

City of Tucson, Arizona

Comprehensive Annual Financial Report



Fiscal Year July 1, 2007-June 30, 2008

City of Tucson, Arizona
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2008



Prepared by: The Department of Finance,
Accounting Division



City of Tucson, Arizona

Introductory Section



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CITY OF TUCSON

FINANCE DEPARTMENT
ADMINISTRATION

December 5, 2008

Honorable Mayor, Council
and Citizens of the
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, 2008, as required by Chapter XXIX of the City Charter. The CAFR was prepared in accordance with accounting principles generally accepted in the United States of America.

City management is responsible for both the accuracy of the data and the completeness and fairness of the presentations, including all disclosures. 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 is 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.

Management's Discussion and Analysis (MD&A) beginning on page 3 provides a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

Independent Audits

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

City Profile

Permanent settlements were built in Tucson nearly 2,000 years ago by the people of the Hohokam culture. More than 300 years after Tucson's founding as a mission site, the City continues to grow and celebrate its diverse cultural influences. It is second largest city in the State of Arizona and largest in Southern Arizona. It is the home of the University of Arizona and Davis-Monthan Air Force Base. The City 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 City has five discretely presented component units: The Rio Nuevo Multipurpose Facilities District, Silverbell Homes Limited Partnership, Posadas Sentinel, L.L.L.P., South Park Development Partners, L.L.L.P., and Tucson house Apartments, L.L.L.P. All component units are 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.

Budget System and Controls

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 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 became 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 Finance and the City Manager approves changes within purpose categories and Mayor and Council approves changes between purposes.

Assessing Economic Condition

The economic slow down that began in 2007 for Arizona continued into 2008. Declines in the housing market and consumer spending, job losses, and accelerating inflation deeply affected both the State and the Tucson Metropolitan area. Figures 1 through 4 provide Tucson and State of Arizona comparisons of population growth, unemployment, retail sales, and personnel income.

FIGURE 1

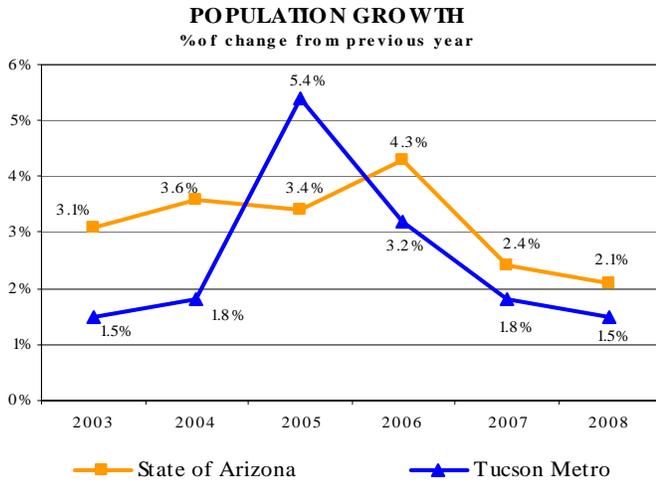


FIGURE 2

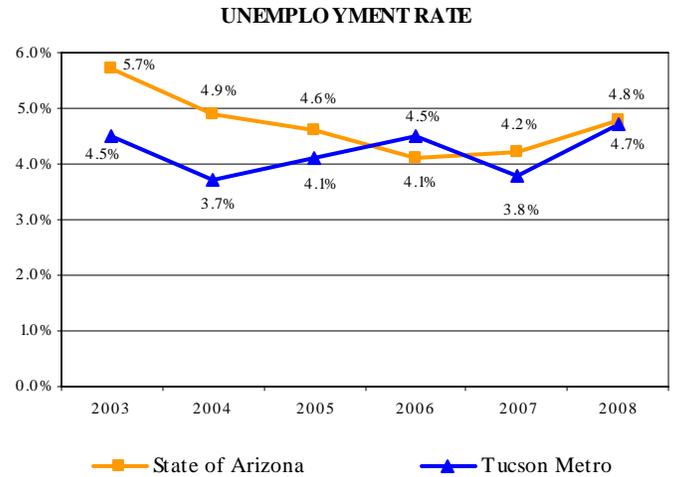


FIGURE 3

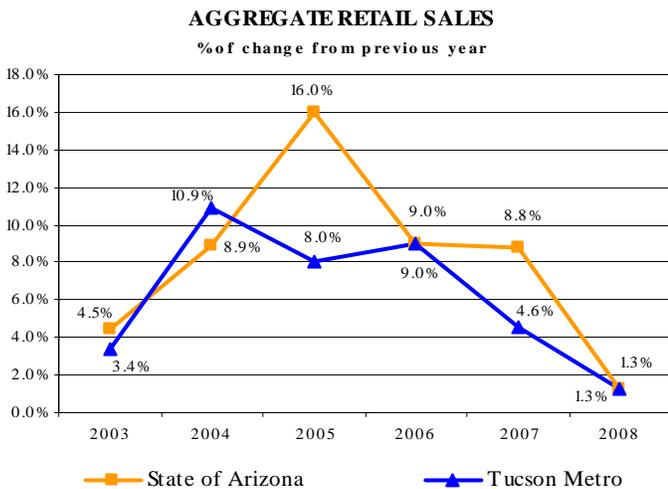
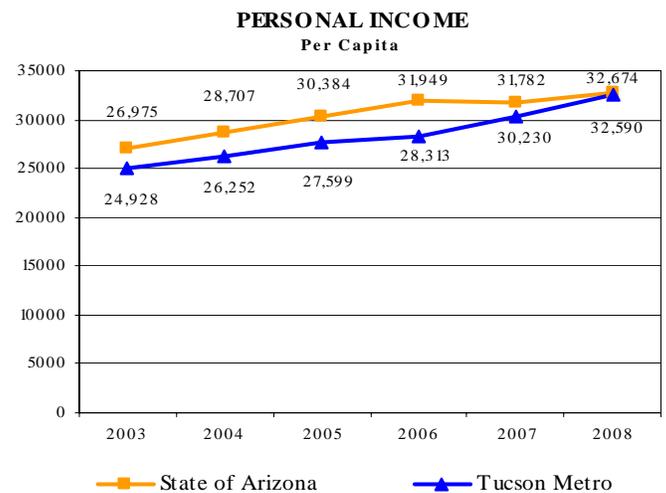


FIGURE 4



The decline in the economy had a direct impact on the sales tax collections for the City and the City’s portion of State shared taxes. These revenue sources comprise over 70% of the General Fund revenues and were significantly below adopted Fiscal Year 2008 budget levels by a combined \$19.7 million. Management measures such as holding non-public safety positions vacant, implementing purchasing controls, and restricting travel, training and maintenance activities provided savings of over \$6 million. These measures, along with using \$12.5 million of unreserved fund balance allowed the City to end Fiscal Year 2008 in sound financial condition. The City’s unreserved/undesignated fund balance accomplished its intended purpose by providing protection during the economic downturn, ending the fiscal year at 7% of general fund expenditures.

Long-Term Planning

The City, along with the nation, is in unprecedented economic times. The City, however, has been fortunate compared to many of its peers. To date, the City has been able to avoid drastic reductions in public safety and wide scale layoffs given the basic stability of the local economy anchored by Davis Monthan AFB, the University of Arizona, and other typically less recession vulnerable

institutions coupled with the foresight of the Mayor and Council through its embracing of the financial sustainability plan, which requires growth in revenues to pay for growth in services.

The City has slowly been able to control costs and employ one time, non-recurring fiscal practices to assist with covering deficits for fiscal years 2009 and 2010. For example, the End of Service program has provided an avenue for the City to strategically cut and redeploy our human capital. Other measures include oversight of department expenditures, program eliminations or major reductions, debt restructuring and use of our unreserved/undesignated General Fund Balance. All of the above measures have not been enough to keep expenditures below the escalating fall in our local and State shared sales tax revenues.

Fiscal Year 2009 will be the second year in a row that the City has collected less sales tax revenue than the previous year. The Fiscal Year 2009 projected deficit is \$50.3 million with an unreserved/undesignated General Fund balance projected to be at least if not more than 5% of estimated expenditures. Budget management measures are in process of being implemented to address this deficit. Fiscal Year 2010 projections are equally challenging. While some of the reductions now and in the future will impact service delivery to our citizens, every effort will be made to minimize this impact. Revenues will continue to be monitored monthly and strategies implemented to cover any future deficits.

As an indication of the City's long term financial stability, a Standard & Poor's Ratings Direct Summary, Tucson, Arizona; Appropriations; General Obligation states: "The City of Tucson's management practices are considered to be 'strong' under Standard & Poor's Financial Management Assessment (FMA). A FMA of 'strong' indicates practices are strong, well embedded, and likely sustainable. An FMA measures city management's policies and procedures used as it oversees day-to-day operations. The city does have some comprehensive debt policies beyond the state limits, including types of debt to be issued and maturity. Other management policies are strong, including an annually updated five-year capital improvement plan with identified funding. There are also five-year financial projections that incorporate information from outside sources including the University of Arizona. The budget and the city's investments are reviewed at least quarterly. Lastly, the recent adoption of a 10-year Financial Sustainability Plan combines many of the planning tools into one document to address major needs of the city, thereby providing additional tools to manage operations."

Major Initiatives

Even with no service increases or employee raises, the City maintained its Financial Sustainability Plan initiatives to support City priorities, particularly public safety. Public safety has been allocated a larger percentage of General Purpose Funds each year and now represents about 50% of the budget. Technology innovations such as online auctions, e-Tickets, and Voice over Internet Protocol are saving money and improving revenues.

City Policies

Unreserved/Undesignated Reserve: The Mayor and Council's policy is to maintain an unreserved/undesignated fund balance at 10% of General Fund expenditures.

Financial Sustainability Plan: The Mayor and Council approved long-term financial sustainability plan provides a strategic framework and clear benchmarks for addressing future service needs. The plan incorporates the City's strategic priorities, as well as input from citizens and other planning

processes. It provides the basis for the City's budget and drives efforts in evaluating services and efficiencies as well as workforce planning. It focuses 60% growth of revenues for improving community services such as, maintaining roadways, reducing crime, saving lives and property, addressing social concerns, and improving parks and recreation opportunities. The remaining 40% of growth funds employee salary and benefit requirements such as rising pension costs. For Fiscal Year 2009, this plan will be suspended until revenue projections improve.

Risk Management: The City maintains a self insurance program for liability claims, unemployment compensation, and workers' compensation. For workers' compensation, the City posted a \$22,095,251 bond required by the Industrial Commission of Arizona for self insurance purposes. The liability insurance program is largely self-funded for liability claims and lawsuits, settlements and expenses. Third-party liability claims against the City and subrogation efforts by the City are handled internally by licensed claim adjusters. The property and casualty insurance program combines commercial and self insurance to cover standard risks associated with City structures, equipment and vehicles. Casualty coverage's include crime insurance, public official bonds and auto liability on vehicles. The workers' compensation program is a self-insured program with Employer's Liability Insurance at the \$1,000,000 limit.

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, 2007. 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.

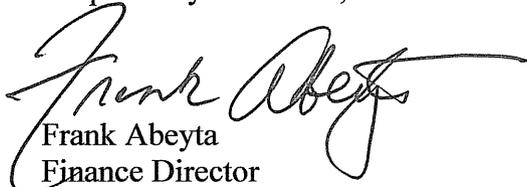
A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 26 consecutive years (fiscal years ended 1982 through 2007). We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to GFOA.

A special word of appreciation is due to Joyce Garland, CPA, Financial Manager, Vivian Newsheller, Principal Accountant, Shane Oman, Principal Accountant, Michael Mason, CPA, Finance Administrator, and to the entire accounting staff who prepared this CAFR.

Omar Garcia	Valerie Sparks	Marsha Schlanger
Aaron Williams, CPA	Cheryl Van De Beuken	Kathy Maish
Claudia Proios		

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,


Frank Abeyta
Finance Director



City Of Tucson Officials

CITY COUNCIL



HONORABLE
ROBERT E. WALKUP
MAYOR



REGINA ROMERO
WARD 1



RODNEY GLASSMAN
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

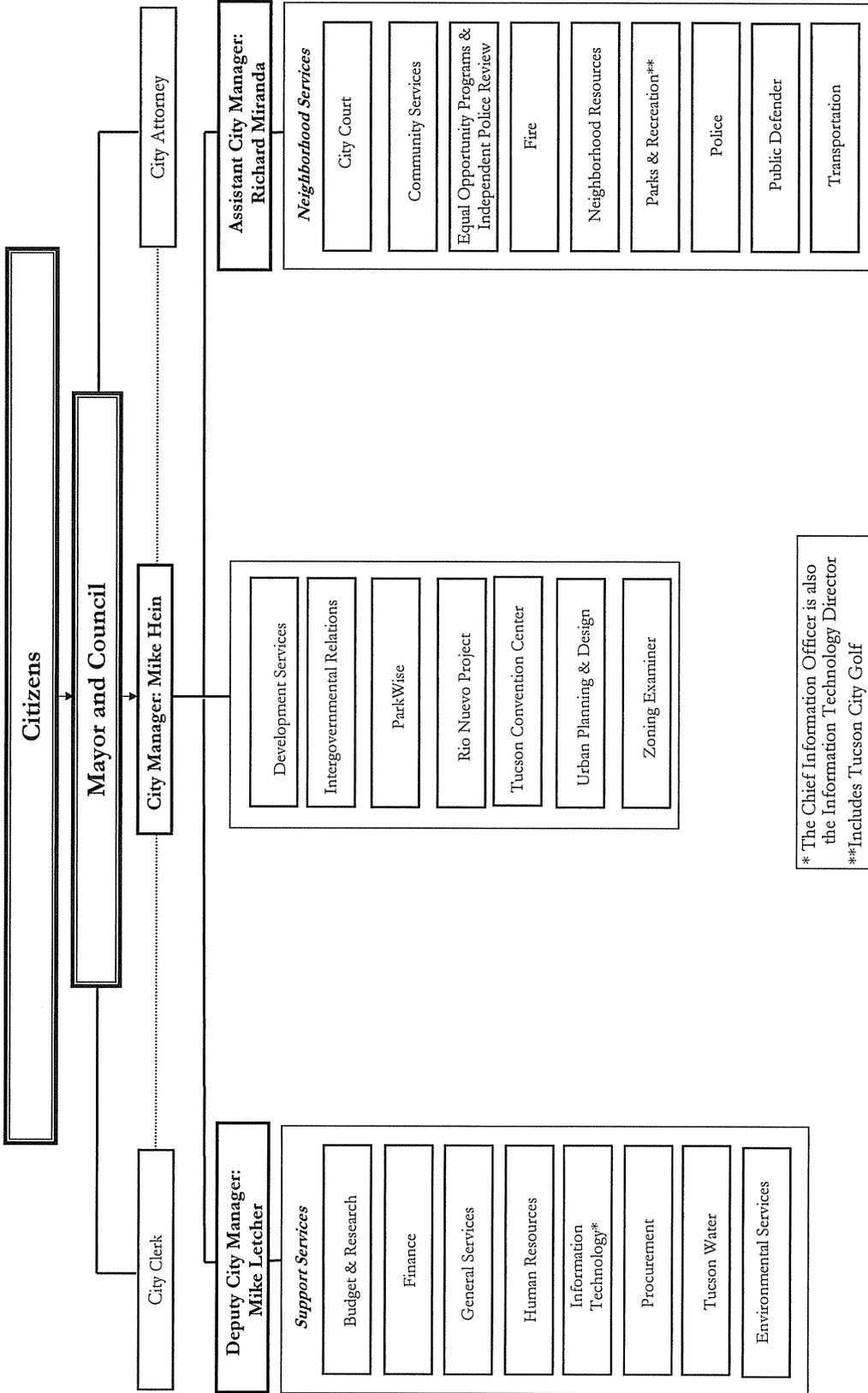
Interim Finance Director
David Cormier

Deputy Finance Director
Joe Ladenburg

Finance Administrator
Michael Mason



**CITY OF TUCSON
ORGANIZATION CHART
FISCAL YEAR 2008**



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

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, 2007

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director



Financial Section





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, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Tucson, Arizona (the "City") as of and for the year ended June 30, 2008, 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 did not audit the financial statements of the Housing Partnerships discretely presented component units, which represent 4%, 1%, and 6%, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units and remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Partnerships discretely presented component units is based on the reports of the other auditors.

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, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Tucson, Arizona, as of June 30, 2008, 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.

As described in Note 2, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represent changes in accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2008, 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 13 and budgetary comparison information on pages 69 through 71 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, as listed in the table of contents under the Financial Section, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Heinfeld, Meech & Co., P.C.

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

December 5, 2008

Management's Discussion and Analysis



CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

INTRODUCTION

The Management's Discussion and Analysis (MD&A) section of the City's Annual Financial Report (CAFR) presents discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the transmittal letter at the beginning of the CAFR and the City's financial statements, which immediately follow this section. The purpose of the MD&A is to (1) focus on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in the City's financial position, (4) identify any individual fund issues or concerns and (5) provide descriptions of significant asset and debt activity.

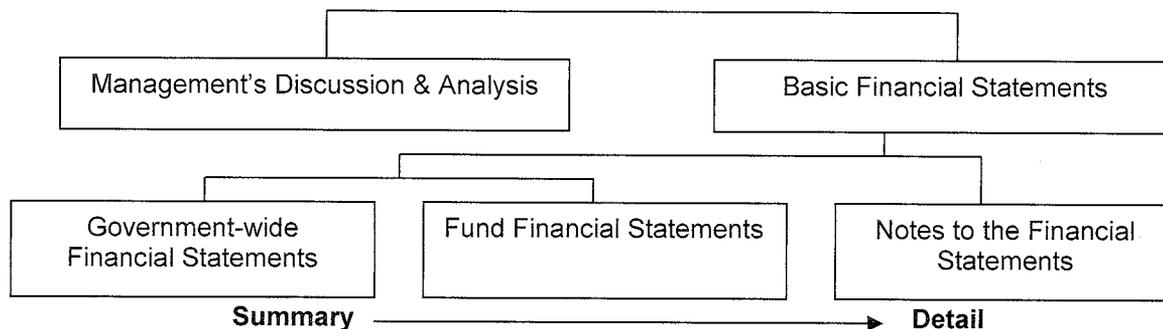
FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities by \$1.87 billion—reported as net assets. Assets totaled \$3.2 billion and liabilities were \$1.3 billion.
- Total net assets increased \$42.8 million from last year. Governmental activities had a \$44.4 million increase in net assets, while business-type activities had a decrease of \$1.6 million.
- The City's governmental funds reported a combined fund balance of \$173.7 million, a decrease of \$46.7 million from last fiscal year. Within the combined fund balance total, \$18.7 million is unreserved, while \$155.0 million is reserved for specific purposes.
- The General Fund reported a fund balance of \$58.1 million, which represents a \$23.2 million decrease from last year. The unreserved/undesignated balance is \$31.2 million, a \$12.5 million decrease from last year. This represents 7% of total general fund expenditures for the fiscal year.
- The City took management actions that saved \$6 million to mitigate increased benefit costs and shrinking revenues due to a downturn in the economy.

OVERVIEW OF FINANCIAL STATEMENTS

Required Components of Annual Financial Report

Figure 1



This annual report consists of a series of financial statements that are categorized as either government-wide financial statements or fund financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities, which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements represent how services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. Also included in the fund financial statements are the fiduciary funds. These include financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government. Finally, the notes to the financial statements should be read in conjunction with the financial statements as they are an integral part of fully understanding the statements.

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 Statements and Individual Fund Statements and Schedules show combining statements for non-major governmental funds and internal service funds, along with budget to actual comparisons on individual funds.

Government-wide Financial Statements

The government-wide financial statements, found in the Basic Financial Statements section, 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. 15) 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. 16) 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. Increasing net assets show financial improvement, while decreasing net assets indicate financial decline. 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, are also 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 and 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 cover the costs of certain services it provides. The City's enterprise funds, Environmental Services, Golf Course, Public Housing Asset Management Properties (AMP) and Water Utility, are 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 (pgs. 18-21)* disclose how general government services, such as police or 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

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

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 or lease proceeds.

- *Proprietary fund statements* (pgs. 22–25) 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 Revenues, Expenses, and 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* (pgs. 26-27) 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.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The combined net assets for the primary government increased 2.3% over the course of the year to \$1.87 billion. Governmental activities contributed to \$44.4 million of the increase, while business-type net assets decreased \$1.6 million. As shown in Figure 2 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.

Net assets for Governmental Activities increased \$44.4 million. The main components of the change were an increase of \$88.4 million in the invested capital assets, net of related debt and a \$31.1 million decrease in the unrestricted net assets. The deficit unrestricted net assets balance is due to decreases in the general fund designated, reserved and unreserved fund balances. The designated fund balance decreased by \$7.3 million due to a downturn of the local/national economy. The unreserved fund balance decreased \$12.5 million primarily due to shrinking general revenues and increased personnel costs. In addition the reserve for advances and deposits decreased \$4.8 million due to the repayment of loans from the Special Assessment Capital Projects fund and the Development Fee Special Revenue fund.

