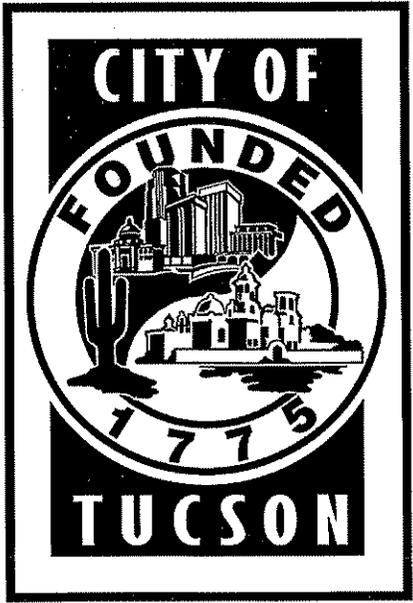
| 2000 General Obligation Fund |               |                                |
|------------------------------|---------------|--------------------------------|
| Budget                       | Actual        | Variance - Positive (Negative) |
| \$                           | \$ 763,512    | \$ 763,512                     |
|                              | 763,512       | 763,512                        |
| 447,000                      | 17,899        | 429,101                        |
| 38,466,599                   | 20,440,938    | 18,025,661                     |
| 38,913,599                   | 20,458,837    | 18,454,762                     |
| (38,913,599)                 | (19,695,325)  | 19,218,274                     |
| 23,980,100                   |               | (23,980,100)                   |
|                              | (369,757)     | (369,757)                      |
| 23,980,100                   | (369,757)     | (24,349,857)                   |
| (14,933,499)                 | (20,065,082)  | (5,131,583)                    |
|                              | 34,002,782    | 34,002,782                     |
| \$ (14,933,499)              | \$ 13,937,700 | \$ 28,871,199                  |

(Continued)

CITY OF TUCSON, ARIZONA  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2006  
 (Concluded)

|  | 1994 General Obligation Fund |            |                                      |
|--|------------------------------|------------|--------------------------------------|
|  | Budget                       | Actual     | Variance -<br>Positive<br>(Negative) |
| <b>Revenues:</b>   |                              |            |                                      |
| Use of Money and Property                                | \$                           | \$ 21,923  | \$ 21,923                            |
| Special Assessments                                      |                              |            |                                      |
| <b>Total revenues</b>                                    |                              | 21,923     | 21,923                               |
| <b>Expenditures:</b>                                     |                              |            |                                      |
| Current -  |                              |            |                                      |
| Neighborhood Services                                    | 260,000                      | 282,629    | (22,629)                             |
| Environment and Development                              |                              |            |                                      |
| Capital Projects   | 472,044                      | 90,712     | 381,332                              |
| <b>Total expenditures</b>                                | 732,044                      | 373,341    | 358,703                              |
| <b>Excess (deficiency) of revenues over expenditures</b> | (732,044)                    | (351,418)  | 380,626                              |
| <b>Other financing sources (uses):</b>                   |                              |            |                                      |
| Face Amount of Bond Proceeds                             | 1,029,600                    |            | (1,029,600)                          |
| Transfers from Other Funds                               |                              |            |                                      |
| Transfers to Other Funds                                 |                              |            |                                      |
| <b>Total other financing sources (uses)</b>              | 1,029,600                    |            | (1,029,600)                          |
| <b>Change in fund balances</b>                           | 297,556                      | (351,418)  | (648,974)                            |
| <b>Fund balances (deficits), July 1, 2005</b>            |                              | 743,745    | 743,745                              |
| <b>Fund balances (deficits), June 30, 2006</b>           | \$ 297,556                   | \$ 392,327 | \$ 94,771                            |

| Totals                 |                      |                                      |
|------------------------|----------------------|--------------------------------------|
| Budget                 | Actual               | Variance -<br>Positive<br>(Negative) |
| \$                     | \$ 914,539           | \$ 914,539                           |
|                        | 650,661              | 650,661                              |
|                        | 1,565,200            | 1,565,200                            |
| 707,000                | 300,528              | 406,472                              |
| 1,602,440              | 1,206,284            | 396,156                              |
| 44,179,268             | 22,710,251           | 21,469,017                           |
| 46,488,708             | 24,217,063           | 22,271,645                           |
| (46,488,708)           | (22,651,863)         | 23,836,845                           |
| 28,146,900             | 347,766              | (27,799,134)                         |
|                        | 262,840              | 262,840                              |
|                        | (369,936)            | (369,936)                            |
| 28,146,900             | 240,670              | (27,906,230)                         |
| (18,341,808)           | (22,411,193)         | (4,069,385)                          |
|                        | 36,585,551           | 36,585,551                           |
| <u>\$ (18,341,808)</u> | <u>\$ 14,174,358</u> | <u>\$ 32,516,166</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, 2006**

|   | Environmental Services |                        | Variance -<br>Positive<br>(Negative) |
|---|------------------------|------------------------|--------------------------------------|
|   | Budget                 | Actual                 |                                      |
| <b>Operating revenues:</b>  |                        |                        |                                      |
| Fines and Forfeitures   | \$                     | \$ 6,514               | \$ 6,514                             |
| Charges for Services  | 34,122,350             | 38,472,249             | 4,349,899                            |
| Miscellaneous   | 1,321,000              | 1,330,825              | 9,825                                |
| Other Agencies  | 1,499,490              | 310,846                | (1,188,644)                          |
| Total operating revenues  | <u>36,942,840</u>      | <u>40,120,433</u>      | <u>3,177,593</u>                     |
| <b>Operating expenses:</b>  |                        |                        |                                      |
| Personal Services   | 15,775,510             | 15,709,085             | (66,425)                             |
| Contractual Services  | 19,201,070             | 16,169,208             | (3,031,862)                          |
| Commodities   | 7,254,170              | 4,491,125              | (2,763,045)                          |
| Depreciation  |                        | 4,330,431              | 4,330,431                            |
| Total operating expenses  | <u>42,230,750</u>      | <u>40,699,850</u>      | <u>(1,530,900)</u>                   |
| <b>Operating loss</b>   | <u>(5,287,910)</u>     | <u>(579,417)</u>       | <u>4,708,493</u>                     |
| <b>Nonoperating revenues (expenses):</b>                            |                        |                        |                                      |
| Investment Income   |                        | 377,893                | 377,893                              |
| Gain (Loss) on Sale of Property/Equipment                           |                        | (214,725)              | (214,725)                            |
| Federal Grants and Contributions                                    |                        | 230,337                | 230,337                              |
| Interest Expense  |                        | (2,177,100)            | (2,177,100)                          |
| Amortization of Cost Issuance                                       |                        | (110,798)              | (110,798)                            |
| Other Non-Operating (Income) Expenses                               | 4,260,720              |                        | (4,260,720)                          |
| <b>Total nonoperating revenues<br/>    (expenses)</b>               | <u>4,260,720</u>       | <u>(1,894,393)</u>     | <u>(6,155,113)</u>                   |
| <b>Income (loss) before capital contributions<br/>and transfers</b> | <u>(1,027,190)</u>     | <u>(2,473,810)</u>     | <u>(1,446,620)</u>                   |
| <b>Changes in net assets</b>  | <u>\$ (1,027,190)</u>  | <u>(2,473,810)</u>     | <u>\$ (1,446,620)</u>                |
| <b>Total net assets, beginning of year</b>                          |                        | <u>(49,076,344)</u>    |                                      |
| <b>Total net assets, end of year</b>                                |                        | <u>\$ (51,550,155)</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, 2006**

|   | Golf Course Fund      |                      | Variance -<br>Positive<br>(Negative) |
|---|-----------------------|----------------------|--------------------------------------|
|   | Budget                | Actual               |                                      |
| <b>Operating revenues:</b>                                      |                       |                      |                                      |
| Charges for Services  | \$ 10,908,050         | \$ 8,230,509         | \$ (2,677,541)                       |
| <b>Total operating revenues</b>                                 | <u>10,908,050</u>     | <u>8,230,509</u>     | <u>(2,677,541)</u>                   |
| <b>Operating expenses:</b>                                      |                       |                      |                                      |
| Personal Services   | 5,252,790             | 4,263,150            | (989,640)                            |
| Contractual Services  | 2,426,964             | 1,562,699            | (864,265)                            |
| Commodities   | 4,589,486             | 1,816,344            | (2,773,142)                          |
| Cost of Goods Sold  |                       | 309,843              | 309,843                              |
| Depreciation  |                       | 760,936              | 760,936                              |
| <b>Total operating expenses</b>                                 | <u>12,269,240</u>     | <u>8,712,972</u>     | <u>(3,556,268)</u>                   |
| <b>Operating income (loss)</b>                                  | <u>(1,361,190)</u>    | <u>(482,463)</u>     | <u>878,727</u>                       |
| <b>Nonoperating revenues (expenses):</b>                        |                       |                      |                                      |
| Interest Expense  | (363,810)             | (283,005)            | 80,805                               |
| Amortization of Cost Issuance                                   |                       | (5,269)              | (5,269)                              |
| <b>Total nonoperating revenues (expenses)</b>                   | <u>(363,810)</u>      | <u>(288,274)</u>     | <u>75,536</u>                        |
| <b>Income (loss) before capital contributions and transfers</b> | <u>(1,725,000)</u>    | <u>(770,737)</u>     | <u>954,263</u>                       |
| Transfers to Other Funds  |                       | (64,894)             |                                      |
| <b>Changes in net assets</b>                                    | <u>\$ (1,725,000)</u> | <u>(835,631)</u>     | <u>\$ 889,369</u>                    |
| <b>Total net assets, beginning of year</b>                      |                       | <u>15,715,214</u>    |                                      |
| <b>Total net assets, end of year</b>                            |                       | <u>\$ 14,879,583</u> |                                      |