The fiscal year 2008 Business-type unrestricted balance is a deficit primarily due to incurring liabilities, such as compensated absences (vacation and sick leave liabilities) and environmental mandates, with no corresponding assets. Due to the internal service activities adjustment and higher operating and non-operating expenses, the City's Environmental Services fund unrestricted net assets decreased \$9.8 million, while the Water Utility fund unrestricted net assets decreased \$6.8 million and the non-major enterprise funds unrestricted net assets decreased \$1.4 million.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

Figure 2 is a comparative summary of the City's Net Assets for fiscal years 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
Current and Other Assets	\$ 304,367,628	\$ 369,955,084	\$ 125,323,590	\$ 124,458,380	\$ 429,691,218	\$ 494,413,464
Capital Assets	1,605,684,913	1,532,418,094	1,162,304,125	1,100,899,243	2,767,989,038	2,633,317,337
Total Assets	1,910,052,541	1,902,373,178	1,287,627,715	1,225,357,623	3,197,680,256	3,127,730,801
Current and Other Liabilities	154,157,054	168,293,502	66,503,491	69,734,497	220,660,545	238,027,999
Long-term Liabilities	546,476,091	569,007,780	559,255,029	492,176,427	1,105,731,120	1,061,184,207
Total Liabilities	700,633,145	737,301,282	625,758,520	561,910,924	1,326,391,665	1,299,212,206
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,048,004,576	959,636,068	696,128,404	681,599,055	1,744,132,980	1,641,235,123
Restricted	164,195,246	177,158,918	26,615,863	24,724,209	190,811,109	201,883,127
Unrestricted (Deficit)	(2,780,426)	28,276,910	(60,875,072)	(42,876,565)	(63,655,498)	(14,599,655)
Total net assets	\$ 1,209,419,396	\$ 1,165,071,896	\$ 661,869,195	\$ 663,446,699	\$ 1,871,288,591	\$ 1,828,518,595

Figure 3 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:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 101,682,900	\$ 90,902,874	\$ 182,028,875	\$ 167,798,603	\$ 283,711,775	\$ 258,701,477
Operating Grants and Contributions	112,001,911	119,726,357			112,001,911	119,726,357
Capital Grants and Contributions	87,427,159	56,340,464	18,768,422	18,305,223	106,195,581	74,645,687
Total Program Revenues	301,111,970	266,969,695	200,797,297	186,103,826	501,909,267	453,073,521
General Revenues:						
Taxes:						
Property Taxes	38,247,154	37,669,367			38,247,154	37,669,367
Business Privilege Taxes	204,012,348	209,180,346			204,012,348	209,180,346
Public Utility Taxes	7,048,842	7,176,742			7,048,842	7,176,742
Transient Occupancy Taxes	12,367,631	12,979,893			12,367,631	12,979,893
Occupational Taxes	881,679	2,124,410			881,679	2,124,410
Liquor Taxes	670,480	731,380			670,480	731,380
Unrestricted Grants and Contributions	148,335,159	136,287,823			148,335,159	136,287,823
Investment Income (Loss)	6,480,118	11,613,881	2,633,875	3,586,680	9,113,993	15,200,561
Miscellaneous	3,750,250	8,370,501			3,750,250	8,370,501
Total General Revenues	421,793,661	426,134,343	2,633,875	3,586,680	424,427,536	429,721,023
Total Revenues	722,905,631	693,104,038	203,431,172	189,690,506	926,336,803	882,794,544
Expenses:						
Elected and Official	20,700,143	18,282,947			20,700,143	18,282,947
Support Services	47,471,907	48,489,229			47,471,907	48,489,229
Neighborhood Services	372,033,490	359,333,504			372,033,490	359,333,504
Environment and Development	156,511,559	153,134,680			156,511,559	153,134,680
Strategic Initiatives	7,217,537	8,156,745			7,217,537	8,156,745
Non-Departmental	46,693,111	35,332,418			46,693,111	35,332,418
Interest on Long-term Debt	27,105,560	27,227,363			27,105,560	27,227,363
Fiscal Agent and Other	41,025	43,875			41,025	43,875
Neighborhood Services (AMP funds)			11,184,715		11,184,715	
Environmental Services			53,420,043	46,037,471	53,420,043	46,037,471
Golf			10,847,587	9,692,464	10,847,587	9,692,464
Water			130,340,130	118,221,611	130,340,130	118,221,611
Total Expenses	677,774,332	650,000,761	205,792,475	173,951,546	883,566,807	823,952,307
Changes in Net Assets before transfers	45,131,299	43,103,277	(2,361,303)	15,738,960	42,769,996	58,842,237
Transfers	(783,799)	(410,991)	783,799	410,991		
Changes in Net Assets	\$ 44,347,500	\$ 42,692,286	\$ (1,577,504)	\$ 16,149,951	\$ 42,769,996	\$ 58,842,237

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

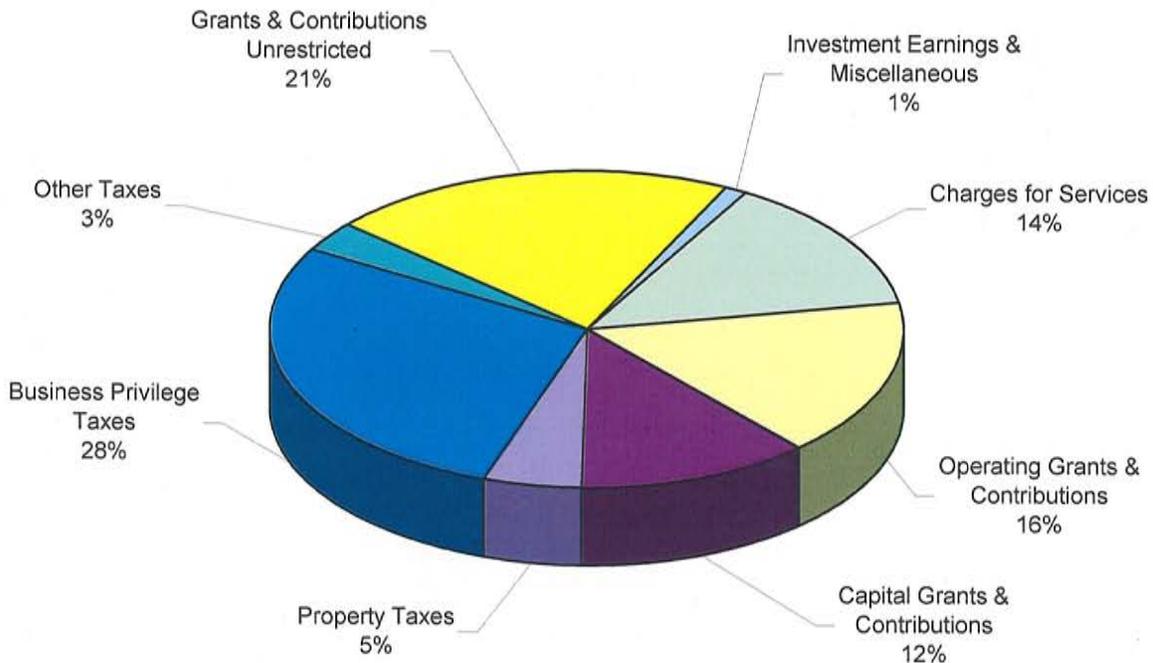
Governmental Activities

Total expenses for governmental activities for fiscal year 2008 were \$677.8 million. Program revenues, including charges for services and restricted grants or contributions, covered 44.4% of these costs. General revenues covered the remaining 55.6% of governmental costs. Components of general revenues primarily include taxes, unrestricted grants and contributions, investment income and miscellaneous revenues.

Charges for services increased \$10.8 million or 11.9% over fiscal year 2007. Most of the increase is due to the adoption of a new City policy in fiscal year 2008 of charging the business-type funds for administrative costs. The other significant change in program revenues is an increase of \$31.1 million in capital grants and contributions. The majority of this increase is due to increased reimbursements received from the State of Arizona for work on the Barraza Aviation Highway and from Pima County for completion of the Columbus Wash project. Also, the voter-approved Regional Transportation Authority (RTA) reimbursed the City \$5.1 million more in fiscal year 2008 than in 2007. This is because activity on RTA projects comprised the entire 2008 fiscal year compared to only five months in 2007.

The following chart depicts both program and general revenues generated by governmental activities for fiscal year 2008:

Governmental Activities-Revenue Sources
For the Fiscal Year Ended June 30, 2008

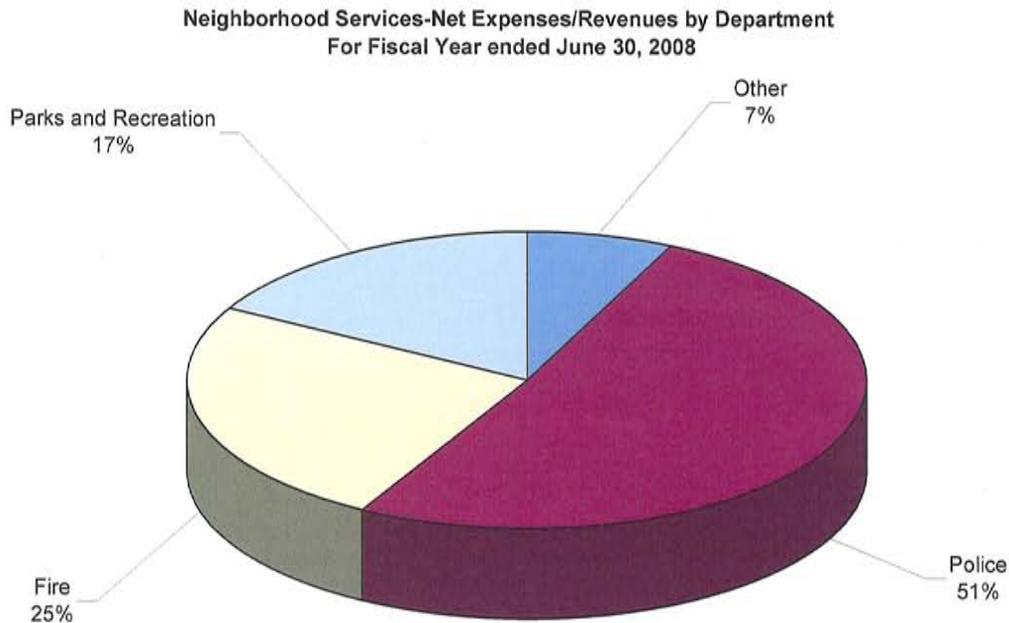


CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

Net expenses (program revenues less expenses) generated from governmental activities are presented by function in Figure 4 below to illustrate how much support each function receives from the City's general revenues:

Net Expense/Revenue-Governmental Activities					Figure 4
Function	2008		2007		
	Net (Expense)/Revenue	Percentage	Net (Expense)/Revenue	Percentage	
Elected and Official	\$ (19,842,328)	5%	\$ (17,781,489)	5%	
Support Services	(24,863,504)	7%	(25,457,803)	7%	
Neighborhood Services	(279,018,376)	74%	(265,253,416)	69%	
Environment and Development	12,865,326	(3%)	(15,406,644)	4%	
Strategic Initiatives	(3,761,133)	1%	(4,526,969)	1%	
Non-Departmental	(34,895,762)	9%	(27,333,507)	7%	
Interest on Long-term Debt	(27,105,560)	7%	(27,227,363)	7%	
Fiscal Agent Fees and Other	(41,025)	0%	(43,875)	0%	
Total Net Expense	\$ (376,662,362)	100%	\$ (383,031,066)	100%	

For Governmental Activities, the largest user of resources is Neighborhood Services which includes expenditures for the Police, Fire, and Parks and Recreation departments. The following chart illustrates the break out of expenditures by Neighborhood Services:



CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

Business-type Activities

The Environmental Service Fund, the Golf Course Fund, the Public Housing Asset Management Project (AMP) Fund, and the Water Utility Fund comprise the City's business-type, or enterprise, activities. The Environmental Service Fund and the Water Utility Fund are major funds for the City's enterprise activity and comprise the majority change in net assets. During the fiscal year, the net assets for business-type activities decreased by \$1.6 million, which includes the adjustment to consolidate internal service activities.

A significant change to the business-type funds is the addition of the Public Housing (AMP) Fund. This change was implemented to assure the City of Tucson is in compliance with the Department of Housing and Urban Development's (HUD) *Revisions to the Public Housing Operating Fund Program Final Rule* as published in the Federal Register on September 19, 2005 (79 FR 54983.) Implementing this fund was part of the restatement (see Note 2 for more details.)

Water Utility Revenues

Total program revenues increased in fiscal year 2008 by \$7.3 million. An increase of metered water sales and reclaimed water sales revenue was a result of increased rates and charges that went into effect July 1, 2007.

Water Utility Expenses

Total operating expenses were \$7.9 million more in fiscal year 2008 compared to fiscal year 2007. An increase of \$4.0 million in depreciation was mainly due to the capitalization of the Central Avra Valley Storage Recharge project at the end of fiscal year 2007. A \$2.4 million increase was realized in contractual services. The remaining increase is primarily due to cost of living and merit increases incurred in fiscal year 2008.

Environmental Services Revenues

Total program revenues remained steady in fiscal year 2008 compared to fiscal year 2007. A \$1.1 million decrease in landfill charges revenue due to reduced tonnage was offset by increases in residential and commercial collection service.

Environmental Services Expenses

Total operating expenses increased \$3.5 million. The total increase is largely a result of a \$1.3 million purchase of residential refuse containers and a \$1.1 million increase in personnel costs due to cost of living and merit increases realized in fiscal year 2008.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City had two major governmental funds in fiscal year 2008: the General Fund and the Mass Transit Fund. General Fund revenues increased by \$10.0 million and expenditures increased by \$13.8 million. Revenue increases in contributions from agencies and charges for services were offset by decreases in taxes and use of money. The largest increases of expenditures were in the areas of police, fire, and transportation, which follows the Mayor and Council, approved Financial Sustainability Plan. Capital project expenditures decreased significantly due to the formation of a Capital Improvement Fund at the beginning of fiscal year 2008. This fund records the Certificate of Participation revenues and related capital expenditures, whereas these revenues and expenditures historically have been recorded in the General Fund. The undesignated fund balance decreased by \$12.5 million and the designated fund balance was eliminated resulting in a \$7.3 million decrease.

The fund balance for the Mass Transit Fund increased \$3.8 million in fiscal year 2008. The increase is mainly due to a reserve for inventory in fiscal year 2008 of \$3 million.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

General Fund Revenues

- Total tax revenues decreased \$7.1 million (2.9%). Specifically, business privilege taxes and occupational taxes had the largest decreases over fiscal year 2007. The decrease in business privilege taxes of \$5.1 million was due to the downturn in the local economy. The decrease in the occupational taxes is due a management change of discontinuing the occupational tax and replacing it with a business license application fee (a non-tax revenue).
- Investment revenue declined by \$6.7 million in fiscal year 2008. This is mainly due to significantly less cash being held in the general fund, lower interest rates, and because of a financial reporting change to move COPS proceeds to the new Capital Improvements Fund.
- Charges for Services revenue increased by \$11.1 million in fiscal year 2008. The majority of this increase is because of a new policy for the General Fund to charge the business-type funds for administration costs such as procurement and finance services.
- Revenue from contributions from agencies increased by \$12.2 million. The City received \$12.8 million more in revenue sharing from the State of Arizona than in fiscal year 2007. The portion of revenue sharing the City received in fiscal year 2008 is based on 2 years prior, when the economy was more favorable.

General Fund Expenditures

- General Fund expenditures increased \$23.9 million in the Police, Fire and Transportation departments based on the Financial Sustainability Plan. Adherence to this plan resulted in the hiring of additional police and fire personnel and related support requirements, and increased emphasis on street maintenance.
- Expenditures for capital projects decreased \$23.9 million due to the financial reporting change of moving capital improvement projects to a new special revenue fund.
- Debt service increased \$3.7 million in fiscal year 2008 because of increases in COPS and capital lease debt over fiscal year 2007.

Mass Transit Fund Revenues

- Total revenues increased by \$5.6 million (17.4%) in fiscal year 2008. The significant part of the increase is due to \$4.4 million more collected from RTA projects for expanded Sun Tran and Van Tran routes. Also, Sun Tran received \$1.0 million in fiscal year 2008 for an Internal Revenue Service rebate for using CNG (compressed natural gas) in many of Sun Tran's buses. This is an increase of \$0.9 million over the rebate received in fiscal year 2007.

Mass Transit Fund Expenditures

- Total expenditures increased \$1.8 million (2.7%) in fiscal year 2008. The increase is a net result of fewer capital assets, e.g., buses, purchased in fiscal year 2008, lower capital project costs, specifically for the downtown Transit Center, but higher personnel costs.

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 69) shows the original budget (adopted), the final budget (revised), and actual revenues and expenditures for the fiscal year. The variance of the actual revenues to the final budget is a negative \$57.5 million (11%).

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

- Actual revenues from taxes were \$16.4 million less than the final budget. The largest portion of taxes the City collects is the Business Privilege Tax, which is a 2% sales and use tax paid by consumers. As the economy slowed, spending by consumers tightened, resulting in a shortfall of tax revenues collected by the City as compared to budgeted revenues.
- The negative variance of \$46.5 million for miscellaneous revenue includes budgeting \$43.0 million of fund balance to fund projects that were stopped due to the downturn in the economy. Another \$2.0 million was included for contingency revenue capacity, which would have provided the City with the means to expend any new revenue sources that might have been approved.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Figure 5 provides details of the City's capital assets as of June 30, 2008 and June 30, 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
Land	\$ 647,717,209	\$ 634,817,644	\$ 64,862,426	\$ 64,566,973	\$ 712,579,635	\$ 699,384,617
Buildings and Improvements	251,262,041	223,011,686	99,048,096	105,016,656	350,310,137	328,028,342
Equipment	97,420,328	82,472,728	23,807,402	22,948,102	121,227,730	105,420,830
Infrastructure	395,679,349	375,700,693	795,775,763	751,708,920	1,191,455,112	1,127,409,613
Construction in Progress	213,605,986	216,415,344	126,608,609	109,900,903	340,214,595	326,316,247
Goodwill			74,861	104,432	74,861	104,432
Water Rights			52,126,968	46,677,536	52,126,968	46,677,536
Total	\$ 1,605,684,913	\$ 1,532,418,095	\$ 1,162,304,125	\$ 1,100,923,522	\$ 2,767,989,038	\$ 2,633,341,617

Additional information regarding capital assets can be found in Note 7 on page 52.

Governmental Activities

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

- The net increase in land value is \$12.9 million. The increase is mostly due to the City recognizing \$9.5 million additional right of way conveyed to the City by developers once construction of neighborhoods and commercial developments were completed. The City also purchased land valued at \$1.3 million next to the Westside Police Substation for future expansion of the substation.
- Building and improvements had additions of \$42.2 million due to the closure of several capital improvement projects (CIP) such as the Edith Ball Adaptive Recreation Center, Court Structural Improvements, Fire Station 20, Fire Station 21, the Freedom Park Recreation Center, a Fleet Services fueling station and two Fleet Services lube pits. The additions were offset with \$13.8 million of depreciation expense.
- Infrastructure improvements include streets, sidewalks, street lighting, traffic signals and drainage. The City added \$39.6 million of improvements to its assets in fiscal year 2008. The additions were several infrastructure improvement projects that were completed in the fiscal year. Depreciation for the City's Infrastructure assets was \$19.6 million, which resulted in a net increase of Infrastructure of \$20.0 million over fiscal year 2007.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

Business-type Activities

Business-type activities had a net increase of \$61.4 million in capital assets during the fiscal year.

- The Water Utilities' capital program provides for the construction, expansion, and replacement of both potable and reclaimed water distribution systems. In fiscal year 2008 there were additions of \$26.1 for pipes and \$13.4 million for well equipment.
- The net change in construction in progress is an increase of \$16.7 million. This is because more CIP expenditures were incurred than projects that were capitalized into distribution and collection systems.
- Accumulated depreciation is a reduction to the capital assets. Total accumulated depreciation increased by \$28.6 million during fiscal year 2008 for business-type activities.
- The Water Utility restated its water rights beginning balance to recognize water rights purchased in 1984. See note 2 for more information about the restatement. During fiscal year 2008, the Water Utility added \$5.4 million in new water rights. Water rights are non-depreciating capital assets.

Long-term Debt

Figure 6 illustrates the City's long-term debt as of June 30, 2008 and June 30, 2007. Additional information regarding long-term debt can be found in Notes 8 through 12 starting on page 53:

	Governmental Activities		Business-type Activities		Total	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
General Obligation Debt	\$ 223,590,377	\$ 237,464,814	\$ 45,515,233	\$ 45,835,796	\$ 269,105,610	\$ 283,300,610
Street & Highway Revenue Bonds	124,665,000	134,665,000			124,665,000	134,665,000
Certificates of Participation	172,670,000	184,215,000	4,645,000	5,080,000	177,315,000	189,295,000
Federal Highway Loan	13,400,000				13,400,000	
Special Assessment Bonds	4,333,254	3,331,486			4,333,254	3,331,486
Water Revenue Bonds			436,255,222	411,342,495	436,255,222	411,342,495
Central Arizona Project Loan			4,246,344		4,246,344	
Deferred Amount on Refundings, Premiums and Discounts	6,749,683	7,318,031	(1,896,561)	(2,309,521)	4,853,122	5,008,510
Landfill Closure/Post Closure			44,107,721	42,999,919	44,107,721	42,999,919
Capital Leases Payable	11,484,700	11,441,540	7,687,215	7,160,626	19,171,915	18,602,166
Other Post-employment Benefits	1,595,727		405,812		2,001,539	
Compensated Absences	35,422,156	29,891,428	5,521,479	4,618,322	40,943,635	34,509,750
Claims and Judgments	32,094,391	28,012,525			32,094,391	28,012,525
Total	\$ 626,005,288	\$ 636,339,824	\$ 546,487,465	\$ 514,727,637	\$ 1,172,492,753	\$ 1,151,067,461

Outstanding debt for the City totaled \$1.17 billion with 53.3% attributed to governmental activities and the remaining 46.7% attributed to business-type activities. The following information describes significant changes in long-term debt for the fiscal year:

Governmental Activities

- A loan for the Highway Expansion and Extension Loan Program (HELP) was awarded by the State of Arizona to the City for \$13.4 million for various improvements to Mountain Avenue.
- The City paid \$35.4 million of principal payments toward its General Obligation, Streets & Highways and COPS debt in fiscal year 2008.