**CITY OF TUCSON, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**WATER UTILITY - BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2006**

|   | Water Utility Fund    |                       | Variance -<br>Positive<br>(Negative) |
|---|-----------------------|-----------------------|--------------------------------------|
|   | Budget                | Actual                |                                      |
| <b>Operating revenues:</b>                                      |                       |                       |                                      |
| Charges for Services  | \$ 126,276,000        | \$ 116,626,079        | \$ (9,649,921)                       |
| Miscellaneous   | 3,452,300             | 3,212,343             | (239,957)                            |
| <b>Total operating revenues</b>                                 | <u>129,728,300</u>    | <u>119,838,422</u>    | <u>(9,889,878)</u>                   |
| <b>Operating expenses:</b>                                      |                       |                       |                                      |
| Personal Services   | 31,765,420            | 32,200,131            | 434,711                              |
| Contractual Services  | 47,738,200            | 38,701,325            | (9,036,875)                          |
| Commodities   | 71,333,475            | 8,114,769             | (63,218,706)                         |
| Depreciation/Amortization                                       |                       | 20,621,135            | 20,621,135                           |
| <b>Total operating expenses</b>                                 | <u>150,837,095</u>    | <u>99,637,360</u>     | <u>(51,199,735)</u>                  |
| <b>Operating income (loss)</b>                                  | <u>(21,108,795)</u>   | <u>20,201,062</u>     | <u>41,309,857</u>                    |
| <b>Nonoperating revenues (expenses):</b>                        |                       |                       |                                      |
| Investment Income   | 1,116,000             | 2,360,314             | 1,244,314                            |
| Gain (Loss) on Sale of Property/Equipment                       |                       | 283,831               | 283,831                              |
| Federal Grants and Contributions                                | 400,000               | 10,564                | (389,436)                            |
| Interest Expense  |                       | (18,880,623)          | (18,880,623)                         |
| Amortization of Cost Issuance                                   |                       | (154,379)             | (154,379)                            |
| Other Nonoperating Income (Expenses)                            | 9,728,000             | (514,749)             | (10,242,749)                         |
| <b>Total nonoperating revenues (expenses)</b>                   | <u>11,244,000</u>     | <u>(16,895,043)</u>   | <u>(28,139,043)</u>                  |
| <b>Income (loss) before capital contributions and transfers</b> | <u>(9,864,795)</u>    | <u>3,306,019</u>      | <u>13,170,814</u>                    |
| <b>Capital Contributions</b>                                    | 6,754,000             | 22,757,718            | 16,003,718                           |
| <b>Transfers In</b>   |                       | 5,000                 |                                      |
| <b>Changes in net assets</b>                                    | <u>\$ (3,110,795)</u> | 26,068,738            | <u>\$ 29,179,533</u>                 |
| <b>Total net assets, beginning of year</b>                      |                       | <u>609,224,473</u>    |                                      |
| <b>Total net assets, end of year</b>                            |                       | <u>\$ 635,293,211</u> |                                      |

**CITY OF TUCSON, ARIZONA  
WATER UTILITY FUND  
REVENUES, EXPENSES AND FLOWS OF FUNDS  
PER ORDINANCE NO. 6347 (1)  
YEAR ENDED JUNE 30, 2006**

**Revenues:**

Sale of Water:

|                                      |               |
|--------------------------------------|---------------|
| Potable Water Sales                  | \$ 98,096,098 |
| Reclaimed Water Sales                | 5,855,490     |
| Central Arizona Project Surcharge    | 1,965,998     |
| Connection Fees                      | 3,766,978     |
| Pima County - Sewer Billing Services | 2,961,964     |

Miscellaneous Revenue:

|                                 |                  |  |
|---------------------------------|------------------|--|
| Area Development Fees           | \$ 833,314       |  |
| TCE Clean Up Reimbursement      | 1,171,563        |  |
| Plan Review and Inspection Fees | 1,866,682        |  |
| Other                           | 2,943,020        |  |
| Total Miscellaneous Revenue     | <u>6,814,579</u> |  |

Non-Operating Income:

|                                      |                  |                    |
|--------------------------------------|------------------|--------------------|
| System Equity Fees                   | 7,844,106        |                    |
| Investment Earnings - Operating Fund | 764,389          |                    |
| Investment Earnings - Debt Service   | 340,216          |                    |
| Gain on Sale of Property/Equipment   | 283,831          |                    |
| Total Non-Operating Income           | <u>9,232,542</u> |                    |
| Total Revenues                       |                  | <u>128,693,649</u> |

**Operation and Maintenance Expenses:**

|   |           |                   |
|---|-----------|-------------------|
| Director's Office                             |           | 4,967,095         |
| Business Services                             |           | 4,353,668         |
| Customer Services                             |           | 6,522,990         |
| Water Operations                              |           | 19,755,983        |
| Planning and Engineering                      |           | 7,179,971         |
| Quality Management                            |           | 8,200,294         |
| Power - Potable System                        |           | 13,477,839        |
| Power - Reclaimed System                      |           | 1,024,487         |
| CAP Water Purchases:                          |           |                   |
| Commodity                                     | 5,022,149 |                   |
| Capital Charges                               | 3,263,184 |                   |
| Total CAP Water Purchases                     |           | <u>8,285,333</u>  |
| General Expenses                              |           | 2,917,926         |
| Capitalized Operation and Maintenance Expense |           | (5,396,495)       |
| Total Operation and Maintenance Expense       |           | <u>71,289,091</u> |

Net Revenue Available After Operations (2)

\$ 57,404,558

**CITY OF TUCSON, ARIZONA  
WATER UTILITY FUND  
REVENUES, EXPENSES AND FLOWS OF FUNDS  
PER ORDINANCE NO. 6347 (1)  
YEAR ENDED JUNE 30, 2006**

**Debt Service for Water Revenue Bonds:**

|  |            |
|--|------------|
| Interest                                   | 18,924,918 |
| Principal                                  | 11,201,882 |
| Fiscal Fees                                | 514,749    |
| Total Debt Service for Water Revenue Bonds | 30,641,549 |

|   |               |
|---|---------------|
| Net Revenue Available After Operations and Water Revenue<br>Bond Debt Service | \$ 26,763,009 |
|---|---------------|

- (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, 2006, the maximum future debt service coverage is 183%. An amendment to Section 7.01 of 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, 2006, the debt coverage for the Annual Debt Service Requirement is 187%.



# Statistical Section



## Statistical Section

This part of the City of Statistical's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

### Contents

|  | <u>Page</u> |
|--|-------------|
| <b>Financial Trends</b>  | <b>128</b>  |
| These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.  |             |
| <b>Revenue Capacity</b>  | <b>136</b>  |
| These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.   |             |
| <b>Debt Capacity</b>   | <b>139</b>  |
| These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.                                    |             |
| <b>Demographic and Economic Information</b>  | <b>144</b>  |
| These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments. |             |
| <b>Operating Information</b>   | <b>147</b>  |
| These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.         |             |

**Sources:** unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in fiscal year 2002; schedules presenting government-wide information include information beginning in that year.

City of Tucson  
Expenditures/Expenses by Department  
for Fiscal Year 2006

TABLE I

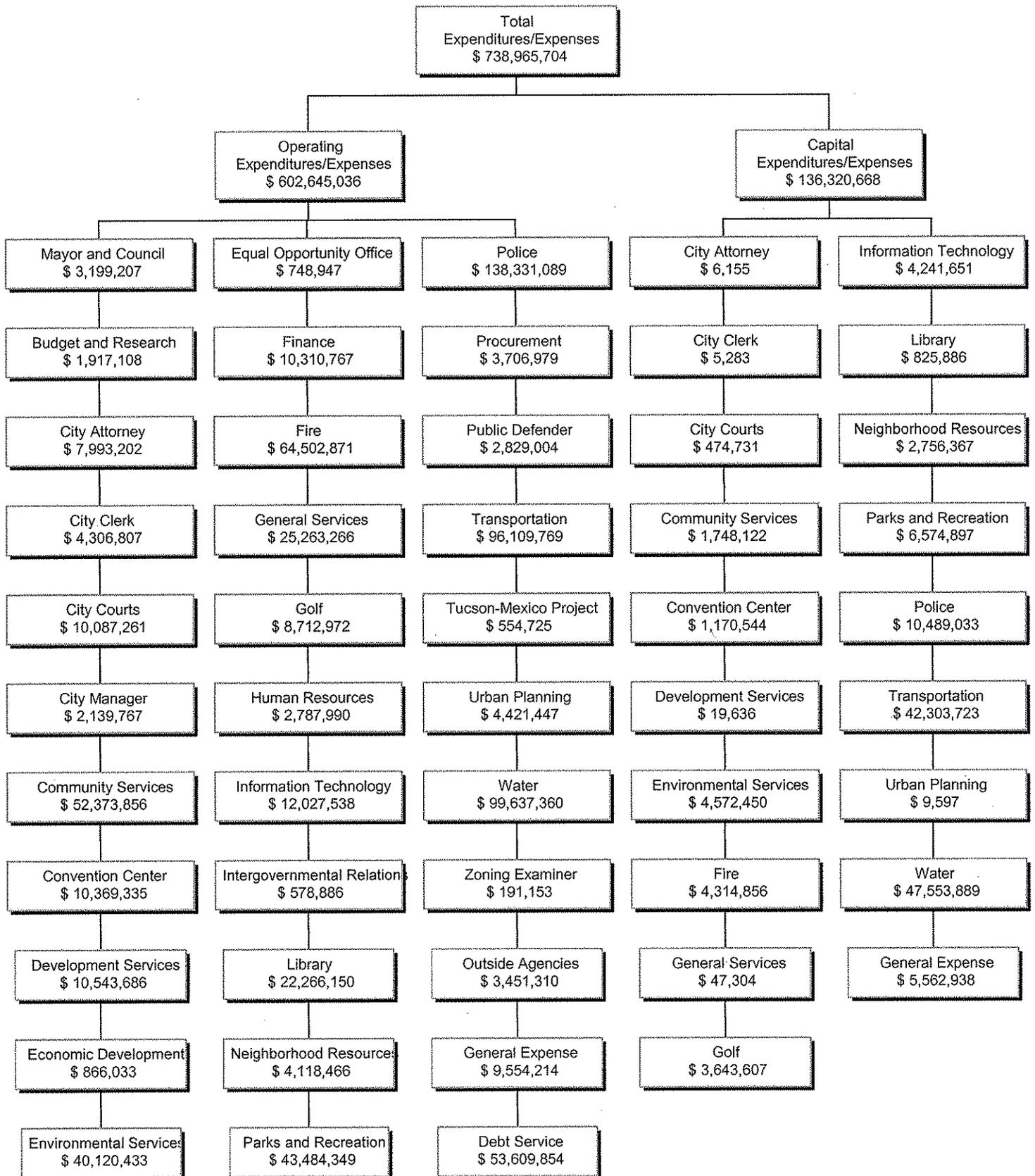


TABLE II

CITY OF TUCSON  
 Net Assets by Component  
 Last Five Fiscal Years  
 (Accrual Basis of Accounting)

|   | Fiscal Year             |                      |                      |                      |                      |
|---|-------------------------|----------------------|----------------------|----------------------|----------------------|
|   | 2002                    | 2003(1)              | 2004(2)              | 2005                 | 2006                 |
| <b>Governmental Activities</b>                  |                         |                      |                      |                      |                      |
| Invested in Capital Assets, Net of Related Debt | \$ 903,284,000          | 974,031,888          | 996,134,436          | 998,221,324          | 985,658,624          |
| Restricted                                      | 155,080,000             | 63,053,748           | 69,416,688           | 82,813,522           | 138,645,084          |
| Unrestricted                                    | (43,480,000)            | (36,914,246)         | 22,536,654           | 18,134,646           | 42,058,585           |
| <b>Total Net assets</b>                         | <b>\$ 1,014,884,000</b> | <b>1,000,171,390</b> | <b>1,088,087,778</b> | <b>1,099,169,492</b> | <b>1,166,362,293</b> |
| <b>Business-type Activities</b>                 |                         |                      |                      |                      |                      |
| Invested in Capital Assets, Net of Related Debt | \$ 533,162,000          | 552,151,011          | 576,958,002          | 594,423,874          | 615,391,846          |
| Restricted                                      | 6,145,000               | 484,199              | 2,670,658            | 9,013,682            | 3,254,815            |
| Unrestricted                                    | 30,524,000              | 33,543,287           | (19,982,539)         | (27,574,213)         | (20,024,020)         |
| <b>Total Net assets</b>                         | <b>\$ 569,831,000</b>   | <b>586,178,497</b>   | <b>559,646,121</b>   | <b>575,863,343</b>   | <b>598,622,641</b>   |
| <b>Primary Government</b>                       |                         |                      |                      |                      |                      |
| Invested in Capital Assets, Net of Related Debt | \$ 1,436,446,000        | 1,526,182,899        | 1,573,092,438        | 1,592,645,198        | 1,601,050,470        |
| Restricted                                      | 161,225,000             | 63,537,947           | 72,087,346           | 91,827,204           | 141,899,899          |
| Unrestricted                                    | (12,956,000)            | (3,370,959)          | 2,554,115            | (9,439,567)          | 22,034,565           |
| <b>Total Net assets</b>                         | <b>\$ 1,584,715,000</b> | <b>1,586,349,887</b> | <b>1,647,733,899</b> | <b>1,675,032,835</b> | <b>1,764,984,934</b> |

**Notes:** (1) Restated ending FY 2003/beginning FY 2004 net assets.

(2) Restated ending FY 2004/beginning FY 2005 Governmental Activities net assets because the Environment Services Fund became an enterprise fund. This caused the deficit unreserve balance to move from the Government Activities to the Business-type Activities. This deficit is due to incurring liabilities with no corresponding asset. Such liabilities include compensated absences and environmental and solid waste mandates.