CITY OF TUCSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

- The City issued \$3.4 million in capital leases, the majority of which is for public safety vehicles, e.g. police patrol cars.
- In fiscal year 2008 the City recorded a Postemployment Benefits Other Than Pensions (OPEB) liability of \$1.6 million for the governmental funds. See note 13 for more information about OPEB disclosures.

Business-type Activities

- The Water Utility issued Revenue Bonds 2005-C for \$20.4 million in fiscal year 2008.
- The Water Infrastructure Finance Authority of Arizona (WIFA) approved a new low-interest loan for Tucson Water projects totaling \$17.8 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.
- In fiscal year 2008, the Water Utility obtained a \$5.4 loan (payable over 5 years) to purchase water allocation rights from the Central Arizona Project (CAP). A payment of \$1.2 million was made in fiscal year 2008.

Bond Ratings

Figure 7 illustrates previous and current bond ratings for fiscal year 2008 (current) and fiscal year 2007 (previous):

Type of Bond:	Moody		Standard and Poor's		Fitch	
	Previous	Current	Previous	Current	Previous	Current
General Obligation Bonds	Aa3	Aa3	AA	AA	AA	AA
Street & Highway User Revenue Bonds						
Senior Lien	A1	A1	AA+	AA+	AA-	AA-
Junior Lien	A2	A2	A	A	A+	A+
Water System Revenue Bonds						
Senior Lien	Aa3	Aa3	A+	AA-	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-

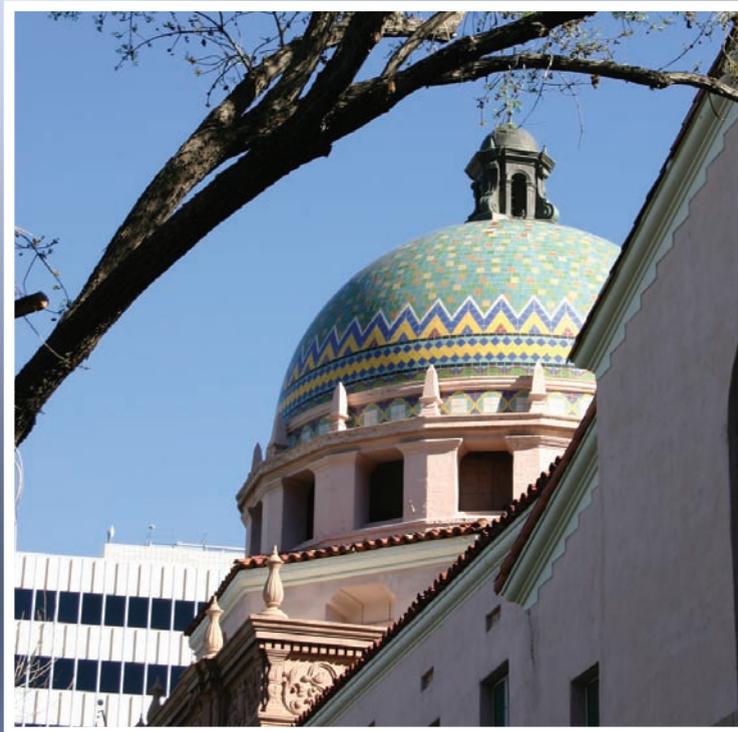
CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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, 8th floor, Tucson, Arizona 85701, (520) 791-4561, www.tucsonaz.gov.



City of Tucson, Arizona

Basic Financial Statements



**CITY OF TUCSON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Rio Nuevo	Housing Partnerships
ASSETS					
Current assets:					
Pooled Cash and Investments	\$ 65,939,372	\$ 17,300,011	\$ 83,239,383	\$ 1,767,929	\$ 87,775
Cash & Investments - Restricted		24,300,416	24,300,416	3,058,524	643,254
Cash & Investments with Fiscal Agent - Restricted	42,039,117	23,272,119	65,311,236		
Taxes Receivable, Net	24,307,932		24,307,932	3,219	
Accounts Receivable, Net	25,248,821	21,070,692	46,319,513		434,145
Special Assessments Receivable	3,680,904		3,680,904		
Internal Balances	9,227,342	(9,227,342)			
Due from Other Agencies	52,366,200	419,798	52,785,998		
Interest Receivable	392,397	11,248	403,645	1,613	
Inventories	5,137,359	2,153,476	7,290,835		
Other Assets	4,531,477	996,902	5,528,379		21,145
Total current assets	<u>232,870,921</u>	<u>80,297,320</u>	<u>313,168,241</u>	<u>4,831,285</u>	<u>1,186,319</u>
Noncurrent assets:					
Long Term Accounts Receivable	13,680,680	40,801,492	54,482,172	7,480,290	
Long Term Notes Receivable	28,685,766		28,685,766		
Long Term Investments	1,375,151		1,375,151		
Other Assets - Restricted	22,095,251	355,883	22,451,134		
Deferred Charges	5,659,859	3,868,895	9,528,754	321,342	123,569
Land & Construction in Progress	861,323,195	191,471,035	1,052,794,230	45,470,438	1,025,901
Other Capital Assets, Net	744,361,718	918,631,261	1,662,992,979	25,291,607	44,919,808
Goodwill, Net		74,861	74,861		
Water Rights, Net		52,126,968	52,126,968		
Total noncurrent assets	<u>1,677,181,620</u>	<u>1,207,330,395</u>	<u>2,884,512,015</u>	<u>78,563,677</u>	<u>46,069,278</u>
Total assets	<u>1,910,052,541</u>	<u>1,287,627,715</u>	<u>3,197,680,256</u>	<u>83,394,962</u>	<u>47,255,597</u>
LIABILITIES					
Current liabilities:					
Accounts Payable	21,926,605	8,814,574	30,741,179	9,045,841	905,450
Accrued Payroll Liabilities	8,115,264	1,433,801	9,549,065		8,325
Accrued Interest Payable	69,958	3,944	73,902		576,704
Due to Other Agencies	1,670,200	853,206	2,523,406	5,234,351	
Refundable Deposits	7,660,099	3,657,818	11,317,917	30,025	193,913
Liabilities Payable from Restricted Assets	33,029,644	24,831,256	57,860,900	672,425	
Unearned Revenue	2,156,087	75,466	2,231,553		9,721
Current portion of Long Term Liabilities	79,529,197	26,833,426	106,362,623	4,157,732	
Other Accrued Expenses					556,497
Total current liabilities	<u>154,157,054</u>	<u>66,503,491</u>	<u>220,660,545</u>	<u>19,140,374</u>	<u>2,250,610</u>
Noncurrent liabilities:					
Notes/Loans Payables				13,004,096	38,171,377
Long Term Liabilities	546,476,091	559,255,029	1,105,731,120	14,036,859	455,420
Total non-current liabilities	<u>546,476,091</u>	<u>559,255,029</u>	<u>1,105,731,120</u>	<u>27,040,955</u>	<u>38,626,797</u>
Total liabilities	<u>700,633,145</u>	<u>625,758,520</u>	<u>1,326,391,665</u>	<u>46,181,329</u>	<u>40,877,407</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,048,004,576	696,128,404	1,744,132,980	56,948,851	7,774,332
Restricted for:					
Debt Service	20,779,541	23,347,119	44,126,660	1,672,425	
Capital	78,162,730		78,162,730	95,504	
Self Insurance Mandates	24,595,252		24,595,252		
Transportation	3,959,741		3,959,741		
Grants and Entitlements	32,000,835	1,220,894	33,221,729		
Other Purposes	4,697,147	2,047,850	6,744,997		643,254
Unrestricted	(2,780,426)	(60,875,072)	(63,655,498)	(21,503,147)	(2,039,396)
Total net assets	<u>\$ 1,209,419,396</u>	<u>\$ 661,869,195</u>	<u>\$ 1,871,288,591</u>	<u>\$ 37,213,633</u>	<u>\$ 6,378,190</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, 2008**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
Elected and Official	\$ 20,700,143	\$ 349,962	\$ 507,853	\$
Support Services	47,471,907	22,379,871	79,438	149,094
Neighborhood Services	372,033,490	33,947,556	54,696,470	4,371,088
Environment and Development	156,511,559	31,144,977	56,568,842	81,663,066
Strategic Initiatives	7,217,537	3,456,404		
Non-Departmental	46,693,111	10,404,130	149,308	1,243,911
Interest	27,105,560			
Fiscal agent fees and other	41,025			
Total governmental activities	<u>677,774,332</u>	<u>101,682,900</u>	<u>112,001,911</u>	<u>87,427,159</u>
Business-type activities:				
Neighborhood Resources	11,184,715	7,415,970		
Environmental Services	53,420,043	42,533,898		651,004
Golf Course	10,847,587	9,284,924		
Water Utility	130,340,130	122,794,083		18,117,418
Total business-type activities	<u>205,792,475</u>	<u>182,028,875</u>		<u>18,768,422</u>
Total primary government	<u>\$ 883,566,807</u>	<u>\$ 283,711,775</u>	<u>\$ 112,001,911</u>	<u>\$ 106,195,581</u>
Component Units:				
Rio Nuevo	<u>\$ 13,987,112</u>	<u>\$ 3,723,861</u>		
Housing Partnerships	<u>\$ 7,013,886</u>	<u>\$ 1,752,332</u>	<u>\$ 3,209,154</u>	

General revenues:

Taxes:

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

- Unrestricted Grants and Contribution
- Investment Income (Loss)
- Miscellaneous

Transfers

Total general revenues and transfers

Changes in net assets

Net assets, beginning of year, as restated

Net assets, end of year

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

Net (Expense) Revenue and Changes in Net Assets

			Component Units	
Governmental Activities	Business-type Activities	Totals	Rio Nuevo	Housing Partnerships
\$ (19,842,328)	\$	\$ (19,842,328)		
(24,863,504)		(24,863,504)		
(279,018,376)		(279,018,376)		
12,865,326		12,865,326		
(3,761,133)		(3,761,133)		
(34,895,762)		(34,895,762)		
(27,105,560)		(27,105,560)		
(41,025)		(41,025)		
<u>(376,662,362)</u>		<u>(376,662,362)</u>		
	(3,768,745)	(3,768,745)		
	(10,235,141)	(10,235,141)		
	(1,562,663)	(1,562,663)		
	<u>10,571,371</u>	<u>10,571,371</u>		
	(4,995,178)	(4,995,178)		
<u>\$ (376,662,362)</u>	<u>\$ (4,995,178)</u>	<u>\$ (381,657,540)</u>		
			\$ (10,263,251)	
				\$ (2,052,400)
38,247,154		38,247,154		
204,012,348		204,012,348	14,091,610	
7,048,842		7,048,842		
12,367,631		12,367,631		
881,679		881,679		
670,480		670,480		
148,335,159		148,335,159	67,100	
6,480,118	2,633,875	9,113,993	100,192	11,622
3,750,250		3,750,250		
(783,799)	783,799			
<u>421,009,862</u>	<u>3,417,674</u>	<u>424,427,536</u>	<u>14,258,902</u>	<u>11,622</u>
44,347,500	(1,577,504)	42,769,996	3,995,651	(2,040,778)
<u>1,165,071,896</u>	<u>663,446,699</u>	<u>1,828,518,595</u>	<u>33,217,982</u>	<u>8,418,968</u>
<u>\$ 1,209,419,396</u>	<u>\$ 661,869,195</u>	<u>\$ 1,871,288,591</u>	<u>\$ 37,213,633</u>	<u>\$ 6,378,190</u>

CITY OF TUCSON, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Mass Transit Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Pooled Cash and Investments	\$	\$ 261,500	\$ 61,474,948	\$ 61,736,448
Cash/Investments with Fiscal Agents	1,186,441	12,777	33,449,240	34,648,458
Cash & Investments with Fiscal Agent - Restricted			4,890,659	4,890,659
Taxes Receivable - Current	25,095,253			25,095,252
Accounts Receivable, Net	18,391,505	733,533	579,683	19,704,721
Special Assessments Receivable			3,680,904	3,680,904
Notes & Loans Receivable	15,013,675		13,672,091	28,685,766
Advances to Other Funds	1,087,314			1,087,314
Due from Other Agencies	32,531,319	1,913,410	17,592,400	52,037,129
Interfund Receivable	35,407,634		36,783,378	72,191,012
Grants & Entitlements Receivable	169,671	5,531,624	13,420,155	19,121,450
Interest Receivable	14,958		31,764	46,722
Inventories	1,322,579	2,982,721		4,305,301
Long Term Investments			1,375,151	1,375,151
Other Assets	436,863	1,247,942	2,197,946	3,882,751
Total assets	\$ 130,657,212	\$ 12,683,507	\$ 189,148,319	\$ 332,489,038
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 6,115,531	\$ 5,591,819	\$ 8,351,353	\$ 20,058,703
Accrued Payroll Liabilities	7,003,840	33,548	768,354	7,805,742
Accrued Interest Payable			5,415	5,415
Advances from Other Funds			1,087,314	1,087,314
Interfund Payable	36,783,378	1,504,540	18,328,419	56,616,337
Due to Other Agencies	1,140,431	480,264	46,875	1,667,570
Refundable Deposits	5,546,176	4,282	2,094,954	7,645,412
Bonds & Interest Payable, including Special Assessments			33,029,644	33,029,644
Deferred Revenue	15,994,841	564,114	14,265,618	30,824,573
Total liabilities	72,584,197	8,178,567	77,977,946	158,740,710
Fund balances (deficits):				
Reserved for Debt Service	424,918		16,681,665	17,106,583
Reserved for Capital Improvements	2,658,923		88,866,870	91,525,793
Reserved for Advances and Deposits	16,358,928	274,277	32,300	16,665,505
Reserved for Inventories	1,322,579	2,982,721		4,305,300
Reserved for Other Purposes	6,182,964	1,247,942	17,981,059	25,411,965
Unreserved:				
Undesignated	31,124,703			31,124,703
Unreserved reported in:				
Special revenue funds			(11,863,316)	(11,863,316)
Capital projects funds			(528,205)	(528,205)
Total fund balances	58,073,015	4,504,940	111,170,373	173,748,328
Total liabilities and fund balances	\$ 130,657,212	\$ 12,683,507	\$ 189,148,319	\$ 332,489,038

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, 2008

Total Governmental Fund Balances (pg. 18)	\$	173,748,328
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		1,571,319,291
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		
Deferred Charges	5,659,859	
Allowance for Doubtful Accounts	<u>(787,320)</u>	
Total Other Long-term Assets		4,872,539
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	(372,738,315)	
Capital Leases	(184,135,736)	
Compensated Absences	(35,422,153)	
OPEB Liabilities	<u>(1,595,727)</u>	
Total Long-term Liabilities		(593,891,931)
Interest payable on long-term debt is not reported in governmental funds.		(42,928)
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.		28,668,486
Internal service funds' assets and liabilities are included in the Statement of Net Assets since they primarily support the governmental activities.		24,745,611
Net Assets of Governmental Activities (pg. 15)	<u>\$</u>	<u>1,209,419,396</u>

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, 2008

	General Fund	Mass Transit Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 235,103,173	\$	\$ 27,747,598	\$ 262,850,771
Licenses and Permits	23,285,150		87,020	23,372,170
Fines and Forfeitures	13,157,428		530,581	13,688,009
Developer Fees			5,936,592	5,936,592
Use of Money and Property	4,013,804	236,365	4,314,777	8,564,946
Federal Grants and Contributions		13,609,546	61,534,937	75,144,483
Other Agencies	149,725,582	12,648,077	93,976,475	256,350,134
Charges for Services	39,640,276	10,205,276	6,307,956	56,153,508
Special Assessments			1,712,882	1,712,882
Miscellaneous	2,163,213	1,203,075	1,549,714	4,916,002
Total revenues	<u>467,088,626</u>	<u>37,902,339</u>	<u>203,698,532</u>	<u>708,689,497</u>
Expenditures:				
Current -				
Elected and Official	20,144,124		403,366	20,547,490
Support Services	43,014,703		167,807	43,182,510
Neighborhood Services	293,867,542		60,569,782	354,437,324
Environment and Development	23,922,928	60,139,177	41,832,065	125,894,170
Strategic Initiatives			7,017,029	7,017,029
Non-Departmental	35,363,090		4,555,300	39,918,390
Capital Outlay	4,946,106	6,369,781	9,034,418	20,350,305
Capital Projects	4,144,706	3,616,811	86,846,117	94,607,634
Debt service -				
Principal	12,923,378		26,432,949	39,356,327
Interest	7,158,032		19,947,528	27,105,560
Fiscal agent fees and other	24,000		17,025	41,025
Total expenditures	<u>445,508,609</u>	<u>70,125,769</u>	<u>256,823,386</u>	<u>772,457,764</u>
Excess (deficiency) of revenues over expenditures	<u>21,580,017</u>	<u>(32,223,430)</u>	<u>(53,124,854)</u>	<u>(63,768,267)</u>
Other financing sources (uses):				
Face Amount of Bond Proceeds			14,972,655	14,972,655
Lease Purchases and Contract Proceeds	2,284,226		1,119,328	3,403,554
Transfers from Other Funds	6,021,142	36,054,838	24,164,427	66,240,407
Transfers to Other Funds	(53,083,303)		(14,429,578)	(67,512,881)
Total other financing sources (uses)	<u>(44,777,935)</u>	<u>36,054,838</u>	<u>25,826,832</u>	<u>17,103,735</u>
Changes in fund balances	<u>(23,197,918)</u>	<u>3,831,408</u>	<u>(27,298,022)</u>	<u>(46,664,532)</u>
Fund balances, beginning of year, as restated	81,270,933	673,532	138,468,395	220,412,860
Fund balances, end of year	<u>\$ 58,073,015</u>	<u>\$ 4,504,940</u>	<u>\$ 111,170,373</u>	<u>\$ 173,748,328</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, 2008

Net Change in Fund Balances - Total Governmental Funds (pg. 20)		\$ (46,664,532)
<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	114,957,939	
Depreciation Expense	<u>(44,186,142)</u>	70,771,797
<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	(1,113,169)	
Gain on the sale of an asset	1,032,857	
Loss on the sale of an asset	<u>(1,180,769)</u>	(1,261,081)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		2,806,083
<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	(18,376,209)	
Repayment of Debt Principal	<u>39,356,327</u>	20,980,118
<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>		
Amortization of Issuance Costs	<u>(522,345)</u>	(522,345)
<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>		
Accrued Interest Expense	(1,365)	
Amortization of Premium on Debt	<u>568,348</u>	566,983
<p>Governmental funds do not recognize the changes in long-term debt:</p>		
Change in Compensated Absences Liability		(5,530,725)
Change in OPEB Liability		(1,595,727)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet services, to individual funds. A portion of the net revenue (expense) of the internal service funds is reported within governmental activities.</p>		
		4,796,929
Change in Net Assets of Governmental Activities (pg. 17)		<u>\$ 44,347,500</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, 2008

	Enterprise Funds				Governmental Activities
	Environmental Services	Water Utility Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current assets:					
Pooled Cash and Investments	\$ 9,396,011	\$ 5,424,626	\$ 2,479,374	\$ 17,300,011	\$ 4,202,924
Cash & Investments - Restricted	2,991,128	21,309,288		24,300,416	
Cash & Investments with Fiscal Agent	1,600,544	21,671,575		23,272,119	2,500,000
Accounts Receivable, Net	3,073,865	17,898,976	97,851	21,070,692	103,330
Due from Other Agencies	102,503	317,295		419,798	329,071
Interest Receivable	9,802		1,446	11,248	345,675
Inventories		1,872,338	281,138	2,153,476	832,058
Other Assets		996,902		996,902	648,726
Total current assets	<u>17,173,853</u>	<u>69,491,000</u>	<u>2,859,809</u>	<u>89,524,662</u>	<u>8,961,784</u>
Noncurrent assets:					
Long Term Accounts Receivable		1,200,502	39,600,990	40,801,492	
Other Assets - Restricted		355,883		355,883	22,095,251
Deferred Charges	210,067	3,639,315	19,513	3,868,895	
Land & Construction in Progress	9,949,996	169,561,333	11,959,706	191,471,035	30,242
Other Capital Assets, Net	17,984,700	861,687,461	38,959,100	918,631,261	34,335,380
Goodwill, Net		74,861		74,861	
Water Rights, Net		52,126,968		52,126,968	
Total noncurrent assets	<u>28,144,763</u>	<u>1,088,646,323</u>	<u>90,539,309</u>	<u>1,207,330,395</u>	<u>56,460,873</u>
Total assets	<u>45,318,616</u>	<u>1,158,137,323</u>	<u>93,399,118</u>	<u>1,296,855,057</u>	<u>65,422,657</u>
LIABILITIES					
Current liabilities:					
Accounts Payable	3,093,437	5,116,602	604,535	8,814,574	1,867,902
Accrued Payroll Liabilities	361,393	878,901	193,507	1,433,801	309,522
Accrued Interest Payable		3,944		3,944	21,615
Interfund Payable			4,501,338	4,501,338	11,073,337
Due to Other Agencies	212	799,953	53,041	853,206	2,630
Refundable Deposits	36,902	3,161,856	459,060	3,657,818	14,687
Current Portion of Bonds Payable	713,154	16,938,062		17,651,216	
Current Portion of Contracts Payable	2,323,641	418,074	375,580	3,117,295	4,485
Claims Payable					10,218,016
Current Portion of Compensated	591,089	1,895,959	201,080	2,688,128	
Other Post-employment Benefits	97,696	257,554	50,562	405,812	
Liabilities Payable from Restricted	1,479,758	23,351,498		24,831,256	
Unearned Revenue		3,573	71,893	75,466	
Current portion of Long Term	1,988,697	982,278		2,970,975	
Total current liabilities	<u>10,685,979</u>	<u>53,808,254</u>	<u>6,510,596</u>	<u>71,004,829</u>	<u>23,512,194</u>
Noncurrent liabilities:					
Unearned Revenue			39,600,990	39,600,990	
Bonds Payable	44,470,998	417,834,698		462,305,696	
Contracts Payable	5,671,071	580,935	2,879,895	9,131,901	14,480
Claims Payable					21,876,376
Compensated Absences	736,097	1,816,695	280,560	2,833,352	
Long Term Liabilities	42,119,024	3,264,066		45,383,090	
Total non-current liabilities	<u>92,997,190</u>	<u>423,496,394</u>	<u>42,761,445</u>	<u>559,255,029</u>	<u>21,890,856</u>
Total liabilities	<u>103,683,169</u>	<u>477,304,648</u>	<u>49,272,041</u>	<u>630,259,858</u>	<u>45,403,050</u>
NET ASSETS					
Invested in Capital Assets, Net of Restricted for:	(7,728,585)	656,174,146	47,682,843	696,128,404	34,346,656
Debt Service	1,675,544	21,671,575		23,347,119	
Other Purposes		2,047,850	1,220,894	3,268,744	24,595,252
Unrestricted	<u>(52,311,512)</u>	<u>939,104</u>	<u>(4,776,660)</u>	<u>(56,149,068)</u>	<u>(38,922,301)</u>
Total net assets	<u>\$ (58,364,553)</u>	<u>\$ 680,832,675</u>	<u>\$ 44,127,077</u>	<u>\$ 666,595,199</u>	<u>\$ 20,019,607</u>
Reconciliation to government-wide Statement of Net Assets					
Adjustment to consolidate internal service activities	<u>(3,569,232)</u>	<u>(1,059,246)</u>	<u>(97,526)</u>	<u>(4,726,004)</u>	
Total net assets - Business-type	<u>\$ (61,933,785)</u>	<u>\$ 679,773,429</u>	<u>\$ 44,029,551</u>	<u>\$ 661,869,195</u>	

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, 2008

	Enterprise Funds			Total	Governmental
	Environmental Services	Water Utility Fund	Non-Major Enterprise Funds		Internal Service Funds
Operating revenues:					
Federal Grants and Contributions	\$	\$	\$ 4,355,735	\$ 4,355,735	\$
Charges for Services	40,613,293	121,267,266	12,259,940	174,140,499	56,788,120
Other Agencies					101,889
Miscellaneous	2,314,778	1,526,817	85,219	3,926,814	672,125
Total operating revenues	<u>42,928,071</u>	<u>122,794,083</u>	<u>16,700,894</u>	<u>182,423,048</u>	<u>57,562,134</u>
Operating expenses:					
Personal Services	17,563,543	35,423,709	8,427,922	61,415,174	14,266,042
Contractual Services	20,786,641	40,644,138	6,845,176	68,275,955	14,248,660
Commodities	5,335,549	8,541,608	3,233,419	17,110,576	18,955,172
Cost of Goods Sold			362,671	362,671	
Benefits and Claims					13,882,195
Depreciation	3,545,989	24,648,197	2,727,971	30,922,157	6,374,902
Amortization of Goodwill		28,073	1,499	29,572	
Total operating expenses	<u>47,231,722</u>	<u>109,285,725</u>	<u>21,598,658</u>	<u>178,116,105</u>	<u>67,726,971</u>
Operating income (loss)	<u>(4,303,651)</u>	<u>13,508,358</u>	<u>(4,897,764)</u>	<u>4,306,943</u>	<u>(10,164,837)</u>
Nonoperating revenues (expenses):					
Investment Income	598,314	1,773,635	156,748	2,528,697	835,968
Gain (loss) on Sale of					
Property and Equipment	(58,934)	293,784	(129,672)	105,178	387,674
Federal Grants and Contributions	256,831	317,295		574,126	
Interest Expense	(2,471,062)	(19,013,624)	(333,680)	(21,818,366)	(17,164)
Amortization of Issuance Costs	(148,027)	(245,510)	(2,438)	(395,975)	
Other Non-operating Expense		(736,025)		(736,025)	
Total nonoperating revenues (expenses)	<u>(1,822,878)</u>	<u>(17,610,445)</u>	<u>(309,042)</u>	<u>(19,742,365)</u>	<u>1,206,478</u>
Income (loss) before capital contributions and transfers	<u>(6,126,529)</u>	<u>(4,102,087)</u>	<u>(5,206,806)</u>	<u>(15,435,422)</u>	<u>(8,958,359)</u>
Capital Contributions		17,800,123		17,800,123	8,540,609
Transfers In	505,909		283,140	789,049	488,675
Transfers Out			(5,250)	(5,250)	
Changes in net assets	<u>(5,620,620)</u>	<u>13,698,036</u>	<u>(4,928,916)</u>	<u>3,148,500</u>	<u>70,925</u>
Total net assets, beginning of year, as restated	<u>(52,743,933)</u>	<u>667,134,639</u>	<u>49,055,993</u>	<u>663,446,699</u>	<u>19,948,682</u>
Total net assets, end of year	<u>\$ (58,364,553)</u>	<u>\$ 680,832,675</u>	<u>\$ 44,127,077</u>	<u>\$ 666,595,199</u>	<u>\$ 20,019,607</u>
Reconciliation to government-wide Statement of Net Assets					
Change in net assets	(5,620,620)	13,698,036	(4,928,916)	3,148,500	
Adjustment to consolidate internal service activities	(3,569,232)	(1,059,246)	(97,526)	(4,726,004)	
Change in net assets - Business-type activities	<u>\$ (9,189,852)</u>	<u>\$ 12,638,790</u>	<u>\$ (5,026,442)</u>	<u>\$ (1,577,504)</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, 2008**

	Enterprise Funds				Governmental Activities
	Environmental Services	Water Utility Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 40,489,197	\$ 122,325,540	\$ 12,618,877	\$ 175,433,614	\$ 56,774,357
Cash Payments to Suppliers for Goods and Services	(21,215,673)	(49,224,982)	(10,206,096)	(80,646,751)	(32,835,213)
Cash Payments to Employees for Services	(17,190,443)	(34,338,671)	(8,321,603)	(59,850,717)	(14,206,450)
Subsidy from Federal Grant			4,297,497	4,297,497	
Other Operating Revenues	2,708,952		84,522	2,793,474	567,469
Cash Payments to Claimants					(9,800,329)
Net Cash Provided (Used) by Operating Activities	<u>4,792,033</u>	<u>38,761,887</u>	<u>(1,526,803)</u>	<u>42,027,117</u>	<u>499,834</u>
Cash Flows from Noncapital Financing Activities:					
Noncapital Bond Proceeds		2,047,850		2,047,850	
Transfer from Other Funds	505,908		277,890	783,798	488,675
Advances from Other Funds			1,251,010	1,251,010	2,760,764
Subsidy from Federal Grant	188,580	174,700		363,280	
Interest Paid on Advances			(114,862)	(114,862)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>694,488</u>	<u>2,222,550</u>	<u>1,414,038</u>	<u>4,331,076</u>	<u>3,249,439</u>
Cash Flows from Capital and Related Financing Activities:					
Bond Proceeds		40,475,980		40,475,980	
Acquisition and Construction of Capital Assets	(4,502,331)	(67,315,580)	(381,591)	(72,199,502)	(624,580)
Principal Paid on Capital Debt	(2,244,222)	(4,824,016)	(352,992)	(7,421,230)	(16,092)
Interest Paid on Capital Debt	(2,148,495)	(28,086,324)	(198,572)	(30,433,391)	(792)
Fiscal Agent Fees Paid on Capital Debt		(608,417)		(608,417)	
Landfill Closure Costs	(1,263,688)			(1,263,688)	
Proceeds from Sale of Assets/Equipment	253,352	324,195	374,795	952,342	457,075
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(9,905,384)</u>	<u>(60,034,162)</u>	<u>(558,360)</u>	<u>(70,497,906)</u>	<u>(184,389)</u>
Cash Flows from Investing Activities:					
Interest on Investments	698,307	3,359,520	173,521	4,231,348	595,315
Proceeds from Sale of Investments					21,100,000
Purchase of Investments					(22,062,016)
Net Cash Provided (Used) by Investing Activities	<u>698,307</u>	<u>3,359,520</u>	<u>173,521</u>	<u>4,231,348</u>	<u>(366,701)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,720,556)</u>	<u>(15,690,205)</u>	<u>(497,604)</u>	<u>(19,908,365)</u>	<u>3,198,183</u>
Cash and Cash Equivalents - July 1	<u>17,708,239</u>	<u>64,095,694</u>	<u>2,976,978</u>	<u>84,780,911</u>	<u>3,504,741</u>
Cash and Cash Equivalents - June 30	<u>\$ 13,987,683</u>	<u>\$ 48,405,489</u>	<u>\$ 2,479,374</u>	<u>\$ 64,872,546</u>	<u>\$ 6,702,924</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, 2008

	Enterprise Funds				Governmental Activities
	Environmental Services	Water Utility Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ (4,303,651)	\$ 13,508,358	\$ (4,897,764)	\$ 4,306,943	\$ (10,164,836)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	3,545,990	24,676,270	2,729,470	30,951,730	6,374,902
Provision for Landfill Closure	2,371,490			2,371,490	
Other Adjustments:					
Decrease (Increase) in Assets:					
Accounts Receivable	267,329	(741,301)	223,494	(250,478)	(20,894)
Inventory		169,417	10,415	179,832	25,859
Long Term Accounts Receivable		274,634		274,634	
Prepaid Expenses					121,084
Due from Other Agencies					(193,112)
Decrease in Other Assets		(1,194,283)		(1,194,283)	338
Increase (Decrease) in Liabilities:					
Accounts Payable	2,535,000	632,760	183,226	3,350,986	227,092
Accrued Payroll Liabilities	74,168	145,085	44,698	263,951	59,592
Compensated Absences	201,236	682,399	4,245	887,880	
Accrued Other Post-Employment Benefit:	97,696	257,554	50,562	405,812	
Customer/Refundable Deposits	2,747	(1,875)	15,447	16,319	(7,484)
Claims and Judgments Payable					4,081,866
Due to Other Agencies	28	352,869	41,547	394,444	(4,573)
Increase in Other Operating Liabilities			67,857	67,857	
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,792,033</u>	<u>\$ 38,761,887</u>	<u>\$ (1,526,803)</u>	<u>\$ 42,027,117</u>	<u>\$ 499,834</u>
Noncash Investing, Capital, and Financing Activities:					
Contributions of capital assets		\$ 11,847,737		\$ 11,847,737	\$ 8,540,609
Borrowing under capital lease	(1,838,659)	(402,967)		(2,241,626)	
Total Noncash Investing, Capital, and Financing Activities:	<u>\$ (1,838,659)</u>	<u>\$ 11,444,770</u>	<u>\$</u>	<u>\$ 9,606,111</u>	<u>\$ 8,540,609</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, 2008**

	<u>Pension Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Pooled Cash and Investments	\$ 2,305,463	\$ 3,033,524
Accounts Receivable, Net		4,471,079
Employer Contributions	867,187	
Employee Contributions	324,079	
Due from Other Agencies		1,757,133
Interest Receivable		1,567
Interest & Dividends	2,605,830	
Due from Brokers	81,208,509	
Short Term Investments	23,993,420	
Securities Lending Collateral	30,555,540	
U.S. Treasuries, Agencies & other Government Bonds	51,943,862	
Bonds & Preferred Stocks	55,559,256	
Common Stocks	307,173,811	
International Investments	101,248,044	
Mutual Funds	59,412,613	
Real Estate	55,604,250	
Other Capital Assets, Net	142,589	
Total assets	<u>772,944,453</u>	<u>9,263,303</u>
<u>LIABILITIES</u>		
Accounts Payable	4,507,202	134,200
Accrued Payroll Liabilities	5,670	
Due to Other Agencies		9,129,103
Due to Securities Borrowers	30,555,540	
Due to Brokers	87,648,033	
Refundable Deposits	793	
Total liabilities	<u>122,717,238</u>	<u>\$ 9,263,303</u>
<u>NET ASSETS</u>		
Held in trust	<u>\$ 650,227,215</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, 2008**

	<u>Pension Trust</u>
Additions:	
Employer Contributions	\$ 23,902,286
Employee Contributions	13,725,961
Contributions from Other Sources	130,784
Redeposits	51,452
Other Plans	2,012,917
Net Increase (Decrease) in Fair Value of Investment	(50,256,771)
Interest, Dividends and Other Income	20,825,497
Securities Lending Income	1,881,706
Less: Investment Activity Expense	(4,129,652)
Less: Securities Lending Expense	(1,708,227)
Miscellaneous Additions	152,848
Total additions	6,588,801
Deductions:	
Payments to Participants	46,114,625
Refunds and Transfers to Other Plans	5,702,689
Administrative Expense	519,347
Total deductions	52,336,661
 Changes in net assets	 (45,747,860)
Net assets, beginning of year	695,975,075
Net assets, end of year	\$ 650,227,215

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, 2008

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

The accompanying financial statements include the City and all of its component units, collectively referred to as "the financial reporting entity". The component units discussed below have been included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Tucson Supplemental Retirement System

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.

Rio Nuevo Multipurpose Facilities District

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.

Silverbell Home Limited Partnership

The Silverbell Homes Limited Partnership (the Partnership) was formed on September 18, 2006. The Partnership developed 28 rental-housing units for elderly or disabled residents. All units are public housing with Low Income Housing Tax Credits pursuant to Internal Revenue Code Section 42. The units were built on property obtained from the City on an 89-year ground lease. The units were completed in December 2007 with certificates of occupancy and available for rent as of December 31, 2007. The governing body is not substantially the same as the governing body of the City and the partnership provides low income public housing for the City. The partnership is included within these basic financial statements as a discretely presented component. Separately issued financial statements are prepared and may be requested by contacting the City of Tucson, Community Services Department, PO Box 27210, Tucson, AZ 85726.

Posadas Sentinel, L.L.L.P.

Posadas Sentinel, L.L.L.P. (Posadas) was organized under the laws of the State of Arizona on October 29, 1999. Posadas was formed to acquire, develop, finance, rehabilitate, own, maintain, operate and sell or otherwise dispose of a total of 200 units of multi-family housing (140 units of which are to be publicly assisted units) intended for rental to low-income individuals and families. Posadas has qualified for and been allocated Low Income Housing Tax Credits pursuant to Internal Revenue Code Section 42. The governing body is not substantially the same as the governing body of the City and the partnership provides low income public housing for the City. The partnership is included within these basic financial statements as a discretely presented component. Separately issued financial statements are prepared and may be requested by contacting the City of Tucson, Community Services Department, PO Box 27210, Tucson, AZ 85726

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

South Park Development Partners, L.L.L.P.

South Park Development Partners, L.L.L.P. (South Park) was formed as a limited liability limited partnership under the laws of the State of Arizona on November 8, 2002, for the purpose of constructing and operating a rental housing project. South Park has developed 48 rental-housing units in Tucson, Arizona, of which 28 were existing public housing units, rehabilitated as public housing tax credit units, and 20 units were newly constructed as lease purchase tax credit units. The lease purchase tax credit units will be rental housing for 15 years. At the end of the 15-year tax credit compliance period, the residents of each unit will have an option to purchase the unit at fair market value. Until that time, the units will remain as low-income housing. The governing body is not substantially the same as the governing body of the City and the partnership provides low income public housing for the City. The partnership is included within these basic financial statements as a discretely presented component. Separately issued financial statements are prepared and may be requested by contacting the City of Tucson, Community Services Department, PO Box 27210, Tucson, AZ 85726.

Tucson House Apartments, L.L.L.P.

Tucson House Apartments, L.L.L.P. (Tucson House) was organized under the laws of the State of Arizona on November 4, 2007; for the purpose of acquiring, developing, rehabilitating, and operating a rental housing project know as Tucson House. The project consists of 408 units located in Tucson, Arizona. Tucson House consists of two buildings and each building of the project has qualified for and been allocated low-income housing credits pursuant under Internal Revenue Code Section 42. Each building must meet the provision of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The governing body is not substantially the same as the governing body of the City and the partnership provides low income public housing for the City. The partnership is included within these basic financial statements as a discretely presented component. Separately issued financial statements are prepared and may be requested by contacting the City of Tucson, Community Services Department, PO Box 27210, Tucson, AZ 85726.

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, 2008

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, Human and Community Development and Development Fees.

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.

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, 2008

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

The City has four 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 Public Housing AMP Fund accounts for the operating and capital activities necessary to support public housing programs. Since the Public Housing AMP Fund is a segment accounted for within an individual fund, no further segment information is presented.

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, facilities maintenance and motor pool (fleet) services provided to City departments on a cost-reimbursement basis. 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 Fund is accounted for in 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, 2008

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 capital contributions.

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).

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.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

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. Through a Home Rule option, any city can adopt its own alternative expenditure limitation if a majority of the qualified electors vote in favor of the issue at a regular election. In November 2005, the City of Tucson voters approved an alternative expenditure limitation for fiscal years 2007 through 2010. For each of those four fiscal years, the City's expenditure limitation will equal the total amount of budgeted expenditures in the annual budget adopted by the Mayor and Council.

The City, therefore, formulates its biennial 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 biennial 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, 2008.

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, 2008, the City intended to honor \$114,650,408 of outstanding encumbrances in the new year.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

General Fund	\$ 6,039,372
TEAM/Parkwise Fund	37,710
Convention Center Fund	72,463
H.U.R.F. Fund	780,508
Civic Contribution Fund	47,513
Capital Improvement Fund	42,207,564
Human and Community Development Fund	2,556,676
Public Housing Fund	240
Public Housing HOME Program Fund	1,928,580
Miscellaneous Housing Grant fund	2,228,708
Impact Fee Fund	886,604
2000 General Obligation	515,929
Other Federal Grants Fund	1,604,902
Non-Federal Grants Fund	9,748
Regional Transit Authority Fund	29,836,804
Mass Transit Fund	25,897,087
	<u>\$ 114,650,408</u>

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 12 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 Receivables of the major and nonmajor governmental and proprietary funds and fiduciary funds as of June 30, 2008, are reported in the accompanying basic financial statements net of allowance for doubtful accounts, as follows:

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

Fund	Receivables	Allowance for Doubtful Accounts	Net
Governmental Activities:			
General Fund	\$ 19,368,124	\$ 976,619	\$ 18,391,505
Mass Transit Fund	733,533		733,533
Non-major Governmental Funds	620,049	40,366	579,683
Total Governmental Activities	20,721,706	1,016,985	19,704,721
Business-Type Activities:			
Environmental Services Fund	3,229,119	155,254	3,073,865
Water Utility Fund	18,065,347	166,371	17,898,976
Internal Service Funds	127,200	23,870	103,330
Non-major Business-Type Fund	160,330	62,479	97,851
Total Business-Type Activities	21,581,996	407,974	21,174,022
Fiduciary Funds	4,471,079		4,471,079
Total All Funds	\$ 46,774,781	\$ 1,424,959	\$ 45,349,822

The Water Utility Funds' assets and revenues include \$7,564,202 for water sales delivered, but unbilled at June 30, 2008.

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 lien holder. 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, 2008, these loans totaled \$6,025,716. 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.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

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.

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

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

The City's policy is to capitalize interest on proprietary fund capital projects if it is material, based upon the weighted-average interest method. No interest costs have been capitalized during the fiscal year for the City's enterprise funds as the amounts were not material. Interest on general government capital projects is not capitalized.

The enterprise funds do not levy special assessments to construct or purchase capital assets.

N. Goodwill

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, 2008, were \$1,122,154 / \$1,047,293 and \$65,184 / \$65,184 for the Water Utility Fund and Golf Course Fund, respectively.

O. Water Rights

The City does not place a limitation on the life of the water rights and does not expect to cease utilizing the water rights in the foreseeable future. The water rights are recorded at historical cost and are considered to have an indefinite useful life. The total amount for water rights for the Water Utility Fund is \$52,126,968 at June 30, 2008.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

P. Long-term Obligations

In the government-wide financial statements and for the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

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

Compensated absences are recognized as fund liabilities to the extent the liabilities mature or come due for payment each period in the governmental fund statements. These costs are accrued and reported as liabilities in the Statement of Net Assets. Compensated absences and other long-term liabilities other than debt were liquidated in the general and special revenue funds in prior years.

Q. 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.

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 (\$2,658,923); funds reserved for equipment purchases and construction projects (\$79,471,861) in the Special Revenue Funds; and bond proceeds reserved for construction projects (\$9,395,009) 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 (\$650,227,215) which are reserved for future payments to their respective members.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

Reserved for Other Purposes represents amounts reserved for purposes designated by contributors in the special revenue; 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	\$	2,372,006
City Courts Projects		1,456,469
Police Projects		876,684
Parks Project		720,606
Civano		267,949
Downtown Development		99,474
Community Resource Center		301,699
Open Spaces		3,408
Communications 911		61,462
Fire Equipment		10,449
Information Technology		12,758
Total General Fund Reserved for Other Purposes	\$	6,182,964

R. 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.

S. Donor-Restricted Endowments

The City receives gifts and donations from individuals and/or organizations to support various City functions. The net appreciation of investments was \$82,062 and is included in restricted net assets as Restricted for Other Purposes. There are no state laws governing the expenditure of investment income for City donations.