**TABLE III**

**CITY OF TUCSON**  
**Changes in Net Assets**  
**Last Five Fiscal Years**  
**(Accrual Basis of Accounting)**

|   | Fiscal Year    |             |             |             |             |
|---|----------------|-------------|-------------|-------------|-------------|
|   | 2002           | 2003        | 2004        | 2005(1)     | 2006        |
| <b>Expenses</b>                                 |                |             |             |             |             |
| Governmental Activities                         |                |             |             |             |             |
| Elected and Official                            | \$ 16,780,000  | 14,457,000  | 15,724,295  | 15,418,836  | 17,443,632  |
| Support Services                                | 51,768,000     | 45,314,000  | 42,465,015  | 58,587,923  | 58,092,060  |
| Neighborhood Services                           | 274,536,000    | 292,322,000 | 295,870,113 | 337,049,181 | 341,517,918 |
| Environment and Development                     | 115,901,000    | 142,322,000 | 149,983,180 | 131,039,748 | 137,175,591 |
| Strategic Initiatives                           | 29,073,000     | 14,303,000  | 13,359,186  | 14,039,464  | 12,499,925  |
| Non-Departmental                                | 18,899,000     | 13,196,000  | 10,439,491  | 12,788,223  | 14,972,390  |
| Interest on Long-term Debt                      | 26,619,000     | 21,975,000  | 23,701,247  | 22,270,724  | 24,108,533  |
| Fiscal Agent Fees and Other                     | -              | -           | 32,158      | 46,301      | 74,613      |
| Total Governmental Activities                   | 533,576,000    | 543,889,000 | 551,574,685 | 591,240,400 | 605,884,662 |
| Business-type Activities                        |                |             |             |             |             |
| Environmental Services                          | \$ 10,082,000  | 9,640,000   | 9,323,864   | 39,464,082  | 42,987,747  |
| Golf  | 106,731,000    | 105,200,000 | 104,427,551 | 112,359,007 | 9,003,837   |
| Water   | 116,813,000    | 114,840,000 | 113,751,415 | 161,887,182 | 119,187,111 |
| Total Business-type Activities                  | 233,626,000    | 239,680,000 | 237,502,830 | 313,710,271 | 171,178,695 |
| Total Primary Government Expenses               | \$ 767,202,000 | 783,569,000 | 789,077,515 | 904,950,671 | 777,063,357 |
| <b>Program Revenues</b>                         |                |             |             |             |             |
| Governmental Activities:                        |                |             |             |             |             |
| Charges for Services:                           |                |             |             |             |             |
| Building/Review fees                            | \$ 8,692,000   | 8,911,000   | 10,040,714  | 10,090,878  | 12,359,186  |
| Recreation Fees                                 | 3,321,000      | 3,870,000   | 4,146,918   | 4,329,235   | 4,388,275   |
| Paramedic Services Fees                         | 4,101,000      | 5,066,000   | 7,721,889   | 6,645,483   | 7,184,801   |
| Refuse/Landfill Fees                            | 9,658,000      | 10,025,000  | 15,159,517  | 8,327,423   | 8,879,486   |
| Transit Fees                                    | 7,161,000      | 7,741,000   | 8,217,698   | 64,021,068  | 67,970,643  |
| Other Charges for Service                       | 39,530,000     | 40,242,000  | 41,704,463  | 127,785,107 | 134,853,525 |
| Operating Grants & Contributions                | 127,254,000    | 129,445,000 | 96,836,225  | 26,158,108  | 36,449,563  |
| Capital Grants and Contributions                | 23,666,000     | 17,063,000  | 74,014,269  | 247,357,302 | 272,085,479 |
| Total Governmental Activities Program Revenues  | 223,383,000    | 222,363,000 | 257,841,693 | 418,887,466 | 463,273,462 |
| Business-type Activities:                       |                |             |             |             |             |
| Charge for Services:                            |                |             |             |             |             |
| Environmental Services                          | \$ 112,794,000 | 109,405,000 | 114,557,992 | 35,506,968  | 39,809,587  |
| Water   | 9,620,000      | 9,769,000   | 9,513,921   | 111,347,469 | 119,838,422 |
| Golf  | 1,000          | -           | -           | 8,980,101   | 8,230,509   |
| Operating Grants and Contributions              | -              | 10,172,000  | 11,889,083  | 15,396,024  | 23,309,465  |
| Capital Grants and Contributions                | 122,415,000    | 129,346,000 | 135,960,996 | 171,230,562 | 191,187,983 |
| Total Business-type Activities Program Revenues | 345,798,000    | 351,709,000 | 393,802,689 | 418,587,864 | 463,273,462 |

|  | Fiscal Year      |               |               |               |               |
|--|------------------|---------------|---------------|---------------|---------------|
|  | 2002             | 2003          | 2004          | 2005(1)       | 2006          |
| Net (Expenses) Revenue                           |                  |               |               |               |               |
| Governmental Activities                          | \$ (310,193,000) | (321,526,000) | (293,732,992) | (343,883,098) | (333,799,183) |
| Business-type Activities                         | 5,602,000        | 14,506,000    | 22,209,581    | 9,343,380     | 20,009,288    |
| Total Primary Government Net Expense             | \$ (304,591,000) | (307,020,000) | (271,523,411) | (334,539,718) | (313,789,895) |
| General Revenues and Other Changes in Net Assets |                  |               |               |               |               |
| Governmental Activities:                         |                  |               |               |               |               |
| Taxes  |                  |               |               |               |               |
| Property Taxes                                   | \$ 24,306,000    | 25,069,000    | 27,329,989    | 30,203,848    | 33,669,712    |
| Business Privilege Taxes                         | 159,525,000      | 167,589,000   | 177,117,183   | 183,102,463   | 195,790,010   |
| Public Utility Taxes                             | 7,853,000        | 9,267,000     | 7,887,631     | 7,654,851     | 7,585,462     |
| Transient Occupancy Taxes                        | 6,339,000        | 6,395,000     | 9,145,965     | 10,768,492    | 12,276,201    |
| Occupational Taxes                               | 1,941,000        | 2,115,000     | 2,049,759     | 2,098,216     | 2,044,040     |
| Liquor Taxes                                     | 746,000          | 731,000       | 713,674       | 740,742       | 721,117       |
| Unrestricted Grants and Contributions            | 107,524,000      | 108,437,000   | 106,317,054   | 114,662,691   | 129,370,825   |
| Investment Income (Loss)                         | 6,467,000        | 3,737,000     | 1,037,894     | 2,605,029     | 3,932,688     |
| Contributions to Term and Permanent Endowments   | 5,000            |               |               |               |               |
| Miscellaneous                                    | 7,916,000        | 5,253,000     | 5,782,790     | 7,100,302     | 15,542,035    |
| Transfers  |                  |               |               | (3,971,822)   | 59,894        |
| Total Governmental Activities                    | \$ 322,622,000   | 328,593,000   | 337,381,939   | 354,964,812   | 400,991,984   |
| Business-type Activities:                        |                  |               |               |               |               |
| Unrestricted Grants and Contributions            | \$ 9,972,000     |               | 705,809       | 2,902,021     | 2,809,904     |
| Investment Income (Loss)                         | 1,958,000        | 1,630,000     |               |               |               |
| Miscellaneous                                    | 114,000          | 211,000       |               |               |               |
| Transfers  |                  |               |               | 3,971,822     | (59,894)      |
| Total Business-type Activities                   | \$ 12,044,000    | 1,841,000     | 705,809       | 6,873,843     | 2,750,010     |
| Total Primary Government                         | \$ 334,666,000   | 330,434,000   | 338,087,748   | 361,838,655   | 403,741,994   |
| Change in Net Assets                             |                  |               |               |               |               |
| Governmental Activities                          | \$ 12,429,000    | 7,067,000     | 43,648,947    | 11,081,714    | 67,192,801    |
| Business-type Activities                         | 17,646,000       | 16,347,000    | 22,915,390    | 16,217,223    | 22,759,298    |
| Total Primary Government                         | \$ 30,075,000    | 23,414,000    | 66,564,337    | 27,298,937    | 89,952,099    |

**CITY OF TUCSON**  
**Fund Balances, Governmental Funds**  
**Last Five Fiscal Years**  
**(Modified Accrual Basis of Accounting)**

|                                    | Fiscal Year   |            |            |             |             |
|------------------------------------|---------------|------------|------------|-------------|-------------|
|                                    | 2002          | 2003       | 2004       | 2005        | 2006        |
| General Fund                       |               |            |            |             |             |
| Reserved                           | \$ 58,631,000 | 51,966,000 | 50,316,501 | 54,991,632  | 101,933,012 |
| Unreserved (1)                     | 15,894,000    | 4,262,000  | 23,045,832 | 43,069,860  | 58,290,409  |
| Total General Fund                 | \$ 74,525,000 | 56,228,000 | 73,362,333 | 98,061,492  | 160,223,421 |
| All Other Governmental Funds       |               |            |            |             |             |
| Reserved                           | \$ 71,110,000 | 68,318,000 | 56,832,573 | 68,845,203  | 53,272,668  |
| Unreserved, Reported In:           |               |            |            |             |             |
| Special Revenue Funds              | 35,213,000    | 18,738,000 | 20,146,697 | 9,331,994   | 9,073,096   |
| Capital Project Funds              | (7,106,000)   | 1,642,000  | 173,256    | (3,680,590) | (3,140,518) |
| Total Unreserved (1)               | 28,107,000    | 20,380,000 | 20,319,953 | 5,651,404   | 5,932,578   |
| Total All Other Governmental Funds | \$ 99,217,000 | 88,698,000 | 77,152,526 | 74,496,607  | 59,205,246  |

**Notes:** (1) Includes designations

CITY OF TUCSON  
 Tax and Other Agency Revenues, General Fund  
 Last Five Fiscal Years  
 (Modified Accrual Basis of Accounting)