T. 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 AND RESTATEMENTS:

The City implemented GASB Statement 51, Accounting for Intangible Assets, for fiscal year 2008. An intangible asset is one that lacks physical substance, has nonfinancial character and a useful life beyond one reporting period and is not goodwill, a lease or items acquired/created for profit. This asset must also be identifiable in that it is capable of separation from government or arises from contractual or legal rights.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 2 – NEW ACCOUNTING PRONOUNCEMENTS AND RESTATEMENTS (Continued):

The Water Utility acquired water rights to the Central Arizona Project under a 1985 contract. Under that contract, the Water Utility is entitled to 135,933 acre feet of water annually. It was found that these water rights meet the requirements of GASB Statement 51.

The accompanying financial statements for the Water Utility reflect the 1985 water rights of \$45,875,879 and correction of prior years amortization of \$62,185 resulting in a restatement of the new assets as of June 30, 2008 as follows:

	Water Utility Fund	
	Previously Reported	Restated
Net Assets		
Invested in Capital Assets Net of Related Debt	\$ 593,184,299	\$ 639,122,363
Restricted Net Assets	21,364,334	21,364,334
Unrestricted	6,647,942	6,647,942
Total Net Assets	\$ 621,196,575	\$ 667,134,639

The accompanying financial statements also reflect adjustments resulting from a restatement of beginning fund balance in the governmental funds. The City's Capital Improvement Plan has certain capital needs that were identified as more appropriately addressed by the use of financing mechanisms other than general obligation bonds. Certificates of Participation (COPs) were found to provide the financing mechanism for certain capital projects. In prior years, the proceeds and capital expenditures for COPs issuances were recorded in the General Fund. In fiscal year 2008 the Reserve for Capital corresponding to unspent COPs proceeds were reclassified to the Capital Improvement Fund. This resulted in a decrease to Reserve for Capital Projects in the General Fund and an increase to the Reserve for Capital Projects non-major governmental funds in the amount of \$86,517,873.

Beginning in fiscal year 2008, the U.S. Department of Housing and Urban Development (HUD) required changes in financial management and reporting for public housing authorities. HUD introduced a new operating fund formula, "Asset Management of Public Housing Agencies". Asset management is a rental real estate management model that focuses on the long-term goals of the entire program. This model will establish programmatic goals, implement a comprehensive property management plan and measure the progress being made towards the achievement of these goals and reporting the results.

To properly report the required information to HUD, the City reclassified part of the Public Housing Fund balance of \$2,578,563 from a governmental activity to a business type activity.

The impact of the accounting restatement to the governmental funds discussed above is summarized below:

	General Fund		Non-Major Governmental Funds	
	Previously Reported	Restated	Previously Reported	Restated
Reserved:				
Debt Service	\$ 702,407	\$ 702,407	\$ 12,484,214	\$ 12,484,214
Capital Improvements	87,928,798	1,410,925	24,815,504	111,333,377
Advances and Deposits	21,146,446	21,146,446	11,900	11,900
Inventories	1,293,909	1,293,909		
Other Purposes	5,769,670	5,769,670	20,214,149	17,635,586
Unreserved:				
Undesignated	43,664,330	43,664,330		
Designated	7,283,246	7,283,246		
Unreserved reported in:				
Special revenue funds			(487,809)	(487,809)
Capital project funds			(2,508,873)	(2,508,873)
Total Fund Balance	\$ 167,788,806	\$ 81,270,933	\$ 54,529,085	\$ 138,468,395

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 2 – NEW ACCOUNTING PRONOUNCEMENTS AND RESTATEMENTS (Continued):

To properly report the required financial information to HUD, the City reclassified its Public Housing Fund (governmental activity) to a business-type activity (Public Housing Asset Management Projects). The governmental activities net assets Invested in Capital Assets, Net of Related Debt decreased by (\$32,655,556) and the Restricted for Grants and Entitlements decreased by (\$2,305,848). The business-type activities net assets increased by the same amounts. The following schedule summarizes the effect of the accounting restatements to the beginning net assets at July 1, 2007.

	Governmental Activities		Business-type Activities	
	Previously Reported	Restated	Previously Reported	Restated
Invested in Capital Assets, Net of Related Debt	\$ 992,291,626	\$ 959,636,068	\$ 603,005,435	\$ 681,599,055
Restricted for:				
Debt Service	16,163,406	16,163,406	22,418,361	22,418,361
Capital Project Funds	112,742,271	112,742,271		
Self Insurance Mandates	22,308,114	22,308,114		
Transportation	3,946,510	3,946,510		
Grants and Entitlements	19,691,643	17,385,795		2,305,848
Other Purposes	4,612,822	4,612,822		
Unrestricted	28,276,910	28,276,910	(42,876,565)	(42,876,565)
Total Net Assets	\$ 1,200,033,302	\$ 1,165,071,896	\$ 582,547,231	\$ 663,446,699

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, requires the accrual of OPEB benefits on a government's financial statements. OPEB refers to postemployment benefits other than pension benefits and includes health and life insurance benefits provided by the City. See Note 13 for more information about OPEB disclosures.

Note 3 - PROPERTY TAX:

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

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

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

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

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 4 - INDIVIDUAL FUND DISCLOSURES:

At June 30, 2008, the following funds had deficit fund balances or net assets:

Environmental Services Fund	\$ (61,933,785)
Self Insurance Fund	\$ (17,608,330)
H.U.R.F. Fund	\$ (3,275,980)
Team/Parkwise Fund	\$ (1,396,049)
Special Assessment Construction Fund	\$ (528,205)

Deficits are intended to be recovered through debt issues, increased user fees or reduction of expenditures.

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), a defined benefit pension plan, are held in trust separately from those of other City funds by a master custodian. However, biweekly contributions to the fund for this plan are held in the investment pool to cover recurring expenditures.

A. Deposits

At year-end, the book value of the City's cash and deposits was \$115,378,786 and the bank balance was \$113,009,606. The difference of \$2,369,180 represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2008. 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 \$1,186,441, the Mass Transit Fund \$12,777, the non-major governmental funds \$38,339,899, and the enterprise funds \$23,272,119 on June 30, 2008, 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-2/P-2 (or better), 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) is governed by a separate management board. The City Code provides that the TSRS Board of Trustees will make investments in accordance with the "prudent person rule." Trust investments are also governed by an approved investment policy. The TSRS Board of Trustees authorizes domestic and foreign investments including U.S. Government obligations and agency issues, corporate bonds, stocks, real estate, and money market funds, as well as derivative investments. The investment policy also establishes the asset mix and target allocations for each asset class permitted.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

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

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

City of Tucson Deposits and Investments

	Fair Value
U.S. Issues not on Securites Loan:	
U.S. Treasuries, Agencies & Other Government Bonds	\$ 85,300,756
Corporate Bonds	130,463,606
Corporate Stock	286,272,382
Non-U.S. Issues not on Securites Loan:	
International Bonds	9,733,683
International Stock	86,558,751
	598,329,178
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral:	
U.S. Treasuries, Agencies & Other Government Bonds	3,038,926
U.S. Stock	20,901,429
International Stock	4,955,609
	28,895,964
Securities Lending Short-Term Collateral Investment Pool	30,555,540
Money Market Funds/Short-Term Investments	86,051,279
Bond Mutual Funds	59,412,613
Real Estate	55,604,251
	231,623,683
Total Deposits and Investments	\$ 858,848,825

C. Credit Risk

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

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

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

- Obligations of the U.S. Government, its agencies and instrumentalities
- Repurchase agreements whose underlying collateral is commercial paper rated A-1/P-1 with maturities not to exceed 180 days or rated A-2/P-2 with maturities not to exceed 60 days
- Bonds, notes and debentures issued by U.S. corporations rated "AAA" or "AA" by Moody's and Standard & Poors
- Money market funds, CD's, etc., either insured by an agency of the federal government or collateralized by obligations of the U.S. Government, its agencies and instrumentalities or General Obligation municipal bonds rated A or better at 105% of the amount on deposit calculated on market values. The collateral must be held by the Trust department of the financial institution or delivered to the City's agent
- Except for direct obligations of the U.S. Treasury, not more than 25% of the portfolio shall be invested in securities issued by a single agency or instrumentality of the United States. Not more than 5% of the portfolio shall be invested in securities of any other entity
- A minimum of 15% of the portfolio shall be in highly liquid securities
- Not more 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 of June 30, 2008:

Investment Pool Account			
Credit Risk Structure			
<u>Investment Type</u>	<u>Credit Rating (1)</u>	<u>Fair Value</u>	<u>Percent of Grand Total</u>
Money Market Funds	AAA	\$ 23,403,149	21.60%
Commercial Paper	P-2	74,904,350	69.14%
Federal Agency	AAA	10,030,790	9.26%
Grand Total		<u>\$ 108,338,289</u>	<u>100.00%</u>

(1) Per Moody's

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, 2008 these funds consisted of: a U.S. Treasury Note with a fair market value of \$25,005,752, a U.S. Agency Bond with a fair market value of \$1,359,278 and various cash balance accounts totaling \$38,654,709. 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 is 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

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

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

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

The TSRS fund had the following credit risk structure as of June 30, 2008:

Tucson Supplemental Retirement System (TSRS)
Credit Risk Structure

<u>Investment Type</u>	<u>Holdings</u>	<u>Average Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Grand Total</u>
Cash and Cash Equivalents:				
Cash & Short Term Investment Fund	2	AAA	\$ 5,951,217	
Commercial Paper	4	P-2	5,784,335	
U.S. Treasury Bills - Less than 1 Year	3	UST	3,982,159	
U.S. Agency Bonds - Less than 1 Year	2	AGY	1,496,466	
Options	6	AAA	696,907	
Sub Total	<u>17</u>		<u>17,911,084</u>	9.21%
U.S. Treasury Notes & Bonds:	27	UST	(53,832,003) (1)	(27.67%)
U.S. Agency & Other Government Obligations:				
U.S. Agency Bonds	34	AGY	41,723,579	
Mortgage Backed Securities (MBS)	43	AGY	61,996,546	
State General Obligation Bonds	2	A1	2,055,740	
Sub Total	<u>79</u>		<u>105,775,865</u>	54.37%
Corporate & Other Fixed Income Instruments:				
Collateralized Mortgage Obligations (CMO)	3	AAA	642,786	
Banks & Finance	33	A1	38,417,464	
Industrials	17	BAA2	15,445,685	
Utilities	7	BAA1	7,480,324	
Fixed Income Swaps & Call Options	211	A1	(1,318,904) (1)	
Convertible Securities	2	A1	830,200	
Sub Total	<u>273</u>		<u>61,497,555</u>	31.61%
International Bonds:	5	AA1	3,795,384	1.95%
Bond Mutual Funds:	4	AAA - BA1	59,412,613	30.54%
Grand Total	<u>405</u>		<u>\$ 194,560,498</u>	<u>100.00%</u>

Footnotes:

(1) A negative value in U. S. Treasury Notes & Bonds indicates that a short position was taken in these instruments. This was done to hedge interest rate risk obtained from holding long positions in mortgages and corporate bonds. The investment strategy employed in this case, after netting the long and short positions against each other, enables the TSRS portfolio to benefit if mortgages and corporate bonds outperform Treasuries, regardless of changes in interest rates.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

D. Interest Rate Risk

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

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

- Surplus and idle money related to the day-to-day operation of the City may be invested in authorized investments with a final maturity not exceeding two years from the date of investment
- Monies not related to the day-to-day operation of the City may be invested for periods up to three years with maturities based 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

The City's investment pool account had the following maturity structure as of June 30, 2008:

<u>Investment Type</u>	<u>Investment Pool Account</u> <u>Maturity Structure</u>		<u>Fair Value</u>	<u>Percent of</u> <u>Grand Total</u>
	<u>Maturity</u> <u>Date</u>	<u>Next Call</u> <u>Date (1)</u>		
Money Market Funds:				
Wells Fargo Treasury Plus MM			23,403,149	
			<u>23,403,149</u>	21.60%
<u>Due in Less Than 1 Year</u>				
Commercial Paper:				
Aluminum Company of America CP	07/31/08	B	4,989,300	
American Crystal Sugar CP	07/25/08	B	4,991,450	
Dominion Resources CP	07/11/08	B	4,996,500	
Dow Chemical CP	07/07/08	B	4,997,900	
Exelon Generation Company CP	08/08/08	B	4,986,250	
H.J Heinz Financial Company CP	07/11/08	B	4,996,500	
ITT Corporation CP	07/08/08	B	4,997,550	
Ingersoll-Rand CP	07/28/08	B	4,990,350	
Kellogg Company CP	07/23/08	B	4,992,150	
Marriott International CP	07/07/08	B	4,997,900	
Progress Energy Inc CP	07/23/08	B	4,992,150	
Time Warner Inc CP	07/03/08	B	4,999,300	
Tyco Electronics CP	07/08/08	B	4,997,550	
VF Corporation CP	08/04/08	B	4,987,700	
Wisconsin Energy CP	07/24/08	B	4,991,800	
			<u>74,904,350</u>	
Federal Agency:				
FHLMC Coupon Note	06/16/09	09/16/08	4,994,800	73.75%
<u>Due in More Than 2 Years</u>				
Federal Agency:				
FHLMC Coupon Note	12/30/10	06/30/09	5,035,990	4.65%
Grand Total			<u><u>108,338,289</u></u>	<u><u>100.00%</u></u>

(1) B=Bullet - Not called on designated call date, will run until maturity, unless sold

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

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

The TSRS fund had the following maturity structure as of June 30, 2008:

Tucson Supplemental Retirement System (TSRS)					
Maturity Structure					
<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				<u>Total Fair Value</u>
	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Cash & Short Term Investment Fund	\$ 5,951,217				\$ 5,951,217
U.S. Treasury Issues	3,982,159	(39,082,850)	(1) (26,645,240)	(1) 11,896,087	(49,849,844)
U.S. Agency & Other Government Obligations	1,496,466	18,220,831	11,032,908	76,522,126	107,272,331
Options	696,907				696,907
Corporate & Other Fixed Income Instruments	10,231,878	14,380,273	19,663,421	23,006,318	67,281,890
International Bonds		920,581		2,874,802	3,795,383
Bond Mutual Funds Average Effective Maturity: 4.01 Years					59,412,613
Total	<u>\$ 22,358,627</u>	<u>\$ (5,561,165)</u>	<u>\$ 4,051,089</u>	<u>\$ 114,299,333</u>	<u>\$ 194,560,498</u>
Average Modified Duration:					
Internal Account	6.41	yrs			
External Account	6.42	yrs			

Footnotes:

(1) A negative value in U. S. Treasury Notes & Bonds indicates that a short position was taken in these instruments. This was done to hedge interest rate risk obtained from holding long positions in mortgages and corporate bonds. The investment strategy employed in this case, after netting the long and short positions against each other, enables the TSRS portfolio to benefit if mortgages and corporate bonds outperform Treasuries, regardless of changes in interest rates.

E. Foreign Currency Risk

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

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

- 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, 2008:

Tucson Supplemental Retirement System (TSRS)
Foreign Currency Risk Exposure

<u>Currency</u>	<u>Fair Value (1)</u>	<u>Percent of Total</u>
Australian Dollar	\$ 4,547	0.001%
Brazil Real	(47,703) (2)	(0.007%)
British Pound Sterling	6,153,212	0.948%
Canadian Dollar	1,995,792	0.308%
Chinese Yuan Renminbi	2,553,143	0.393%
Euro Currency Unit	20,334,367	3.134%
Hong Kong Dollar	856,766	0.132%
Japanese Yen	3,984,365	0.614%
Mexican New Peso	(77,189) (2)	(0.012%)
Norwegian Krone	926,719	0.143%
Russian Rubel (New)	247,499	0.038%
South Korean Won	1,518,877	0.234%
Swedish Krona	1,894,081	0.292%
Swiss Franc	2,444,292	0.377%
U.S. Dollar	606,064,152	93.405%
TOTAL	\$ 648,852,920	100.000%

Footnotes:

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

(2) A negative currency position is obtained by accepting an obligation to deliver the designated currency to a counterparty at a specified date in the future. This position is favorable for portfolio returns if the currency depreciates in value versus the U.S. dollar over the period of the contract.

F. Securities Lending

The City Code and the Board of Trustees for the Tucson Supplemental Retirement System permit the custodian bank, BNY 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.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 5 - DEPOSITS AND INVESTMENTS (Continued):

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. BNY 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, 2008, 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, 2008 was (\$49,826,444). Money market futures were also used to gain exposure to future short-term interest rates. The net market exposure as of June 30, 2008 was \$93,616,772. 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 (\$57,622,805) and \$15,945,042 respectively. As of the same date, the portfolio contained net market exposure to put and call options (including swaptions) of \$891,294.

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 \$(2,541,616) and \$1,028,323, respectively.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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 Balances on the government-wide Statement of Net Assets.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 35,407,634	\$ 36,783,378
Mass Transit Fund		1,504,540
Other Non-Major Governmental Funds	<u>36,783,378</u>	<u>18,328,419</u>
Total Governmental Funds	<u>72,191,012</u>	<u>56,616,337</u>
Internal Service Funds:		
Self Insurance Fund		<u>11,073,337</u>
Total Internal Service Funds		<u>11,073,337</u>
Enterprise Funds:		
Golf Course Fund		<u>4,501,338</u>
Total Enterprise Funds		<u>4,501,338</u>
Total All Funds	<u>\$ 72,191,012</u>	<u>\$ 72,191,012</u>

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

The Due from/to Other Agencies balances at June 30, 2008, were as follows:

<u>Fund</u>	<u>Due From Other Agencies</u>	<u>Due To Other Agencies</u>
Governmental Funds:		
General Fund	\$ 32,531,319	\$ 1,140,431
Mass Transit Fund	1,913,410	480,264
Other Non-Major Governmental Funds	<u>17,592,400</u>	<u>46,875</u>
Total Governmental Funds	<u>52,037,129</u>	<u>1,667,570</u>
Internal Service Funds:		
Fleet Services Fund	230,559	2,217
Self Insurance Fund		
General Services Fund	<u>98,512</u>	<u>413</u>
Total Internal Service Funds	<u>329,071</u>	<u>2,630</u>
Enterprise Funds:		
Water Utility Fund	317,295	799,953
Environmental Services Fund	102,503	212
Other Non-Major Enterprise Funds		<u>53,041</u>
Total Enterprise Funds	<u>419,798</u>	<u>853,206</u>
Total All Funds	<u>\$ 52,785,998</u>	<u>\$ 2,523,406</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 6 - INTERFUND BALANCES AND TRANSFERS (Continued):

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

Advances to/from Other Funds balances at June 30, 2008, were as follows:

Fund	Advances To	Advances From
Governmental Funds:		
General Fund	\$ 1,087,314	\$
Other Non-major Governmental Funds		1,087,314
Total Governmental Funds	\$ 1,087,314	\$ 1,087,314

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

Transfers made during the year ended June 30, 2008, were as follows:

Fund	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 6,021,142	\$ 53,083,303
Mass Transit Fund	36,054,838	
Other Non-Major Governmental Funds	24,164,427	14,429,578
Total Governmental Funds	66,240,407	67,512,881
Internal Service Funds:		
Fleet Services Fund	456,690	
General Services Fund	31,985	
Total Internal Service Funds	488,675	
Enterprise Funds:		
Environmental Services	505,909	5,250
Public Housing (AMP) Funds	283,140	
Total Enterprise Funds	789,049	5,250
Total All Funds	\$ 67,518,131	\$ 67,518,131

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 7 - CAPITAL ASSETS:

The following is a summary of changes in capital assets as of June 30, 2008:

	Restated			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 634,817,644	\$ 13,974,456	\$ (1,074,890)	\$ 647,717,209
Construction-in-Progress	216,415,344	91,222,758	(94,032,116)	213,605,986
Capital Assets being Depreciated:				
Buildings and Improvements	362,749,683	42,230,929	(127,435)	404,853,177
Equipment	214,925,000	31,935,929	(8,714,570)	238,146,359
Infrastructure	722,634,054	39,611,013	(7,920)	762,237,147
Totals at Historical Cost	<u>2,151,541,725</u>	<u>218,975,084</u>	<u>(103,956,931)</u>	<u>2,266,559,878</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	139,737,997	14,069,936	(216,797)	153,591,136
Equipment	132,452,272	16,863,073	(8,589,314)	140,726,031
Infrastructure	346,933,361	19,628,660	(4,224)	366,557,798
Total Accumulated Depreciation	<u>619,123,630</u>	<u>50,561,669</u>	<u>(8,810,335)</u>	<u>660,874,965</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,532,418,095</u>	<u>\$ 168,413,415</u>	<u>\$ (95,146,597)</u>	<u>\$ 1,605,684,913</u>
Depreciation expense was charged to governmental functions as follows:				
Elected and Official			\$	95,204
Support Services				8,099,221
Neighborhood Services				12,032,171
Environment and Development				28,521,494
Strategic Initiatives				382,984
Non-Departmental				1,430,596
Total Depreciation Expense			\$	<u>50,561,669</u>
Business-Type Activities:				
Land	\$ 64,566,973	\$ 392,479	\$ (97,026)	\$ 64,862,426
Water Rights	46,677,536	5,449,432		52,126,968
Construction-in-Progress	109,900,903	22,250,382	(5,542,676)	126,608,609
Capital Assets being Depreciated:				
Buildings and Improvements	179,145,717	1,329,034	(1,453,498)	179,021,253
Equipment	62,587,530	10,345,882	(5,473,162)	67,460,250
Distribution and Collection Systems	1,008,046,207	62,743,607		1,070,789,814
Goodwill	1,187,338			1,187,338
Totals at Historical Cost	<u>1,472,112,204.00</u>	<u>102,510,816</u>	<u>(12,566,362)</u>	<u>1,562,056,658</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	74,129,061	6,849,122	(1,005,026)	79,973,157
Equipment	39,639,428	5,396,323	(1,382,903)	43,652,848
Distribution and Collective Systems	256,337,287	18,676,764		275,014,051
Goodwill	1,082,906	29,571		1,112,477
Total Accumulated Depreciation	<u>371,188,682</u>	<u>30,951,780</u>	<u>(2,387,929)</u>	<u>399,752,533</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,100,923,522</u>	<u>\$ 71,559,036</u>	<u>\$ (10,178,433)</u>	<u>\$ 1,162,304,125</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 7 - CAPITAL ASSETS (Continued):