TABLE V

|                                   | Fiscal Year    |             |             |             |             |
|-----------------------------------|----------------|-------------|-------------|-------------|-------------|
|                                   | 2002           | 2003        | 2004        | 2005        | 2006        |
| Tax Revenues                      |                |             |             |             |             |
| Property Taxes                    | \$ 3,495,000   | 3,767,000   | 4,091,638   | 8,929,598   | 9,727,445   |
| Public Utility Taxes              | 7,853,000      | 9,267,000   | 7,887,631   | 7,654,851   | 7,585,462   |
| Local Use Taxes                   |                |             | 4,266,605   | 4,949,414   | 5,406,243   |
| Business Privilege Taxes          | 158,140,000    | 160,781,000 | 174,345,398 | 176,654,012 | 190,383,766 |
| Transient Occupancy Taxes         | 6,339,000      | 6,395,000   | 9,145,964   | 10,768,492  | 10,206,786  |
| Other Taxes                       | 2,687,000      | 2,846,000   | 2,763,433   | 2,838,957   | 4,869,058   |
| Total Tax Revenues                | \$ 178,514,000 | 183,056,000 | 202,500,669 | 211,795,324 | 228,178,760 |
| Other Agency Revenues             |                |             |             |             |             |
| Auto Lieu Taxes - State           | \$ 19,058,000  | 19,790,000  | 21,077,563  | 23,187,797  | 23,134,336  |
| Sales Tax - State                 | 37,533,000     | 38,161,000  | 41,216,598  | 45,700,066  | 51,801,435  |
| Urban Revenue Sharing - State     | 50,934,000     | 50,486,000  | 44,022,893  | 45,774,828  | 52,493,683  |
| Contributions and Agency Billings | 7,335,000      | 8,037,000   | 8,983,800   | 11,710,044  | 10,784,563  |
| Total Other Agency Revenue        | \$ 114,860,000 | 116,474,000 | 115,300,854 | 126,372,735 | 138,214,017 |

CITY OF TUCSON  
 Changes in Fund Balances, Governmental Funds  
 Last Five Fiscal Years  
 (Modified Accrual Basis of Accounting)

TABLE VI

|   | Fiscal Year     |              |              |              |              |
|---|-----------------|--------------|--------------|--------------|--------------|
|   | 2002            | 2003         | 2004         | 2005         | 2006         |
| Revenues  |                 |              |              |              |              |
| Taxes   | \$ 199,468,000  | 203,731,000  | 225,509,779  | 233,069,574  | 252,399,097  |
| Licenses and Permits                            | 18,098,000      | 17,088,000   | 17,762,372   | 19,502,424   | 21,014,411   |
| Fines and Forfeitures                           | 8,958,000       | 10,653,000   | 10,220,137   | 11,558,361   | 12,536,270   |
| Developer Fees                                  |                 |              |              |              | 8,585,307    |
| Use of Money and Property                       | 7,456,000       | 5,069,000    | 2,288,009    | 5,904,930    | 5,515,756    |
| Federal Grants and Contributions                | 78,150,000      | 71,867,000   | 75,140,868   | 70,681,079   | 80,001,063   |
| Other Agencies                                  | 176,900,000     | 178,658,000  | 179,542,430  | 196,010,931  | 209,999,995  |
| Charges for Services                            | 40,432,000      | 42,692,000   | 57,262,036   | 55,727,507   | 60,290,340   |
| Special Assessments                             | 1,631,000       | 1,559,000    | 684,162      | 863,322      | 1,337,976    |
| Miscellaneous                                   | 2,935,000       | 3,505,000    | 5,540,913    | 7,349,494    | 9,704,478    |
| Total Revenues                                  | 534,028,000     | 534,822,000  | 573,950,706  | 600,667,622  | 661,384,693  |
| Expenditures                                    |                 |              |              |              |              |
| Current   |                 |              |              |              |              |
| Elected and Official                            | 16,415,000      | 14,357,000   | 15,651,255   | 14,936,120   | 17,638,983   |
| Support Services                                | 41,582,000      | 42,399,000   | 40,499,625   | 53,968,431   | 56,762,595   |
| Neighborhood Services                           | 257,045,000     | 279,737,000  | 285,010,266  | 311,024,012  | 338,648,790  |
| Environment and Development                     | 108,810,000     | 116,314,000  | 121,560,502  | 103,510,740  | 111,266,055  |
| Strategic Initiatives                           | 11,927,000      | 13,597,000   | 12,811,453   | 13,297,336   | 12,368,978   |
| Non-Departmental                                | 7,544,000       | 10,549,000   | 8,298,062    | 11,976,825   | 12,349,781   |
| Capital Outlay                                  | 20,130,000      | 11,019,000   | 6,878,900    | 8,844,020    | 22,131,307   |
| Capital Projects                                | 67,540,000      | 78,802,000   | 62,651,586   | 86,727,476   | 58,419,415   |
| Debt Service                                    |                 |              |              |              |              |
| Principal                                       | 21,328,000      | 21,079,000   | 21,917,431   | 22,391,353   | 28,092,430   |
| Interest  | 26,424,000      | 21,842,000   | 23,701,247   | 22,270,724   | 24,108,533   |
| Fiscal Agent Fees                               | 251,000         | 1,213,000    | 32,158       | 46,301       | 74,613       |
| Issuance Cost of Debt                           | 1,325,000       | 27,000       | 783,501      | 2,363,772    | 1,334,278    |
| Total Expenditures                              | 580,321,000     | 610,935,000  | 599,795,986  | 651,357,110  | 683,195,758  |
| Excess of Revenues<br>Over (Under) Expenditures | \$ (46,293,000) | (76,113,000) | (25,845,280) | (50,689,488) | (21,811,065) |

|  | Fiscal Year   |               |              |              |              |
|--|---------------|---------------|--------------|--------------|--------------|
|  | 2002          | 2003          | 2004         | 2005         | 2006         |
| Other Financing Sources (Uses)                     |               |               |              |              |              |
| Face Amount of Bond Proceeds                       | \$ 73,426,000 | 145,701,000   | 23,500,000   | 109,719,606  | 347,766      |
| Lease Purchase and Contract Proceeds               | 781,000       | 918,000       | 19,451,315   | 55,908,283   | 72,597,366   |
| Premium on Issuance of Debt                        |               | -             | 408,845      | 8,054,895    | 1,095,521    |
| Transfers from Other Funds                         | 76,205,000    | 73,421,000    | 66,914,931   | 65,305,681   | 69,095,663   |
| Proceeds from Sale of Real Property                | 34,340,000    |               |              |              |              |
| Payment to Refunded Bond Escrow Agent              | (58,095,000)  | (107,773,000) | (45,479)     | (92,443,595) |              |
| Discount on Issuance of Debt                       |               |               | (143,281)    |              |              |
| Transfers to Other Funds                           | (76,810,000)  | (73,828,000)  | (67,220,371) | (73,415,933) | (74,454,683) |
| Total Other Financing Sources (Uses)               | 49,847,000    | 38,439,000    | 42,865,960   | 73,128,937   | 68,681,633   |
| Contributions to Permanent or Term Endowments      | 5,000         |               |              |              |              |
| Net Change in Fund Balances                        | \$ 3,559,000  | (37,674,000)  | 17,020,680   | 22,439,449   | 46,870,568   |
| Debt Service as a % of Noncapital Expenditures (1) | 9.7%          | 8.2%          | 8.6%         | 8.0%         | 8.7%         |

**Note:** (1) Noncapital expenditures are total expenditures less capital outlay and capital project expenditures.

TABLE VII

CITY OF TUCSON  
Taxable Sales by Category  
Last Four Fiscal Years

| Activity                                 | Fiscal Year             |                      |                      |                       |
|--|-------------------------|----------------------|----------------------|-----------------------|
|  | 2003                    | 2004                 | 2005                 | 2006                  |
| Utilities                                | \$ 890,884,761          | 1,011,953,381        | 1,056,963,347        | 1,052,260,259         |
| Communications                           | 358,249,077             | 336,616,804          | 289,225,380          | 277,701,526           |
| Publishing & Printing                    | 172,342,455             | 56,323,977           | 55,065,209           | 72,998,559            |
| Restaurants                              | 735,991,041             | 777,668,157          | 851,826,135          | 957,084,748           |
| Amusements                               | 51,861,916              | 49,997,899           | 54,664,073           | 60,603,914            |
| Rentals                                  | 953,734,013             | 1,004,851,765        | 1,029,049,007        | 1,117,216,113         |
| Contracting                              | 771,816,123             | 845,537,417          | 912,930,149          | 896,249,698           |
| Retail                                   | 4,640,805,874           | 4,851,948,423        | 5,171,389,247        | 5,584,386,248         |
| Use Tax                                  |                         | 145,338,032          | 184,561,040          | 266,189,312           |
| Other                                    | 977,380                 | 2,549,510            | 3,313,707            | 2,306,455             |
| <b>Total Business Privilege Activity</b> | <b>\$ 8,576,662,639</b> | <b>9,082,785,366</b> | <b>9,608,987,295</b> | <b>10,286,996,833</b> |

City's Tax Rate 2% 2% 2% 2%

Notes: (1) Fiscal Year 2002 information is not available.

**CITY OF TUCSON**  
**Business Privilege Taxes**  
**Overlapping Tax Rates**  
**Last Five Fiscal Years**

| <u>Fiscal Year</u> | <u>City's Rate</u> | <u>State's Rate</u> |
|--------------------|--------------------|---------------------|
| 2002               | 2.0%               | 5.6%                |
| 2003               | 2.0%               | 5.6%                |
| 2004               | 2.0%               | 5.6%                |
| 2005               | 2.0%               | 5.6%                |
| 2006               | 2.0%               | 5.6%                |

TABLE IX

CITY OF TUCSON  
Principal Business Privilege Tax Remitters By Activity  
Current Year and Three Years ago (1)

| Business Sector             | Fiscal Year 2003 |            | Fiscal Year 2006 |            |
|-----------------------------|------------------|------------|------------------|------------|
|                             | Tax Paid         | % of Total | Tax Paid         | % of Total |
| Utility                     | \$ 19,377,937    | 11.1%      | \$ 20,973,325    | 9.7%       |
| Communications              | 6,930,606        | 4.0%       | 5,774,763        | 2.7%       |
| Publishing & Printing       | 1,095,575        | 0.6%       | 1,132,451        | 0.5%       |
| Restaurants                 | 15,011,123       | 8.6%       | 19,001,541       | 8.8%       |
| Amusements                  | 1,049,558        | 0.6%       | 1,201,474        | 0.6%       |
| Rentals                     | 21,705,274       | 12.4%      | 29,476,947       | 13.6%      |
| Contracting                 | 15,361,137       | 8.8%       | 17,969,353       | 8.3%       |
| Retail                      | 94,376,152       | 54.0%      | 115,382,691      | 53.4%      |
| Use Tax (3)                 |                  | 0.0%       | 5,055,405        | 2.3%       |
| Other Activities            | 14,238           | 0.0%       | 42,978           | 0.0%       |
| Total Top Ten Taxpayers (2) | \$ 174,921,598   | 100%       | \$ 216,010,928   | 100%       |

Notes: (1) Fiscal year 2003 is the first historical year where information is available.

(2) Total does not include refunds and other reductions.

(3) Collection of Use Tax started in Fiscal Year 2004

CITY OF TUCSON  
Ratios of Outstanding Debt by Type  
Last Five Fiscal Years

TABLE X

| Fiscal Year | Governmental Activities  |                       |                                |                               |                         |                |                                |                                |                               |                         | Total Governmental Activities |
|-------------|--------------------------|-----------------------|--------------------------------|-------------------------------|-------------------------|----------------|--------------------------------|--------------------------------|-------------------------------|-------------------------|-------------------------------|
|             | General Obligation Bonds | Highway Revenue Bonds | Highway Expansion Loan Program | Certificates of Participation | Special Assessment Debt | Capital Leases | Street & Highway Revenue Bonds | Highway Expansion Loan Program | Certificates of Participation | Special Assessment Debt |                               |
| 2002        | \$ 243,099,000           | \$ 155,695,000        | \$ 3,700,000                   | \$ 24,035,000                 | \$ 3,567,000            | \$ 16,876,344  |                                |                                |                               |                         | \$ 446,972,344                |
| 2003        | 266,989,000              | 153,545,000           | 2,900,000                      | 19,335,000                    | 4,555,000               | 15,573,000     |                                |                                |                               |                         | 462,897,000                   |
| 2004        | 273,944,070              | 156,475,000           | 2,100,000                      | 27,340,000                    | 4,028,500               | 19,677,565     |                                |                                |                               |                         | 483,565,135                   |
| 2005        | 248,797,182              | 153,515,000           | 1,300,000                      | 89,875,000                    | 3,575,600               | 4,661,279      |                                |                                |                               |                         | 501,724,061                   |
| 2006        | 239,102,182              | 144,265,000           |                                | 152,485,000                   | 3,481,766               | 7,218,103      |                                |                                |                               |                         | 546,552,051                   |

| Fiscal Year | Business-type Activities   |                              |                |                               |                          |                | Total Primary Government Income (1) | Percentage of Personnel Income (1) | Per Capita (1) |
|-------------|----------------------------|------------------------------|----------------|-------------------------------|--------------------------|----------------|-------------------------------------|------------------------------------|----------------|
|             | Water System Revenue Bonds | General Obligation Bonds (2) | Capital Leases | Certificates of Participation | Business-type Activities | Total          |                                     |                                    |                |
| 2002        | \$ 334,999,000             | \$                           | 18,000         | \$ 4,625,000                  | \$ 339,642,000           | \$ 786,614,344 | 3.56%                               | 1,547.63                           |                |
| 2003        | 333,665,000                |                              |                | 4,625,000                     | 338,290,000              | 801,187,000    | 3.47%                               | 1,552.03                           |                |
| 2004        | 364,700,666                |                              | 850,000        | 4,625,000                     | 370,175,666              | 853,740,801    | 3.47%                               | 1,645.36                           |                |
| 2005        | 388,324,735                | 42,386,887                   | 3,049,416      | 4,320,000                     | 438,081,038              | 939,805,099    | 3.55%                               | 1,801.76                           |                |
| 2006        | 383,337,014                | 42,386,887                   | 6,787,833      | 5,495,000                     | 438,006,734              | 984,558,785    | 3.42%                               | 1,820.71                           |                |

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Population and personal income information can be found on Table XIV

(2) Debt service is paid and bond liability reported in the Environmental Services Enterprise Fund.

CITY OF TUCSON  
 Ratios of Net General Bonded Debt Outstanding  
 Last Five Fiscal Years

| Fiscal Year | General Obligation Bonds | Less: Amounts Available in Debt Service Fund | Net General Obligation Bonds | Estimated Net Full Cash Value | Percentage of Actual Property Value | Per Capita |
|-------------|--------------------------|--|------------------------------|-------------------------------|-------------------------------------|------------|
| 2002        | \$ 243,099,000           | \$ 1,503,000                                 | \$ 241,596,000               | \$ 14,786,084,789             | 1.63%                               | \$ 475.33  |
| 2003        | 266,989,000              | 3,195,000                                    | 263,794,000                  | 15,838,940,606                | 1.67%                               | 511.01     |
| 2004        | 273,944,070              | 4,439,232                                    | 269,504,838                  | 17,154,631,650                | 1.57%                               | 519.40     |
| 2005        | 248,797,182              | 5,317,340                                    | 243,479,842                  | 18,396,623,812                | 1.32%                               | 466.79     |
| 2006 (1)    | 281,489,069              | 7,839,739                                    | 273,649,330                  | 19,785,493,382                | 1.38%                               | 506.05     |

Source: Estimated net full cash value is from the latest General Obligation offering statement.

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Includes \$42,386,887 of General Bonded debt in the Environment Services Fund.

CITY OF TUCSON  
 Direct and Overlapping Governmental Activities Debt  
 As of June 30, 2006

TABLE XII

| <u>Overlapping Jurisdiction</u>                            | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable</u> | <u>Estimated Share of Overlapping Debt</u> |
|--|-------------------------|--|--|
| <b>Debt Paid with Property Taxes</b>                       |                         |  |  |
| Pima County, Arizona                                       | \$ 267,270,000          | 45.00%                                 | \$ 120,271,500                             |
| Pima Community College District                            | 71,675,000              | 45.00%                                 | 32,253,750                                 |
| Pima County Flood Control District                         | 3,805,000               | 38.90%                                 | 1,480,145                                  |
| Tucson Unified School District No. 1                       | 299,160,000             | 77.25%                                 | 231,101,100                                |
| Flowing Wells Unified School District No. 8                | 11,810,000              | 29.00%                                 | 3,424,900                                  |
| Amphitheater Unified School District No. 10                | 84,565,000              | 16.80%                                 | 14,206,920                                 |
| Sunnyside Unified School District No. 12                   | 46,795,000              | 78.20%                                 | 36,593,690                                 |
| Tanque Verde Unified School District No. 13                | 5,285,000               | 1.21%                                  | 63,949                                     |
| Vail Unified School District No. 20                        | 25,515,000              | 42.90%                                 | 10,945,935                                 |
| Sahuarita Unified School District No. 30                   | 26,315,000              | 0.40%                                  | 105,260                                    |
| <b>Other Debt (1)</b>                                      |                         |  |  |
| Pima County Capital Leases                                 | 91,194                  | 45.00%                                 | 41,037                                     |
| Pima Community College District Capital Leases             | 4,900,000               | 45.00%                                 | 2,205,000                                  |
| Tucson Unified School District No. 1 Capital Leases        | 3,929,654               | 77.25%                                 | 3,035,658                                  |
| Flowing Wells Unified School District No. 8 Capital Leases | 256,103                 | 29.00%                                 | 74,270                                     |
| Amphitheater Unified School District No. 10 Capital Leases | 851,368                 | 16.80%                                 | 143,030                                    |
| Sunnyside Unified School District No. 12 Capital Leases    | 330,965                 | 78.20%                                 | 258,815                                    |
| Vail Unified School District No. 20 Capital Leases         | 1,961,242               | 42.90%                                 | 841,373                                    |
| Sahuarita Unified School District No. 30 Capital Leases    | 788,373                 | 0.40%                                  | 3,153                                      |
| Subtotal, Overlapping Debt                                 |                         |  | 457,049,484                                |
| City of Tucson, Arizona Direct Debt                        |                         |  | 546,552,051                                |
| <b>Total Direct and Overlapping Debt</b>                   |                         |  | <b>\$ 1,003,601,535</b>                    |