Discretely presented component unit:

Activity for the Rio Nuevo District for the fiscal year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Component Unit:				
Land	\$ 9,143,768	\$ 61,296	\$	\$ 9,205,064
Construction-in-Progress	16,561,838	19,703,536		36,265,374
Capital Assets being Depreciated:				
Buildings and Improvements	29,837,595			29,837,595
Equipment	65,382			65,382
Totals at Historical Cost	<u>55,608,583</u>	<u>19,764,832</u>		<u>75,373,415</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	3,788,854	763,733		4,552,587
Equipment	52,160	6,623		58,783
Total Accumulated Depreciation	<u>3,841,014</u>	<u>770,356</u>		<u>4,611,370</u>
Component Unit Activities Capital Assets, Net	<u>\$ 51,767,569</u>	<u>\$ 18,994,476</u>	\$	<u>\$ 70,762,045</u>

Note 8 - CHANGES IN LONG-TERM DEBT:

The following is a summary of changes in long-term debt as of June 30, 2008:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Yr.
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 237,464,814	\$	\$ (13,874,437)	\$ 223,590,377	\$ 14,316,846
Street & Highway Revenue Bonds	134,665,000		(10,000,000)	124,665,000	10,645,000
Certificate of Participation	184,215,000		(11,545,000)	172,670,000	12,025,000
Special Assessment bonds	3,331,486	1,572,655	(570,887)	4,333,254	516,254
Federal Highway Loan		13,400,000		13,400,000	7,500,000
Deferred Amount:					
on Premiums	18,301,242		(1,883,504)	16,417,738	
on Discounts	(118,271)		7,392	(110,879)	
on Refunding	(10,864,940)		1,307,764	(9,557,176)	
Total Bonds and Notes Payable	<u>566,994,331</u>	<u>14,972,655</u>	<u>(36,558,672)</u>	<u>545,408,314</u>	<u>45,003,100</u>
Other Liabilities:					
Capital Leases	11,441,540	3,425,256	(3,382,096)	11,484,700	3,889,867
Other Post Employment Benefits		6,429,592	(4,833,865)	1,595,727	1,595,727
Compensated Absences	29,891,428	25,090,696	(19,559,968)	35,422,156	18,822,487
Claims and Judgements	28,012,525	13,409,055	(9,327,189)	32,094,391	10,218,016
Total Other Liabilities	<u>69,345,493</u>	<u>48,354,599</u>	<u>(37,103,118)</u>	<u>80,596,974</u>	<u>34,526,097</u>
Governmental Activities Long Term Liabilities	<u>\$ 636,339,824</u>	<u>\$ 63,327,254</u>	<u>\$ (73,661,790)</u>	<u>\$ 626,005,288</u>	<u>\$ 79,529,197</u>

For Governmental Activities, compensated absences are generally liquidated by the General Fund.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

	Restated Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amounts Due Within One Yr.
Business-Type Activities					
Bonds and Notes Payable:					
Enterprise Bonds	\$ 411,342,495	\$ 40,491,861	\$ (15,579,134)	\$ 436,255,222	\$ 16,938,062
General Obligation Bonds	45,835,796		(320,563)	45,515,233	713,154
Certificate of Participation	5,080,000		(435,000)	4,645,000	455,000
Central Arizona Project Loan		5,449,432	(1,203,088)	4,246,344	982,278
Deferred Amount:					
on Premiums	13,787,381	247,769	(987,830)	13,047,320	
on Discounts	(56,529)		6,281	(50,248)	
on Refunding	(16,040,373)	(57,850)	1,204,590	(14,893,633)	
Total Bonds and Notes Payable	<u>459,948,770</u>	<u>46,131,212</u>	<u>(17,314,744)</u>	<u>488,765,238</u>	<u>19,088,494</u>
Other Liabilities:					
Landfill Closure/Post Closure Costs	42,999,919	3,565,553	(2,457,751)	44,107,721	1,988,697
Capital Leases	7,160,626	2,835,482	(2,308,893)	7,687,215	2,662,295
Other Post Employment Benefits		1,188,407	(782,595)	405,812	405,812
Compensated Absences	4,618,322	3,639,781	(2,736,624)	5,521,479	2,688,128
Total Other Liabilities	<u>54,778,867</u>	<u>11,229,223</u>	<u>(8,285,863)</u>	<u>57,722,227</u>	<u>7,744,932</u>
Business-Type Activities Long Term Liabilities					
	<u>\$ 514,727,637</u>	<u>\$ 57,360,435</u>	<u>\$ (25,600,607)</u>	<u>\$ 546,487,465</u>	<u>\$ 26,833,426</u>

Discreetly presented component unit:

Activity for the Rio Nuevo District for the fiscal year ended June 30, 2008, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amounts Due Within One Yr.
Component Unit Activities:					
Bonds and Notes Payable:					
Revenue Bonds	\$ 4,710,000		\$ (535,000)	\$ 4,175,000	\$ 565,000
Certificates of Participation	16,045,000		(2,915,000)	13,130,000	3,045,000
City of Tucson	14,075,974		(524,146)	13,551,828	547,732
Deferred Amount:					
on Premiums	441,832		(88,366)	353,466	
on Discounts	(13,928)		2,321	(11,607)	
Total Bonds and Notes Payable	<u>35,258,878</u>		<u>(4,060,191)</u>	<u>31,198,687</u>	<u>4,157,732</u>
Component Unit Activities Long Term Liabilities					
	<u>\$ 35,258,878</u>		<u>\$ (4,060,191)</u>	<u>\$ 31,198,687</u>	<u>\$ 4,157,732</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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, 2008.

Years ending June 30,	Governmental Activities	Business-Type Activities
2009	\$ 24,198,144	\$ 3,602,109
2010	23,049,028	3,137,948
2011	22,106,715	2,447,756
2012	19,503,448	1,467,559
2013	16,757,905	1,016,951
2014-2018	69,843,153	2,127,724
2019-2023	56,871,741	295,750
2024-2028	<u>22,417,845</u>	
Total Minimum Lease Payments	254,747,979	14,095,797
Less: Amount Representing Interest (interest rates range from 2.00% to 12.00%)	<u>70,593,279</u>	<u>1,763,582</u>
Present Value of Net Minimum Lease Payments	<u>\$ 184,154,700</u>	<u>\$ 12,332,215</u>

Assets purchased through capital leases for Governmental Activities include buildings (\$39,377,419), improvements other than buildings (\$25,000,000) equipment (\$30,803,625) and land (\$9,950,000).

Assets purchased through capital leases for Business-Type Activities include equipment (\$12,172,460).

B. Operating Leases

Operating lease expenditures for the fiscal year were \$6,037,471. Minimum future lease payments on non-cancelable operating leases at June 30, 2008, were as follows:

Years ending June 30,	
2009	\$ 5,636,385
2010	5,596,506
2011	5,174,086
2012	3,974,306
2013	199,854
2014-2018	1,045,942
2019-2023	1,139,582
2024-2028	1,289,332
2029-2033	1,458,761
2034-2038	1,650,455
2039-2043	1,867,338
2044-2047	2,112,721
2048-2053	2,390,350
2054-2055	<u>514,515</u>
Total Minimum Future Lease Payments	<u>\$ 34,050,133</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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 improvements and the payment of costs relating to the issuance of the bonds. Debt service payments are scheduled annually from July 1, 2008 to July 1, 2023. 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, 2008 to July 1, 2018. All Street and Highway Revenue Bonds are payable from state motor vehicle fuel taxes.

At June 30, 2008, bonds payable were:

General Obligation Bonds Issued and Outstanding				
Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2008
1984 Series E and F	6.17	2012	\$ 25,000,000	\$ 1,084,600
1992 Refunding	6.40-6.5	2012	51,550,000	4,970,000
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
1998 Refunding	4.25-5.50	2021	26,470,000	17,838,628
1994 Series D (1998)	4.25-6.25	2018	11,010,000	2,760,000
1994 Series E (1999)	4.50-7.00	2019	13,855,000	635,000
2000 Series A (2000)	5.25-7.25	2020	18,840,000	2,420,000
2000 Series B (2001)	4.625-5.75	2020	26,680,000	3,500,000
2002 Refunding	5.00	2012	25,035,000	17,140,000
2003 Refunding	2.25-5.00	2020	22,465,000	15,820,168
2000 Series C (2003)	2.50-4.50	2021	29,840,000	17,435,820
2000 Series D (2004)	3.50-5.00	2021	15,000,000	6,500,000
2005 Series Refunding	2.25-5.00	2020	25,542,554	25,322,554
2005-B Series Refunding	4.00-5.00	2021	20,288,052	11,748,052
2000-E Series (2005)	3.00-5.00	2017	17,894,000	10,938,192
2006 Series Refunding	4.00-4.67	2021	42,750,150	42,750,150
2007 Series Refunding	5.00	2019	19,190,000	19,110,000
2000-F Series	4.00-5.00	2023	9,925,000	9,925,000
Total			<u>\$ 498,735,756</u>	<u>\$ 223,590,377</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 10 - BOND ISSUES (Continued):

Street and Highway Issued and Outstanding				
Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2008
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	7,280,000
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	6,900,000
2003 Refunding	4.50	2012	30,665,000	15,785,000
2003 Series A Refunding	2.50-5.00	2016	15,055,000	15,030,000
2003 Series B (2003)	3.375-3.50	2015	5,000,000	5,000,000
2000 Series C (2004)	4.125-5.00	2018	8,500,000	8,500,000
2005 Series Refunding	3.75-5.00	2018	39,995,000	39,995,000
2000-D Series (2005)	4.00-5.00	2018	6,000,000	6,000,000
Total			<u>\$ 221,900,000</u>	<u>\$ 124,665,000</u>

B. Enterprise Funds

General Obligation Bonds issued on behalf of Environmental Services will provide funds for environmental and solid waste improvements.

Environmental Services General Obligation Bonds Issued and Outstanding				
Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2008
GO Series 1994-A (1995)	7.375	2013	\$ 2,449,830	\$ 2,449,830
GO Series 2000-A (2000)	7.250	2013	430,000	430,000
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	6,061,808
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	1,164,180
GO Refunding Bonds Series 2005-B	4.000	2021	1,436,948	1,436,948
GO Refunding Bonds Series 2006	4.624	2021	7,774,850	7,774,850
GO Series 2000-F (2007)	4.300	2023	3,400,000	3,400,000
			<u>\$ 48,411,245</u>	<u>\$ 45,515,233</u>

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 10 - BOND ISSUES (Continued):

Water Revenue Bonds will provide funds for the purpose of the acquisition and construction of water system improvements.

On June 25, 2008, the City issued \$20,425,000 Water System Revenue Bonds. The Bonds represent the third installment of senior lien water system revenue bonds authorized to be issued from the 2005 Bond Election.

Water Utility Revenue Bonds Issued and Outstanding

Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2008
1984 Series D (1991)	9.75 %	2010	\$ 48,000,000	\$ 1,500,000
1993 Refunding	5.25-5.50	2014	35,360,000	11,570,000
1994 Series A (1996)	6.0-8.0	2018	33,000,000	2,500,000
1994 Series C (1999)	4.75-6.75	2009	33,400,000	1,700,000
1994 Series D (2000)	5.25-7.25	2024	23,740,000	3,225,000
1999A Refunding	5.00	2010	14,045,000	5,320,000
2000 Series A (2001)	5.0-7.5	2023	37,800,000	3,000,000
2000 Series B (2002)	3.5-5.125	2021	18,900,000	2,000,000
2000 Series D (2004)	4.0-5.0	2023	18,765,000	2,000,000
2001A Refunding	5.00	2016	40,850,000	28,160,000
2002 Refunding	5.50	2018	57,820,000	50,315,000
2003 Refunding	5.00	2018	12,000,000	12,000,000
2005 Refunding	4.00-5.00	2022	55,110,000	54,055,000
2005 Series A (2005)	3.00-5.00	2025	31,665,000	30,020,000
2005 Series B (2007)	4.375-5.00	2032	35,765,000	35,765,000
2006 Refunding	3.50-4.25	2024	85,460,000	83,395,000
2007 Refunding	5.00	2021	31,460,000	31,370,000
2005 Series C (2008)	5.00	2026	20,425,000	20,425,000
1998A Water Infrastructure Finance Authority (WIFA)	3.425	2017	6,000,000	3,451,185
2000 Water Infrastructure Finance Authority (WIF1)	4.125	2020	5,120,000	3,670,860
2000 Water Infrastructure Finance Authority (WIF2)	4.125	2020	7,780,000	5,705,773
2001 Water Infrastructure Finance Authority (WIF3)	3.430	2021	8,800,000	6,602,069
2003 Water Infrastructure Finance Authority (WIF4)	3.48	2022	8,300,000	6,603,859
2000 Water Infrastructure Finance Authority (WIF5)	3.75	2023	3,000,000	2,506,207
2004 Water Infrastructure Finance Authority (WIF6)	3.255	2023	2,500,000	2,092,124
2005 Water Infrastructure Finance Authority (WIF7)	3.113	2024	2,997,000	2,631,744
2006 Water Infrastructure Finance Authority (WIF8)	3.424	2026	2,500,000	2,318,759
2007 Water Infrastructure Finance Authority (WIF9)	3.210	2026	2,000,000	1,851,951
2007 Water Infrastructure Finance Authority (WIF10)	3.208	2026	6,500,000	6,018,748
2007 Water Infrastructure Finance Authority (WIF11)	3.552	2027	17,800,000	14,481,943 ¹
			<u>\$ 706,862,000</u>	<u>\$ 436,255,222</u>

(1) WIF11 was not fully drawn down during FY 2008. The balance of the loan will be recognized in FY 2009.

C. Rio Nuevo Component Unit

Revenue bonds provided funds to renovate the Fox Theater.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 10 - BOND ISSUES (Continued):

Rio Nuevo Multipurpose Facilities District Bonds Issued and Outstanding				
Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2008
2005 Series Fox Theater Project Tax Revenue Bonds	5.375 - 6.00 %	2013	\$ 5,800,000	\$ 4,175,000
			\$ 5,800,000	\$ 4,175,000

D. Special Assessments

The principal amount of the City's special assessment debt outstanding at June 30, 2008 is \$4,333,254 that is being retired with the proceeds from special assessments levied against benefited property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners. The fund balance of \$2,229,428 in the Special Assessment Bond & Interest Fund at June 30, 2008 is reserved for the retirement of outstanding special assessment bonds.

E. Annual Principal and Interest Requirements

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

Years Ending June 30,	Governmental Activities					
	General Obligation		Street and Highway		Special Assessment	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 14,316,846	\$ 10,624,148	\$ 10,645,000	\$ 6,381,660	\$ 516,254	\$ 208,222
2010	15,046,846	9,913,992	11,160,000	5,903,175	525,000	181,112
2011	14,945,307	9,237,603	11,745,000	5,292,600	536,000	154,472
2012	12,486,076	11,385,052	12,255,000	4,600,075	545,000	127,349
2013	12,396,774	10,460,684	12,050,000	3,876,550	425,000	102,899
2014-2018	92,452,411	28,513,358	66,810,000	10,060,863	1,786,000	209,706
2019-2023	61,946,117	6,142,352				
Total	\$ 223,590,377	\$ 86,277,189	\$ 124,665,000	\$ 36,114,923	\$ 4,333,254	\$ 983,760

Years Ending June 30,	Governmental Activities		Business-type Activities			
	Federal Highway Expansion and Extension Loan		Environmental Services General Obligation		Water Utility Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 7,500,000	\$ 255,569	713,154	\$ 2,257,331	\$ 16,938,062	\$ 20,447,208
2010	2,500,000	116,407	713,154	2,235,936	18,623,143	19,581,647
2011	3,400,000	67,082	1,009,693	2,210,976	19,902,501	18,622,221
2012			993,524	2,156,897	21,281,293	17,643,625
2013			3,099,236	2,099,593	22,224,690	16,584,109
2014-2018			18,807,589	8,042,891	129,856,204	65,450,460
2019-2023			20,178,883	2,131,267	146,824,087	33,127,648
2024-2028					43,605,242	8,818,960
2029-2033					17,000,000	2,228,125
Total	\$ 13,400,000	\$ 439,058	\$ 45,515,233	\$ 21,134,891	\$ 436,255,222	\$ 202,504,003

Years Ending June 30,	Rio Nuevo Component Unit Junior Lien Excise Tax Revenue Bonds	
	Principal	Interest
	2009	\$ 565,000
2010	600,000	214,313
2011	630,000	179,812
2012	670,000	142,800
2013	1,710,000	102,600
Total	\$ 4,175,000	\$ 885,619

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 11 - ADVANCE REFUNDING/DEFEASANCE OF DEBT:

On June 25, 2008, the City issued \$20,425,000 Water System Revenue Refunding Bonds to partially refund debt maturing on July 1, 2008 of the 1993 and 1994 Water System Revenue Bonds and to pay costs relating to the issuance of the bonds. The interest rate on the bonds ranges from 4.0–5.0% with a final maturity due July 1, 2026. Debt service payments are scheduled semi-annually at amounts that range from \$500,000 to \$5,000,000. The economic loss resulting from this refunding is (\$56,213) (based upon NPV from delivery date.) The difference in cash flow requirements to service the old debt (\$2,047,850) and the cash flows to service the new debt (\$2,702,383) is (\$654,533).

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 \$136,340,000 and General Obligation and Street and Highway debt of \$94,372,000 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, 2008. The total closure and post-closure cost estimates are based on what it would cost to perform those functions in 2008. 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.

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

<u>Landfill Site</u>	<u>Landfill Capacity Used as of 6/30/08</u>	<u>Estimated Closure/Post- Closure Costs</u>	<u>Liability Recognized at 6/30/08</u>	<u>Estimated Closure/ Postclosure Cost to be Recognized in Future Years</u>	<u>Estimated Remaining Life in Years</u>
Los Reales	97 %	\$ 30,797,000	\$ 29,568,453	\$ 1,988,697	60
Harrison	100 %	6,120,000	6,120,000		
Irvington	100 %	4,589,145	4,589,145		
Mullins	100 %	2,230,123	2,230,123		
Silverbell	100 %	1,600,000	1,600,000		
Totals		<u>\$ 45,336,268</u>	<u>\$ 44,107,721</u>	<u>\$ 1,988,697</u>	

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

The operation of the landfills is a function of the City's Environmental Management Department that is accounted for as an enterprise fund. The June 30, 2008, liability for closure and post-closure costs is \$44,107,721 which represents the cumulative amount reported to date based on the estimated capacity of the landfills.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 13 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS:

A. Plan Descriptions

The City contributes to the plans described below. Benefits are established by City Charter and state statute and the plans generally provide retirement, long-term disability, and health insurance premium benefits.

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 vacant member who is 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.

The *Arizona Public Safety Personnel Retirement System* (System or APSPRS) administers an agent multiple-employer public employee retirement system established by the Arizona Revised Statutes (A.R.S. Title 38, Chapter 5, Article 4). All commissioned Police and Fire employees of the City participate in the System. The Fund Manager and 181 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, the 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.

The *Arizona Elected Officials' Retirement Plan* (EORP) administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing multiple employer defined benefit health insurance premium plan. At June 30, 2008, the City had 7 covered officials. Covered payroll for the year then ended was \$186,000 (out of the total City payroll of (\$351,180,589)). All elected officials of the City are members of the Plan.

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.

Post-employment health care and life insurance benefits (OPEB) are provided in addition to the pension benefits described, the City provides post-employment health care and life insurance benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefits levels, employee contributions and employer contributions are governed by the City and can be amended by the City through management approval. This benefit is offered to retirees who have qualified to receive a monthly retirement allowance from either the Tucson Supplemental Retirement System or from the Arizona Public Safety Retirement System. The City contribution to medical premiums ends when the retiree reaches age 65 and becomes eligible for Medicare. Separate financial statements are not issued.

The City contributed towards the medical premiums of 965 retirees as of June 30, 2008. Depending upon the date of retirement, the City generally pays between 75% and 100% of the medical insurance premiums for eligible retirees and their dependents.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 13 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued):

B. Funding Policy

For the *Tucson Supplemental Retirement System* employees hired prior to July 1, 2006 contribute 5% of their annual covered payroll and are made through payroll deductions. Employees hired after June 30, 2006, will contribute 40% of the total required rate calculated annually by the system actuary. Future changes to employee contribution rates are limited to a maximum annual increase not to exceed 2.5%. For fiscal year 2008 the rate of contribution for employees hired after June 30, 2006 was 8.08%.

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 employees hired before July 1, 2006 is 15.21% and for employees hired after June 30, 2006 the contribution rate is 12.13%.

Employees covered by the *Arizona Public Safety Personnel Retirement System* contribute 7.65% 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, 2008, the required employer contribution rates were 23.03% and 25.94%, respectively, for Police and Fire. The health insurance premium portion of the contribution rate was actuarially set at .58% for Public Safety members of covered payroll.

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

The City's policy for other *Post-employment Benefits* is to contribute 75% of the cost of retiree medical premiums prior to Medicare eligibility (age 65). Effective January 1, 2011, the employer contribution will change to a flat rate. Contribution amounts will vary based on plan options. The City also provides a life insurance benefit of \$7,500 to all retirees, regardless of age. Currently the costs associated with this retirement benefit are expended as the appropriate medical insurance premiums are paid. For fiscal year 2008 the City's portion of the retiree medical insurance was \$7,361,667. The costs associated with the life insurance premiums are expended as the insurance premium is paid. For fiscal year 2008 the City's cost for retiree life insurance was \$256,333.