Source: State Report of Indebtedness

Notes: (1) Outstanding Other Debt is as of Fiscal Year 2005

CITY OF TUCSON  
 Legal Debt Margin Information  
 Last Five Fiscal Years

TABLE XIII

|   | Fiscal Year      |               |               |               |               |
|---|------------------|---------------|---------------|---------------|---------------|
|   | 2002             | 2003          | 2004          | 2005          | 2006          |
| Primary Tax Rate                                    | \$ 0.1403        | 0.2089        | 0.2089        | 0.3531        | 0.3469        |
| Secondary Tax Rate                                  | 0.9799           | 0.9113        | 0.9480        | 0.8316        | 0.8895        |
| <b>Total Property Tax Rate (1)</b>                  | <b>1.1202</b>    | <b>1.1202</b> | <b>1.1569</b> | <b>1.1847</b> | <b>1.2364</b> |
| Secondary Assessed Value                            | \$ 2,138,461,318 | 2,268,733,334 | 2,427,120,926 | 2,558,231,181 | 2,722,915,853 |
| <b>6% Limitation (2)</b>                            | 128,307,679      | 136,124,000   | 145,627,256   | 153,493,871   | 163,374,951   |
| Less: Direct G.O. Bonds Outstanding                 | 79,678,000       | 84,671,460    | 82,446,460    | 60,988,460    | 51,333,460    |
| Legal Debt Margin                                   | 48,629,679       | 51,452,540    | 63,180,796    | 92,505,411    | 112,041,491   |
| Legal Debt Margin as a Percentage of the Debt Limit | 37.90%           | 37.80%        | 43.39%        | 60.27%        | 68.58%        |
| <b>20% Limitation (2)</b>                           | 427,692,264      | 453,746,667   | 485,424,185   | 511,646,236   | 544,583,171   |
| Less: Direct G.O. Bonds Outstanding                 | 163,421,070      | 182,317,610   | 191,497,610   | 230,195,610   | 230,155,609   |
| Legal Debt Margin                                   | 264,271,194      | 271,429,057   | 293,926,575   | 281,450,626   | 314,427,562   |
| Legal Debt Margin as a Percentage of the Debt Limit | 61.79%           | 59.82%        | 60.55%        | 55.01%        | 57.74%        |

**Notes:** (1) The City's ability to issue debt is, in part, limited by the City Charter which precludes the total property tax rate to exceed 1.75 per \$100 assessed value. The secondary property tax rate is levied annually to pay general obligation debt service.

(2) The Arizona Constitution and Arizona Revised Statutes limit the City's general obligation bonded debt capacity to certain percentages of the City's secondary assessed valuation and by the type of project to be constructed. For projects involving water, sewer, artificial lighting, parks, open space and recreational facility improvements, the City can issue general obligation bonds up to 20% of its secondary assessed valuation. For any other general purpose improvements, the City may issue bonds up to 6% of its secondary assessed valuation.

**CITY OF TUCSON**  
**Pledged Revenue Coverage**  
**For the Last Five Fiscal Years**

TABLE XIV

| Fiscal Year | Water System Revenue Bonds |                          |                       |                        |                       | Coverage (1) |
|-------------|----------------------------|--------------------------|-----------------------|------------------------|-----------------------|--------------|
|             | Utility Service Charges    | Less: Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest |              |
| 2002        | \$ 114,282,000             | \$ 57,295,000            | \$ 56,987,000         | \$ 7,501,000           | \$ 15,786,000         | 2.46         |
| 2003        | 110,444,000                | 60,031,000               | 50,413,000            | 7,934,000              | 16,822,000            | 2.04         |
| 2004        | 115,298,950                | 61,669,935               | 53,629,015            | 8,985,510              | 17,436,712            | 2.03         |
| 2005        | 119,852,788                | 66,217,746               | 53,635,042            | 9,987,817              | 17,922,422            | 2.06         |
| 2006        | 128,693,649                | 71,289,091               | 57,404,558            | 11,201,882             | 18,924,918            | 1.91         |

| Fiscal Year | Special Assessments             |                        |                       |  |  | Coverage |
|-------------|---------------------------------|------------------------|-----------------------|--|--|----------|
|             | Special Assessments Collections | Debt Service Principal | Debt Service Interest |  |  |          |
| 2002        | \$ 560,000                      | \$ 604,000             | \$ 201,062            |  |  | 0.70     |
| 2003        | 1,125,000                       | 668,597                | 249,147               |  |  | 1.23     |
| 2004        | 683,004                         | 526,392                | 212,893               |  |  | 0.92     |
| 2005        | 898,339                         | 452,900                | 187,446               |  |  | 1.40     |
| 2006        | 744,351                         | 441,600                | 168,055               |  |  | 1.22     |

**Notes:** Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include depreciation, interest or amortization expenses.

(1) The coverage ratio is based on the Annual Debt Service coverage as defined by City of Tucson Ordinance No. 6347. The debt service requirements represent the greatest amount required in any fiscal year as of the current fiscal year or thereafter. Expenses exclude depreciation, amortization and other water expenses subordinate to debt service. See the Water Utility Fund Revenues, Expenses and Flows of Funds Per Ordinance 6347.

City of Tucson  
 Demographic and Economic Statistics,  
 Last Five Fiscal Years

TABLE XV

| Calendar Year | Population | Personal Income  | Per Capita Personal Income | Unemployment Rate |
|---------------|------------|------------------|----------------------------|-------------------|
| 2002          | 508,271    | \$22,071,150,000 | \$ 43,424                  | 4.4%              |
| 2003          | 516,220    | 23,081,710,000   | 44,713                     | 4.0%              |
| 2004          | 518,878    | 24,582,890,000   | 47,377                     | 4.2%              |
| 2005          | 521,605    | 26,464,780,000   | 50,737                     | 4.7%              |
| 2006          | 540,754    | 28,796,630,000   | 53,253                     | 4.5%              |

Source: Department of Urban Planning. Personal income information for Pima County

CITY OF TUCSON  
Principal Employers  
Current Year and Nine Years Ago

| Employer                                      | 1997      |  | 2006      |  |
|---|-----------|--|-----------|--|
|   | Employees | Percentage of Total Tucson Statistical Area Employment | Employees | Percentage of Total Tucson Statistical Area Employment |
| University of Arizona                         | 10,100    | 2.55%  | 13,098    | 3.13%  |
| State Of Arizona                              | 9,870     | 2.49%  | 10,282    | 2.46%  |
| Davis-Monthan Air Force Base                  | 8,340     | 2.10%  | 10,756    | 2.57%  |
| Hughes Missile System Co. (1)                 | 7,100     | 1.79%  | 9,742     | 2.33%  |
| Tucson Unified School District                | 6,557     | 1.65%  | 8,233     | 1.97%  |
| Pima County                                   | 6,259     | 1.58%  | 7,623     | 1.82%  |
| City of Tucson                                | 4,638     | 1.17%  | 5,306     | 1.27%  |
| Health Partners of Southern Arizona           | 4,300     | 1.09%  | 4,980     | 1.19%  |
| BPH Copper                                    | 3,340     | 0.84%  | 4,123     | 0.99%  |
| Tucson Medical Center                         | 2,800     | 0.71%  | 3,751     | 0.90%  |
| Total   | 63,304    | 15.97%   | 77,894    | 18.63%   |
|   |           |  |           |  |
| U.S. Army Intelligence Center & Fort Huachuca |           |  |           |  |
| University of Arizona                         |           |  |           |  |
| Raytheon Missile Systems                      |           |  |           |  |
| State of Arizona                              |           |  |           |  |
| Davis-Monthan Air Force Base                  |           |  |           |  |
| Tucson Unified School District                |           |  |           |  |
| City of Tucson                                |           |  |           |  |
| Wal-Mart Stores, Inc                          |           |  |           |  |
| Phelps Dodge Mining Co                        |           |  |           |  |
| Carondelet Health Network                     |           |  |           |  |
| Total   |           |  |           |  |

Source: Water Revenue Official Statement dated August 1997. Tucson Statistical Area is equivalent Pima County

Notes: (1) Hughes Missile System became Raytheon Missile System

TABLE XVII

City of Tucson  
 Adopted Budget Full-time-Equivalent City Employees by Function  
 Last Five Fiscal Years

| Function                                | Fiscal Year |          |          |          |          |
|---|-------------|----------|----------|----------|----------|
|   | 2002        | 2003     | 2004     | 2005     | 2006     |
| Elected and Official                    | 254.74      | 228.25   | 235.75   | 215.00   | 234.50   |
| Neighborhood Services                   | 3,253.55    | 3,241.55 | 3,198.80 | 3,297.30 | 3,422.05 |
| Environment and Development             | 811.00      | 795.00   | 799.00   | 1,098.50 | 578.00   |
| Strategic Initiatives                   | 85.50       | 85.50    | 78.75    | 93.25    | 93.75    |
| Support Services                        | 756.37      | 729.66   | 699.71   | 720.71   | 720.71   |
| Non-Departmental                        | 5.50        | 5.75     | 4.75     | 4.75     | 4.75     |
| Utility Services-Environmental Services |             |          |          | 263.00   | 262.00   |
| Utility Services-Water                  | 590.00      | 590.00   | 589.00   | 576.00   | 571.00   |
| Golf                                    | 169.00      | 153.75   | 154.75   | 154.75   | 154.75   |
| Total                                   | 5925.66     | 5,829.46 | 5,760.51 | 6,423.26 | 6,041.51 |

Source: Adopted Budget

City of Tucson  
 Capital Asset Statistics by Function  
 Last Five Fiscal Years

TABLE XVIII

| Function                    | Fiscal Year |       |       |       |       |
|-----------------------------|-------------|-------|-------|-------|-------|
|                             | 2002        | 2003  | 2004  | 2005  | 2006  |
| Police Facilities           | 7           | 8     | 8     | 8     | 10    |
| Fire Stations               | 18          | 18    | 18    | 20    | 20    |
| Parks & Recreation          |             |       |       |       |       |
| Recreation/Regional Centers | 16          | 17    | 17    | 19    | 18    |
| Golf Courses                | 5           | 5     | 5     | 5     | 5     |
| Parks                       | 127         | 127   | 127   | 125   | 136   |
| Playfields                  | 195         | 195   | 195   | 182   | 250   |
| Swimming Pools              | 26          | 26    | 26    | 27    | 27    |
| Transportation              |             |       |       |       |       |
| Residential (Miles)         | 1,305       | 1,315 | 1,347 | 1,355 | 1,351 |
| Collectors (Miles)          | 101         | 101   | 100   | 100   | 100   |
| Arterials (Miles)           | 287         | 287   | 287   | 287   | 287   |
| Interstate (Miles)          | 80          | 80    | 80    | 80    | 80    |
| Transit                     |             |       |       |       |       |
| Buses (Active Fleet)        | 194         | 194   | 189   | 189   | 189   |
| Water                       |             |       |       |       |       |
| Operable Wells              | 207         | 212   | 216   | 223   | 212   |
| Miles of Water Mains        | 4,275       | 4,275 | 4,300 | 4,480 | 4,561 |

Source: Various City Departments

**CITY OF TUCSON**  
**Operating Indicators by Function**  
**Last Five Years**

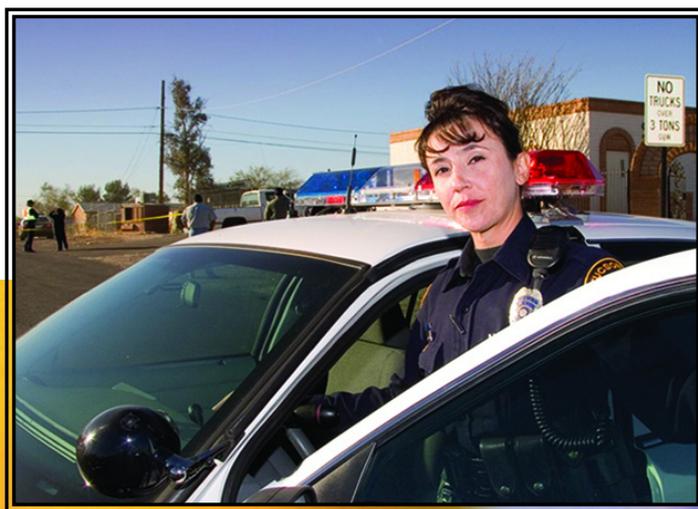
TABLE XIX

| Function   | Fiscal Year   |         |         |         |         |
|--|---------------|---------|---------|---------|---------|
|  | 2002          | 2003    | 2004    | 2005    | 2006    |
| General Government                                       |               |         |         |         |         |
| Building Permits   | 7,926         | 5,238   | 4,438   | 3,328   | 3,083   |
| Police   |               |         |         |         |         |
| Calls for Service  | 337,102       | 344,223 | 373,509 | 349,220 | 337,224 |
| Calls for Service per Capita                             | 0.66          | 0.67    | 0.72    | 0.67    | 0.62    |
| Part I Crimes (% Cleared) (1)                            | 13.64%        | 13.90%  | 13.72%  | 14.04%  | 16.30%  |
| Part II Crimes (% Cleared) (1)                           | 86.22%        | 87.24%  | 87.93%  | 71.60%  | 89      |
| Fire   |               |         |         |         |         |
| Emergency Responses                                      | 67,183        | 67,151  | 68,487  | 69,667  | 71,843  |
| Inspections  | 2,645         | 2,828   | 2,991   | 3,200   | 2,801   |
| Parks & Recreation                                       |               |         |         |         |         |
| KIDCO Registration                                       | 6,525         | 5,325   | 4,640   | 7,824   | 8,273   |
| Class Enrollment-Other than KIDCO                        | 26,641        | 23,670  | 30,023  | 35,153  | 35,703  |
| Facility Rental  | 11,510        | 11,620  | 12,200  | 12,194  | 13,095  |
| Zoo Visitors   | 412,680       | 385,933 | 376,535 | 434,252 | 439,380 |
| Environmental Services                                   |               |         |         |         |         |
| Landfill Tons of Waste Collected                         | Not Available | 506,372 | 547,270 | 597,576 | 638,550 |
| Tons of Material Recycled                                | Not Available | 43,655  | 46,489  | 47,608  | 46,034  |
| Water  |               |         |         |         |         |
| Average Total Monthly Connections                        |               |         |         |         |         |
| Potable  | 199,613       | 204,701 | 211,466 | 215,785 | 220,571 |
| Reclaimed  | 576           | 670     | 763     | 868     | 950     |
| New Connections  |               |         |         |         |         |
| Potable  | 5,077         | 5,493   | 6,177   | 4,069   | 4,846   |
| Reclaimed  | 88            | 113     | 89      | 99      | 48      |
| Water Sales (mcf)  |               |         |         |         |         |
| Potable  | 48,016        | 47,274  | 47,974  | 47,251  | 49,536  |
| Reclaimed  | 4,990         | 4,638   | 5,197   | 5,003   | 5,998   |
| Transportation   |               |         |         |         |         |
| Average Response Time (working days) to Complete Pothole | 4             | 6       | 7       | 8       | 10      |
| The % of Lane Miles Assessed as Satisfactory or Better   | 78.8%         | 76.6%   | 73.4%   | 87.9%   | 85.0%   |
| Traffic Signal Expenditure per Repair                    | \$73.35       | \$77.24 | \$81.31 | \$85.59 | \$89.56 |
| Sun Tran's Operating Expenses per Vehicle Revenue Mile   | \$4.65        | \$4.73  | \$5.00  | \$5.28  | \$5.67  |
| Sun Tran's Operating Expenses per Passenger Mile         | \$0.56        | \$0.55  | \$0.58  | \$0.63  | \$0.63  |

**Source:** Various City Departments

**Notes:** (1) Part I crimes include homicides, Sexual Assaults, Robberies, Burglaries, Larceny, Motor Vehicle Thefts, and TPD Arson. Part II crimes include Narcotic Violations, DUI, and Juvenile Violations. Percentage of cases cleared is computed by dividing cases cleared by cases reported.

# 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.<sup>1</sup> 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.