The City's annual OPEB cost (expense) of \$7,618,000 was equal to the employer's annual required contribution (ARC) for the fiscal year, as the transition liability was set at zero as of June 30, 2007. The plan is financed on a pay-as-you-go basis. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 were as follows:

Fiscal Year Ended, June 30	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Liability)
2008	\$7,618,000	\$5,616,461	73.7%	\$2,001,539

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 13 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued):

C. Funding Status

The funded status of the plans as of the most recent valuation date, June 30, 2008, along with the actuarial assumptions and methods used in those valuations follow. For this valuation, the PSPRS pension and health insurance benefit amounts were aggregated. In future years these benefits will be disaggregated and reported separately.

Schedule of Funding Progress *(dollar amounts are in thousands)*

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded (Overfunded) AAL (b) - (a)	Funded Ratio (a) / (b)	Active Member Covered Payroll (c)	Jnfunded(Overfunded) AAL as a Percentage of Active Annual Member Covered Payroll (b-a) / (c)
<u>TSRS</u>						
2008	\$ 650,227	\$ 822,205	\$ 171,978	79.1 %	\$ 153,982	111.7 %
2007	634,763	763,539	128,776	83.1	159,250	80.9
2006	588,228	735,793	147,565	79.9	155,855	94.7
<u>Police</u>						
2008	335,867	523,527	187,660	64.2	69,950	268.3
2007	324,841	501,673	176,832	64.8	60,617	291.7
2006	337,246	441,670	104,424	76.4	50,962	204.9
<u>Fire</u>						
2008	212,974	335,436	122,462	66.1	39,842	307.4
2007	206,680	321,180	114,500	64.4	36,357	314.9
2006	225,202	303,330	78,128	74.2	29,829	261.9
<u>City OPEB</u>						
2008	0	121,711	121,711	0.0	351,181	35.4

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 13 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued):

Trend Information

Annual pension cost information for the current and two preceding years follows for each of the agent plans. Annual OPEB cost information for the current year (i.e., transition year) is as follows. Information about preceding years will be added over the next two years.

Three Year Trend Information				
	Fiscal Year Ended 6/30	Annual Pension and OPEB Cost	Percentage of OPEB and APC Contributed	Net Pension and OPEB Obligation
TSRS	2008	\$ 27,601	100 %	\$ 0
	2007	24,528	100	0
	2006	25,232	100	0
Police	2008	16,384	100	0
	2007	11,595	100	0
	2006	9,876	100	0
Fire	2008	10,830	100	0
	2007	7,261	100	0
	2006	5,100	100	0
City OPEB	2008	7,618	73.7	2,002

Dollar amounts are in thousands

Actuarial Information				
	TSRS	APSPRS		OPEB
		Police	Fire	
Actuarial Valuation Date	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2008
Actuarial Cost Method	Individual Entry Age	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Dollar, 30 Years, Open
Remaining Amortization Period	Open 15 Years from June 30, 2008	28 years for unfunded actuarial accrued liability, 20 years for excess	28 years for unfunded actuarial accrued liability, 20 years for excess	30 years for unfunded actuarial accrued liability
Asset Valuation Method	4-Year Smoothed Market	4-Year Smoothed Market	4-Year Smoothed Market	N/A
Actuarial Assumptions:				
Investment Rate of Return	7.75%	8.50%	8.50%	4.50%
Projected Salary Increases*	4.25% - 9.25%	5.50% - 8.50%	5.50% - 9.00%	N/A
Inflation	4.25%	5.00%	5.00%	N/A
Cost-of-Living Adjustment	As approved by TSRS Board	None	None	N/A

* Projected salary increases include inflation.

** Health Care Cost and Expense Trend - Annual trend rates are 10% for FY09, grading down 0.5% each year to 5.0% for FY 2021 and beyond.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 14 - 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, 2008, and 2007, are as follows:

	2008	2007
Beginning of fiscal year liability	\$ 28,012,525	\$ 25,717,646
Current year claims and changes in estimates	13,409,056	12,325,846
Claim Payments	(9,327,189)	(10,030,967)
Balance at fiscal year end	\$ 32,094,392	\$ 28,012,525

Note 15 – PLEDGED REVENUES:

The City has pledged future utility customer revenues, net of specified operating expenses, to repay \$706,862,000 million in utility system revenue bonds issued since April 1991. Proceeds from the bonds provided financing for the construction of various utility related projects including new water pipelines and water treatment plants. The bonds are payable solely from utility customer net revenues and are payable through June 2032. Fiscal year 2008 annual principal and interest payments on the bonds are expected to require less than 62% of net revenues. The total principal and interest remaining to be paid on the bonds is \$638,759,225. Principal and interest paid for the current year and total customer net revenues were \$32,405,921 and \$52,458,985, respectively.

The Rio Nuevo Multipurpose District has pledged future sales tax revenues to repay \$5,800,000 in junior lien excise tax revenue bonds issued in November 2005 to finance the refurbishing of the Fox Theater. The bonds are payable solely from the incremental sales taxes generated by increased retail sales in the District. Fiscal year 2008 annual principal and interest payments on the bonds are expected to require 5.7% of incremental sales tax revenues. Total principal and interest remaining on the bonds is \$5,060,619, payable through June 2013. For the current year, principal and interest paid and total incremental sales tax revenues were \$809,850 and \$14,091,610.

The City has pledged future Highway User Tax (HURF) Revenues distributed from the State to repay \$221,900,000 million in Street and Highway Bonds issued since 1995. Proceeds from the bonds provided financing for the construction and acquiring rights-of-way for and maintaining City streets and highways. The bonds are payable solely from HURF revenues and are payable through 2018. Fiscal year 2008 annual principal and interest payments on the bonds are expected to require 34% of HURF revenues. The total principal and interest remaining to be paid on the bonds is \$160,779,923. Principal and interest paid for the current year and total HURF revenues were \$16,831,205 and \$48,918,768, respectively.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 16 - 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 \$3,027,612. 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 \$9,354,385.

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 \$18,667,162 at June 30, 2008.

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, 2008

Note 16 - CONTINGENCIES AND COMMITMENTS (Continued):

In fiscal year 2007 the note receivable and deferred revenue for Tucson House were recorded in the General Fund. Beginning in fiscal year 2008 the U.S. Department of Housing and Urban Development (HUD) issued changes in financial management and reporting. The note receivable and deferred revenue were transferred to the Public Housing (AMP) fund for consistent reporting under these new operating rules.

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 \$16,178,778 at June 30, 2008.

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 fiscal year 2007 the note receivable and deferred revenue for Posadas Sentinel were recorded in the General Fund. Beginning in fiscal year 2008 the U.S. Department of Housing and Urban Development (HUD) issued changes in financial management and reporting. The note receivable and deferred revenue were transferred to the Public Housing (AMP) fund for consistent reporting under these new operating rules.

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 \$2,536,231 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 \$3,093,800 at June 30, 2008.

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

H. Silverbell Subdivision Development Lease

On December 13, 2005, the city entered into a development agreement with Pathways Holdings LLC related to the construction of the Silverbell Residential Subdivision. Under the terms of the lease, Pathways Holdings LLC will develop the subdivision. The City will retain 30 lots to be used for public and low income housing. The notes receivable balance due to the City is \$1,661,249 at June 30, 2008.

CITY OF TUCSON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Note 16 - CONTINGENCIES AND COMMITMENTS (Continued):

I. Starr Pass Resort Developments Lease

On May 11, 2005, the City entered into a sublease agreement with Starr Pass Resort Developments LLC. The City acquired, 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 \$2,385,000 at June 30, 2008.

The proceeds from the 2007 Taxable Certificates of Participation in the amount of \$2,545,000 will be used by the City to acquire a leasehold interest in the 2007 Taxable Property, which consists of certain real property and a parking garage to be constructed thereon, from Starr Pass pursuant to the 2007 Starr Pass Lease. Starr Pass will use such amount to finance the construction of a second parking garage for use by guests of the JW Marriott Starr Pass Resort located in the City. The City will assign its interest in the 2007 Starr Pass Lease and the 2007 Taxable Property to the Trustee. The Trustee will, in turn, lease its interest in the 2007 Taxable Property to the City pursuant to the Series 2007 Lease. The City will then sublease the 2007 Taxable Property to Starr Pass to manage and operate the second public parking garage over a 20-year period. 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 \$2,475,000 at June 30, 2008.

Note 17 - 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. The City recorded a long term receivable related to this coverage, in the amount of \$14,577,549. The receivable balance, with accrued interest at 4.50% thereon, was \$13,551,828 at June 30, 2008.

On November 1, 2004, the Mayor and Council adopted Ordinance No. 10078 approving a Development and Exchange Agreement between the City and Rio Development Company, LLC. The City agreed to financially participate in the development of off-site improvements. The project is known as the Mercado at Menlo Park Subdivision and the improvements will be the responsibility of the public sector. The improvements consist of the construction of public roadways and associated amenities. On May 9, 2006, the Mayor and Council entered into a Financial Participation Agreement between the City and Rio Nuevo for the funding of the infrastructure. By the end of June 30, 2007, Rio Nuevo contributed \$5,492,482 to the City for this project. The City is reporting the infrastructure as a capital asset.

Note 18 - FUTURE REPORTING REQUIREMENTS

The Governmental Accounting Standards Board (GASB) issued Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The City will implement GASB Statement No. 49 for fiscal year ending 2009. Management is in the process of evaluating the effect of this statement on the City's financial statements.

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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 253,218,380	\$ 251,453,280	\$ 235,103,173	\$ (16,350,107)
Licenses and Permits	22,289,000	23,359,000	23,285,150	(73,850)
Fines and Forfeitures	13,715,850	13,715,850	13,157,428	(558,422)
Use of Money and Property	6,359,060	6,359,060	4,013,804	(2,345,256)
Other Agencies	153,103,820	153,103,820	149,725,582	(3,378,238)
Charges for Services	27,991,500	27,991,500	39,640,276	11,648,776
Miscellaneous	46,973,460	48,653,460	2,163,213	(46,490,247)
Total revenues	<u>523,651,070</u>	<u>524,635,970</u>	<u>467,088,626</u>	<u>(57,547,344)</u>
Expenditures:				
Current -				
Elected and Official	21,197,200	21,203,600	20,144,124	1,059,476
Support Services	44,218,980	45,081,946	43,014,703	2,067,243
Neighborhood Services	299,729,650	299,621,023	293,867,542	5,753,481
Environment and Development	26,126,250	26,218,346	23,922,928	2,295,418
Non-Departmental	11,451,950	32,700,555	35,363,090	(2,662,535)
Capital Outlay	6,128,800	5,125,835	4,946,106	179,729
Capital Projects	79,808,200	5,555,425	4,144,706	1,410,719
Debt service -				
Principal	14,384,010	13,784,010	12,923,378	860,632
Interest	8,505,330	8,115,277	7,158,032	957,245
Fiscal agent fees and other			24,000	(24,000)
Total expenditures	<u>511,550,370</u>	<u>457,406,017</u>	<u>445,508,609</u>	<u>11,897,408</u>
Excess (deficiency) of revenues over expenditures	<u>12,100,700</u>	<u>67,229,953</u>	<u>21,580,017</u>	<u>(45,649,936)</u>
Other financing sources (uses):				
Lease Purchases and Contract Proceeds	76,847,800		2,284,226	2,284,226
Transfers from Other Funds			6,021,142	6,021,142
Transfers to Other Funds	(97,302,080)	(101,076,390)	(53,083,303)	47,993,087
Total other financing sources (uses)	<u>(20,454,280)</u>	<u>(101,076,390)</u>	<u>(44,777,935)</u>	<u>56,298,455</u>
Change in fund balances	<u>(8,353,580)</u>	<u>(33,846,437)</u>	<u>(23,197,918)</u>	<u>10,648,519</u>
Fund balances, July 1, 2007, as restated			81,270,933	81,270,933
Fund balances (deficits), June 30, 2008	<u>\$ (8,353,580)</u>	<u>\$ (33,846,437)</u>	<u>\$ 58,073,015</u>	<u>\$ 91,919,452</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, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Use of Money and Property	\$ 570,000	\$ 570,000	\$ 236,365	\$ (333,635)
Federal Grants and Contributions	34,726,870	34,726,870	13,609,546	(21,117,324)
Other Agencies	6,159,000	12,108,460	12,648,077	539,617
Charges for Services	9,918,000	9,918,000	10,205,276	287,276
Miscellaneous	3,079,000	3,079,000	1,203,075	(1,875,925)
Total revenues	<u>54,452,870</u>	<u>60,402,330</u>	<u>37,902,339</u>	<u>(22,499,991)</u>
Expenditures:				
Current -				
Environment and Development	54,723,470	60,346,822	60,139,177	207,645
Capital Outlay	18,420,100	20,488,724	6,369,781	14,118,943
Capital Projects	16,589,400	12,752,315	3,616,811	9,135,504
Total expenditures	<u>89,732,970</u>	<u>93,587,861</u>	<u>70,125,769</u>	<u>23,462,092</u>
Excess (deficiency) of revenues over expenditures	<u>(35,280,100)</u>	<u>(33,185,531)</u>	<u>(32,223,430)</u>	<u>962,101</u>
Other financing sources (uses):				
Transfers from Other Funds	35,280,100	35,280,100	36,054,838	774,738
Total other financing sources (uses)	<u>35,280,100</u>	<u>35,280,100</u>	<u>36,054,838</u>	<u>774,738</u>
Change in fund balances		<u>2,094,569</u>	<u>3,831,408</u>	<u>1,736,839</u>
Fund balances, July 1, 2007			673,532	673,532
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 2,094,569</u>	<u>\$ 4,504,940</u>	<u>\$ 2,410,371</u>

See accompanying notes to this schedule.

CITY OF TUCSON, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2008

NOTE - BUDGET INFORMATION:

The City prepares a legally adopted annual operating budget for the General Fund and Mass Transit 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, 2008

	Special Revenue	Debt Service	Capital Projects	Total Non-Major Governmental Funds
<u>ASSETS</u>				
Pooled Cash and Investments	\$ 35,932,287	\$ 16,105,895	\$ 9,436,766	\$ 61,474,948
Cash/Investments with Fiscal Agents	419,596	33,029,644		33,449,240
Cash & Investments with Fiscal Agent - Restricted	4,890,659			4,890,659
Accounts Receivable, Net	579,683			579,683
Special Assessments Receivable		3,680,904		3,680,904
Notes & Loans Receivable	13,672,091			13,672,091
Due from Other Agencies	17,592,400			17,592,400
Interfund Receivable	36,783,378			36,783,378
Grants & Entitlements Receivable	13,420,155			13,420,155
Interest Receivable	23,380	1,542	6,842	31,764
Long Term Investments	1,375,151			1,375,151
Other Assets	2,197,946			2,197,946
Total assets	\$ 126,886,726	\$ 52,817,985	\$ 9,443,608	\$ 189,148,319
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 8,301,244	\$ 3,450	\$ 46,659	\$ 8,351,353
Accrued Payroll Liabilities	768,354			768,354
Accrued Interest Payable	4,975		440	5,415
Advances from Other Funds	559,109		528,205	1,087,314
Interfund Payable	18,328,419			18,328,419
Due to Other Agencies	46,875			46,875
Refundable Deposits	2,053,652	39,802	1,500	2,094,954
Bonds & Interest Payable, including Special Assessments		33,029,644		33,029,644
Deferred Revenue	10,592,652	3,672,966		14,265,618
Total liabilities	40,655,280	36,745,862	576,804	77,977,946
Fund balances:				
Reserved for Debt Service	609,542	16,072,123		16,681,665
Reserved for Capital Improvements	79,471,861		9,395,009	88,866,870
Reserved for Advances and Deposits	32,300			32,300
Reserved for Other Purposes	17,981,059			17,981,059
Unreserved:				
Undesignated	(11,863,316)		(528,205)	(12,391,521)
Total fund balances	86,231,446	16,072,123	8,866,804	111,170,373
Total liabilities and fund balances	\$ 126,886,726	\$ 52,817,985	\$ 9,443,608	\$ 189,148,319

CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008

	<u>Team/Parkwise</u>	<u>Convention Center Fund</u>	<u>Capital Improvements Fund</u>	<u>H.U.R.F. Fund</u>
<u>ASSETS</u>				
Pooled Cash and Investments	\$ 2,900	\$ 1,556,386	\$ 2,486,197	\$
Cash/Investments with Fiscal Agents				126,283
Cash & Investments with Fiscal Agent - Restricted			4,890,659	
Accounts Receivable, Net	2,175	1,029		248,340
Notes & Loans Receivable				
Due from Other Agencies	65,006		8,229,684	6,327,982
Interfund Receivable			36,783,378	
Grants & Entitlements Receivable				
Interest Receivable			7,967	
Long Term Investments	1,375,151			
Other Assets				
Total assets	<u>\$ 1,445,232</u>	<u>\$ 1,557,415</u>	<u>\$ 52,397,885</u>	<u>\$ 6,702,605</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 125,455	\$ 97,528	\$ 4,331,460	\$ 980,268
Accrued Payroll Liabilities	20,975	59,540	351	525,045
Accrued Interest Payable				4,975
Advances from Other Funds				
Interfund Payable	2,387,189			8,464,864
Due to Other Agencies	11	844		3,433
Refundable Deposits	7,651	761,552		
Deferred Revenue	300,000		7,675	
Total liabilities	<u>2,841,281</u>	<u>919,464</u>	<u>4,339,486</u>	<u>9,978,585</u>
Fund balances (deficits):				
Reserved for Debt Service			609,542	
Reserved for Capital Improvements			49,302,352	
Reserved for Advances and Deposits	2,900	29,400		
Reserved for Other Purposes	1,375,151	608,551		3,959,741
Unreserved:				
Undesignated	<u>(2,774,100)</u>		<u>(1,853,495)</u>	<u>(7,235,721)</u>
Total fund balances	<u>(1,396,049)</u>	<u>637,951</u>	<u>48,058,399</u>	<u>(3,275,980)</u>
Total liabilities and fund balances	<u>\$ 1,445,232</u>	<u>\$ 1,557,415</u>	<u>\$ 52,397,885</u>	<u>\$ 6,702,605</u>

Civic Contribution Fund	Human & Community Development Fund	Development Fee Fund	Miscellaneous Housing Grant Fund	Public Housing Section 8 Fund	Public Housing HOME Program Fund
\$ 2,629,215	\$	\$ 18,372,458	\$ 56,368	\$ 2,451,901	\$
	4,848,026			326,339	8,824,065
	4,299		82,088		
	931,131		3,469,895	499,142	1,370,700
1,911		13,502			
			33,975	2,158,398	
<u>\$ 2,631,126</u>	<u>\$ 5,783,456</u>	<u>\$ 18,385,960</u>	<u>\$ 3,642,326</u>	<u>\$ 5,435,780</u>	<u>\$ 10,194,765</u>
\$ 132,418	\$ 437,817	\$ 30,837	\$ 266,471	\$ 242,410	\$ 114,214
	31,911		10,969	43,756	12,349
		559,109			
	407,110		3,325,631		1,224,620
29	41,052			64	
	4,023	989,568	9,999	260,357	19,517
	241,055				8,824,065
<u>132,447</u>	<u>1,162,968</u>	<u>1,579,514</u>	<u>3,613,070</u>	<u>546,587</u>	<u>10,194,765</u>
		16,806,446			
2,498,679	4,620,488		29,256	4,889,193	
<u>2,498,679</u>	<u>4,620,488</u>	<u>16,806,446</u>	<u>29,256</u>	<u>4,889,193</u>	
<u>\$ 2,631,126</u>	<u>\$ 5,783,456</u>	<u>\$ 18,385,960</u>	<u>\$ 3,642,326</u>	<u>\$ 5,435,780</u>	<u>\$ 10,194,765</u>

(Continued)

CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008
(Concluded)

	Other Federal Grants Fund	Non-Federal Grants Fund	Regional Transportation Authority Fund	Totals
<u>ASSETS</u>				
Pooled Cash and Investments	\$ 8,376,862	\$	\$	\$ 35,932,287
Cash/Investments with Fiscal Agents	293,313			419,596
Cash & Investments with Fiscal Agent - Restricted				4,890,659
Accounts Receivable, Net	1,800			579,683
Notes & Loans Receivable				13,672,091
Due from Other Agencies			2,883,341	17,592,400
Interfund Receivable				36,783,378
Grants & Entitlements Receivable	6,281,797	867,490		13,420,155
Interest Receivable				23,380
Long Term Investments				1,375,151
Other Assets	5,573			2,197,946
Total assets	<u>\$ 14,959,345</u>	<u>\$ 867,490</u>	<u>\$ 2,883,341</u>	<u>\$ 126,886,726</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 419,949	\$ 81,876	\$ 1,040,541	\$ 8,301,244
Accrued Payroll Liabilities	42,521	20,937		768,354
Accrued Interest Payable				4,975
Advances from Other Funds				559,109
Interfund Payable		676,205	1,842,800	18,328,419
Due to Other Agencies	1,442			46,875
Refundable Deposits	985			2,053,652
Deferred Revenue	1,131,385	88,472		10,592,652
Total liabilities	<u>1,596,282</u>	<u>867,490</u>	<u>2,883,341</u>	<u>40,655,280</u>
Fund balances (deficits):				
Reserved for Debt Service				609,542
Reserved for Capital Improvements	13,363,063			79,471,861
Reserved for Advances and Deposits				32,300
Reserved for Other Purposes				17,981,059
Unreserved:				
Undesignated				(11,863,316)
Total fund balances	<u>13,363,063</u>			<u>86,231,446</u>
Total liabilities and fund balances	<u>\$ 14,959,345</u>	<u>\$ 867,490</u>	<u>\$ 2,883,341</u>	<u>\$ 126,886,726</u>

**CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2008**

	Special Assessment Bond & Interest Fund	General Obligation Bond & Interest Fund	Street & Highway Bond & Interest Fund	Totals
<u>ASSETS</u>				
Pooled Cash and Investments	\$ 2,259,012	\$ 13,846,883	\$	\$ 16,105,895
Cash/Investments with Fiscal Agents	108,671	19,505,370	13,415,603	33,029,644
Special Assessments Receivable	3,680,904			3,680,904
Interest Receivable	1,542			1,542
Total assets	<u>\$ 6,050,129</u>	<u>\$ 33,352,253</u>	<u>\$ 13,415,603</u>	<u>\$ 52,817,985</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$	\$ 3,450	\$	\$ 3,450
Refundable Deposits	39,064	738		39,802
Bonds & Interest Payable, including Special Assessments	108,671	19,505,370	13,415,603	33,029,644
Deferred Revenue	3,672,966			3,672,966
Total liabilities	<u>3,820,701</u>	<u>19,509,558</u>	<u>13,415,603</u>	<u>36,745,862</u>
Fund balances:				
Reserved for Debt Service	2,229,428	13,842,695		16,072,123
Total fund balances	<u>2,229,428</u>	<u>13,842,695</u>		<u>16,072,123</u>
Total liabilities and fund balances	<u>\$ 6,050,129</u>	<u>\$ 33,352,253</u>	<u>\$ 13,415,603</u>	<u>\$ 52,817,985</u>

CITY OF TUCSON, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2008

	Special Assessment Construction Fund	2000 General Obligation Fund	Totals
<u>ASSETS</u>			
Pooled Cash and Investments	\$	\$ 9,436,766	\$ 9,436,766
Interest Receivable		6,842	6,842
Total assets	\$	\$ 9,443,608	\$ 9,443,608
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts Payable	\$	\$ 46,659	\$ 46,659
Accrued Interest Payable		440	440
Advances from Other Funds	528,205		528,205
Refundable Deposits		1,500	1,500
Total liabilities	528,205	48,599	576,804
Fund balances (deficits):			
Reserved for Capital Improvements		9,395,009	9,395,009
Unreserved:			
Undesignated	(528,205)		(528,205)
Total fund balances	(528,205)	9,395,009	8,866,804
Total liabilities and fund balances	\$	\$ 9,443,608	\$ 9,443,608



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, 2008

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Revenues:			
Taxes	\$	\$ 27,747,598	\$
Licenses and Permits	87,020		
Fines and Forfeitures	518,325	12,256	
Developer Fees	5,936,592		
Use of Money and Property	3,680,956	276,489	357,332
Federal Grants and Contributions	61,534,937		
Other Agencies	85,288,051	8,688,424	
Charges for Services	6,307,956		
Special Assessments		1,243,911	468,971
Miscellaneous	1,495,636	45,025	9,053
Total revenues	<u>164,849,473</u>	<u>38,013,703</u>	<u>835,356</u>
Expenditures:			
Current -			
Elected and Official	403,366		
Support Services	167,807		
Neighborhood Services	60,423,875		145,907
Environment and Development	41,832,065		
Strategic Initiatives	7,017,029		
Non-Departmental	4,555,300		
Capital Outlay	9,013,463		20,955
Capital Projects	82,871,922		3,974,195
Debt service -			
Principal	1,987,625	24,445,324	
Interest	1,630,733	18,098,870	217,925
Fiscal agent fees and other		17,025	
Total expenditures	<u>209,903,185</u>	<u>42,561,219</u>	<u>4,358,982</u>
Excess (deficiency) of revenues over expenditures	<u>(45,053,712)</u>	<u>(4,547,516)</u>	<u>(3,523,626)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds	13,400,000		1,572,655
Lease Purchases and Contract Proceeds	1,119,328		
Transfers from Other Funds	16,023,309	8,135,425	5,693
Transfers to Other Funds	(14,429,578)		
Total other financing sources (uses)	<u>16,113,059</u>	<u>8,135,425</u>	<u>1,578,348</u>
Change in fund balances	<u>(28,940,653)</u>	<u>3,587,909</u>	<u>(1,945,278)</u>
Fund balances, beginning of year, as restated	115,172,099	12,484,214	10,812,082
Fund balances, end of year	<u>\$ 86,231,446</u>	<u>\$ 16,072,123</u>	<u>\$ 8,866,804</u>

Total
Non-Major
Governmental
Funds

\$ 27,747,598
87,020
530,581
5,936,592
4,314,777
61,534,937
93,976,475
6,307,956
1,712,882
1,549,714
203,698,532

403,366
167,807
60,569,782
41,832,065
7,017,029
4,555,300
9,034,418
86,846,117

26,432,949
19,947,528
17,025
256,823,386

(53,124,854)

14,972,655
1,119,328
24,164,427
(14,429,578)
25,826,832

(27,298,022)

138,468,395

\$ 111,170,373

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008

	<u>Public Safety Academy Fund</u>	<u>Team/Parkwise</u>	<u>Convention Center Fund</u>
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures		418,325	
Developer Fees			
Use of Money and Property		142,552	42,183
Federal Grants and Contributions			
Other Agencies	150,000	250,000	
Charges for Services	245,346	2,280,859	3,538,419
Miscellaneous	2,670	26,198	932
Total revenues	<u>398,016</u>	<u>3,117,934</u>	<u>3,581,534</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	7,940,601		
Environment and Development		3,263,606	
Strategic Initiatives			7,017,029
Non-Departmental			3,774,306
Capital Outlay	19,368		130,312
Capital Projects			
Debt service -			
Principal	265,000	597,463	
Interest	13,375	456,772	
Total expenditures	<u>8,238,344</u>	<u>4,317,841</u>	<u>10,921,647</u>
Excess (deficiency) of revenues over expenditures	<u>(7,840,328)</u>	<u>(1,199,907)</u>	<u>(7,340,113)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Lease Purchases and Contract Proceeds			
Transfers from Other Funds	7,840,328	1,103,820	7,011,885
Transfers to Other Funds		(61,031)	
Total other financing sources (uses)	<u>7,840,328</u>	<u>1,042,789</u>	<u>7,011,885</u>
Change in fund balances		<u>(157,118)</u>	<u>(328,228)</u>
Fund balances (deficits), beginning of year, as restated		(1,238,931)	966,179
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ (1,396,049)</u>	<u>\$ 637,951</u>

Capital Improvements Fund	H.U.R.F. Fund	Civic Contribution Fund	Human & Community Development Fund	Development Fee Fund	Miscellaneous Housing Grant Fund
\$	\$ 87,020 100,000	\$	\$	\$	\$
2,540,541	106,241	82,062	32,870 6,256,814	5,936,592 536,090	5,293,809
28,549,441	41,532,668 225,965 823,713	529,046	800		
<u>31,089,982</u>	<u>42,875,607</u>	<u>611,108</u>	<u>6,290,484</u>	<u>6,472,682</u>	<u>5,293,809</u>
120,392		17,813			
110,290	1,141,243	207,169	5,625,566	39,093	5,664,939
346,997	35,682,561				
	666,297	114,697			
3,082,270	3,214,675		87,699		20,443
58,800,948	2,617,852	63,055	516,982	965,846	
	1,057,333				
961,232	144,333		17,530		
<u>63,422,129</u>	<u>44,524,294</u>	<u>402,734</u>	<u>6,247,777</u>	<u>1,004,939</u>	<u>5,685,382</u>
<u>(32,332,147)</u>	<u>(1,648,687)</u>	<u>208,374</u>	<u>42,707</u>	<u>5,467,743</u>	<u>(391,573)</u>
	1,119,328				
61,031	6,245				
<u>(6,188,357)</u>	<u>(8,135,425)</u>				<u>(12,780)</u>
<u>(6,127,326)</u>	<u>(7,009,852)</u>				<u>(12,780)</u>
<u>(38,459,473)</u>	<u>(8,658,539)</u>	<u>208,374</u>	<u>42,707</u>	<u>5,467,743</u>	<u>(404,353)</u>
86,517,872	5,382,559	2,290,305	4,577,781	11,338,703	433,609
<u>\$ 48,058,399</u>	<u>\$ (3,275,980)</u>	<u>\$ 2,498,679</u>	<u>\$ 4,620,488</u>	<u>\$ 16,806,446</u>	<u>\$ 29,256</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, 2008
(Concluded)

	Public Housing Section 8 Fund	Public Housing HOME Program Fund	Other Federal Grants Fund
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Developer Fees			
Use of Money and Property	155,828		42,273
Federal Grants and Contributions	28,751,639	5,437,955	15,794,720
Other Agencies			
Charges for Services	17,367		
Miscellaneous	112,277		
Total revenues	29,037,111	5,437,955	15,836,993
Expenditures:			
Current -			
Elected and Official			306,978
Support Services			47,415
Neighborhood Services	28,638,369	5,062,164	4,278,485
Environment and Development			1,299,254
Strategic Initiatives			
Non-Departmental			
Capital Outlay	11,582	364,697	833,367
Capital Projects		11,094	9,373,115
Debt service -			
Principal	67,829		
Interest	37,491		
Total expenditures	28,755,271	5,437,955	16,138,614
Excess (deficiency) of revenues over expenditures	281,840		(301,621)
Other financing sources (uses):			
Face Amount of Bond Proceeds			13,400,000
Lease Purchases and Contract Proceeds			
Transfers from Other Funds			
Transfers to Other Funds			(31,985)
Total other financing sources (uses)			13,368,015
Change in fund balances	281,840		13,066,394
Fund balances (deficits), beginning of year, as restated	4,607,353		296,669
Fund balances (deficits), end of year	\$ 4,889,193	\$	\$ 13,363,063

<u>Non-Federal Grants Fund</u>	<u>Regional Transportation Authority Fund</u>	<u>Totals</u>
\$	\$	\$ 87,020
		518,325
		5,936,592
316		3,680,956
		61,534,937
2,821,105	11,984,837	85,288,051
		6,307,956
		1,495,636
<u>2,821,421</u>	<u>11,984,837</u>	<u>164,849,473</u>
78,575		403,366
		167,807
1,715,956		60,423,875
896,349	343,298	41,832,065
		7,017,029
		4,555,300
130,541	1,118,509	9,013,463
	10,523,030	82,871,922
		1,987,625
		1,630,733
<u>2,821,421</u>	<u>11,984,837</u>	<u>209,903,185</u>
		(45,053,712)
		13,400,000
		1,119,328
		16,023,309
		(14,429,578)
		16,113,059
		(28,940,653)
		115,172,099
<u>\$</u>	<u>\$</u>	<u>\$ 86,231,446</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2008

	Special Assessment Bond & Interest Fund	General Obligation Bond & Interest Fund	Street & Highway Bond & Interest Fund
Revenues:			
Taxes	\$	\$ 27,747,598	\$
Fines and Forfeitures	12,256		
Use of Money and Property	68,979	199,404	8,106
Other Agencies			8,688,424
Special Assessments	1,243,911		
Miscellaneous	45,025		
Total revenues	<u>1,370,171</u>	<u>27,947,002</u>	<u>8,696,530</u>
Expenditures:			
Debt service -			
Principal	570,887	13,874,437	10,000,000
Interest	210,457	11,057,208	6,831,205
Fiscal agent fees and other	9,700	6,575	750
Total expenditures	<u>791,044</u>	<u>24,938,220</u>	<u>16,831,955</u>
Excess (deficiency) of revenues over expenditures	<u>579,127</u>	<u>3,008,782</u>	<u>(8,135,425)</u>
Other financing sources (uses):			
Transfers from Other Funds			8,135,425
Total other financing sources (uses)			<u>8,135,425</u>
Change in fund balances	<u>579,127</u>	<u>3,008,782</u>	
Fund balances, beginning of year	1,650,301	10,833,913	
Fund balances, end of year	<u>\$ 2,229,428</u>	<u>\$ 13,842,695</u>	<u>\$</u>

Totals

\$ 27,747,598
12,256
276,489
8,688,424
1,243,911
45,025
38,013,703

24,445,324
18,098,870
17,025
42,561,219

(4,547,516)

8,135,425
8,135,425

3,587,909

12,484,214

\$ 16,072,123

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2008

	Special Assessment Construction Fund	2000 Street & Highway Improvement	2000 General Obligation Fund
Revenues:			
Use of Money and Property	\$	\$ 1,187	\$ 353,024
Special Assessments	468,971		
Miscellaneous			9,053
Total revenues	<u>468,971</u>	<u>1,187</u>	<u>362,077</u>
Expenditures:			
Current -			
Neighborhood Services			145,907
Capital Outlay			20,955
Capital Projects	66,651	1,187	3,906,357
Debt service -			
Interest			9,053
Total expenditures	<u>66,651</u>	<u>1,187</u>	<u>4,082,272</u>
Excess (deficiency) of revenues over expenditures	<u>402,320</u>		<u>(3,720,195)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds	1,572,655		
Transfers from Other Funds	5,693		
Total other financing sources (uses)	<u>1,578,348</u>		
Change in fund balances	<u>1,980,668</u>		<u>(3,720,195)</u>
Fund balances (deficits), beginning of year	(2,508,873)		13,115,204
Fund balances (deficits), end of year	<u>\$ (528,205)</u>	<u>\$</u>	<u>\$ 9,395,009</u>

1994 General Obligation Fund	Totals
\$ 3,121	\$ 357,332
	468,971
	9,053
<u>3,121</u>	<u>835,356</u>
	145,907
	20,955
	3,974,195
<u>208,872</u>	<u>217,925</u>
<u>208,872</u>	<u>4,358,982</u>
<u>(205,751)</u>	<u>(3,523,626)</u>
	1,572,655
	5,693
	<u>1,578,348</u>
<u>(205,751)</u>	<u>(1,945,278)</u>
205,751	10,812,082
<u>\$</u>	<u>\$ 8,866,804</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF NET ASSETS - ALL NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2008

	Golf Course Fund	Public Housing (AMP) Funds	Totals
<u>ASSETS</u>			
Current assets:			
Pooled Cash and Investments	\$ 51,550	\$ 2,427,824	\$ 2,479,374
Accounts Receivable, Net	7	97,844	97,851
Interest Receivable		1,446	1,446
Inventories	281,138		281,138
Total current assets	332,695	2,527,114	2,859,809
Noncurrent assets:			
Long Term Accounts Receivable		39,600,990	39,600,990
Deferred Charges	19,513		19,513
Land & Construction in Progress	3,411,005	8,548,701	11,959,706
Other Capital Assets, Net	17,231,069	21,728,031	38,959,100
Total noncurrent assets	20,661,587	69,877,722	90,539,309
Total assets	20,994,282	72,404,836	93,399,118
<u>LIABILITIES</u>			
Current liabilities:			
Accounts Payable	\$ 103,067	\$ 501,468	\$ 604,535
Accrued Payroll Liabilities	109,995	83,512	193,507
Interfund Payable	4,501,338		4,501,338
Due to Other Agencies	52,996	45	53,041
Refundable Deposits	14,822	444,238	459,060
Current Portion of Contracts Payable	375,580		375,580
Current Portion of Compensated Absences	88,904	112,176	201,080
Other Post-employment Benefits Current	50,562		50,562
Deferred Revenue	71,893		71,893
Total current liabilities	5,369,157	1,141,439	6,510,596
Noncurrent liabilities:			
Deferred Revenue		39,600,990	39,600,990
Contracts Payable	2,879,895		2,879,895
Compensated Absences	115,778	164,782	280,560
Total non-current liabilities	2,995,673	39,765,772	42,761,445
Total liabilities	8,364,830	40,907,211	49,272,041
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	17,406,112	30,276,731	47,682,843
Restricted for Grants and Entitlements		1,220,894	1,220,894
Unrestricted	(4,776,660)		(4,776,660)
Total net assets	\$ 12,629,452	\$ 31,497,625	\$ 44,127,077

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
ALL NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Golf Course Fund	Public Housing (AMP) Funds	Totals
Operating revenues:			
Federal Grants and Contributions	\$	\$ 4,355,735	\$ 4,355,735
Charges for Services	9,258,641	3,001,299	12,259,940
Miscellaneous	26,283	58,936	85,219
Total operating revenues	<u>9,284,924</u>	<u>7,415,970</u>	<u>16,700,894</u>
Operating expenses:			
Personal Services	4,826,741	3,601,181	8,427,922
Contractual Services	2,081,465	4,763,711	6,845,176
Commodities	2,371,367	862,052	3,233,419
Cost of Goods Sold	362,671		362,671
Depreciation	772,601	1,955,370	2,727,971
Amortization of Goodwill	1,499		1,499
Total operating expenses	<u>10,416,344</u>	<u>11,182,314</u>	<u>21,598,658</u>
Operating loss	<u>(1,131,420)</u>	<u>(3,766,344)</u>	<u>(4,897,764)</u>
Nonoperating revenues (expenses):			
Investment Income		156,748	156,748
Gain (loss) on Sale of Property/ Equipment		(129,672)	(129,672)
Interest Expense	(331,279)	(2,401)	(333,680)
Amortization of Issuance Costs	(2,438)		(2,438)
Total nonoperating revenues (expenses)	<u>(333,717)</u>	<u>24,675</u>	<u>(309,042)</u>
Income (loss) before operating transfers	<u>(1,462,699)</u>	<u>(3,768,745)</u>	<u>(5,231,444)</u>
Transfers In		283,140	283,140
Transfers Out		(5,250)	(5,250)
Change in net assets	<u>(1,465,137)</u>	<u>(3,463,779)</u>	<u>(4,928,916)</u>
Total net assets, beginning of year, as restated	14,094,589	34,961,404	49,055,993
Total net assets, end of year	<u>\$ 12,629,452</u>	<u>\$ 31,497,625</u>	<u>\$ 44,127,077</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF CASH FLOWS - ALL NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Golf Course Fund	Public Housing (AMP) Funds	Total
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 9,319,801	\$ 3,299,076	\$ 12,618,877
Cash Payments to Suppliers for Goods and Services	(4,817,471)	(5,388,625)	(10,206,096)
Cash Payments to Employees for Services	(4,739,190)	(3,582,413)	(8,321,603)
Subsidy from Federal Grant		4,297,497	4,297,497
Other Operating Revenues	26,283	58,239	84,522
Net Cash Provided (Used) by Operating Activities	<u>(210,577)</u>	<u>(1,316,226)</u>	<u>(1,526,803)</u>
Cash Flows from Noncapital Financing Activities:			
Transfer from Other Funds		277,890	277,890
Advances from Other Funds	1,251,010		1,251,010
Interest Paid on Advances	(114,862)		(114,862)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,136,148</u>	<u>277,890</u>	<u>1,414,038</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(324,858)	(56,733)	(381,591)
Principal Paid on Capital Debt	(352,992)		(352,992)
Interest Paid on Capital Debt	(196,171)	(2,401)	(198,572)
Proceeds from Sale of Assets/Equipment		374,795	374,795
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(874,021)</u>	<u>315,661</u>	<u>(558,360)</u>
Cash Flows from Investing Activities:			
Interest on Investments		173,521	173,521
Net Cash Provided (Used) by Investing Activities		<u>173,521</u>	<u>173,521</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>51,550</u>	<u>(549,154)</u>	<u>(497,604)</u>
Cash and Cash Equivalents - July 1		<u>2,976,978</u>	<u>2,976,978</u>
Cash and Cash Equivalents - June 30	<u>\$ 51,550</u>	<u>\$ 2,427,824</u>	<u>\$ 2,479,374</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (1,131,420)	\$ (3,766,344)	\$ (4,897,764)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	774,100	1,955,370	2,729,470
Other Adjustments:			
Decrease (Increase) in Assets:			
Accounts Receivable	118	223,376	223,494
Inventory	10,415		10,415
Increase (Decrease) in Liabilities:			
Accounts Payable	(53,911)	237,137	183,226
Accrued Payroll Liabilities	30,174	14,524	44,698
Compensated Absences		4,245	4,245
Accrued Other Post-Employment Benefits	50,562		50,562
Customer/Refundable Deposits		15,447	15,447
Due to Other Agencies	41,528	19	41,547
Increase in Other Operating Liabilities	67,857		67,857
Net Cash Provided (Used) by Operating Activities	<u>\$ (210,577)</u>	<u>\$ (1,316,226)</u>	<u>\$ (1,526,803)</u>
Total Noncash Investing, Capital, and Financing Activities:			

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF NET ASSETS - ALL NON-MAJOR INTERNAL SERVICE FUNDS
JUNE 30, 2008

	Fleet Services	Self Insurance Fund	General Services Fund	Totals
<u>ASSETS</u>				
Current assets:				
Pooled Cash and Investments	\$ 3,426,483	\$	\$ 776,441	\$ 4,202,924
Cash & Investments with Fiscal Agent - Restricted		2,500,000		2,500,000
Accounts Receivable, Net	74,834	63	28,433	103,330
Due from Other Agencies	230,559		98,512	329,071
Interest Receivable	876	343,803	996	345,675
Inventories	832,058			832,058
Other Assets		648,726		648,726
Total current assets	<u>4,564,810</u>	<u>3,492,592</u>	<u>904,382</u>	<u>8,961,784</u>
Noncurrent assets:				
Other Assets - Restricted		22,095,251		22,095,251
Land & Construction in Progress		30,242		30,242
Other Capital Assets, Net	33,971,619	139,301	224,460	34,335,380
Total noncurrent assets	<u>33,971,619</u>	<u>22,264,794</u>	<u>224,460</u>	<u>56,460,873</u>
Total assets	<u>38,536,429</u>	<u>25,757,386</u>	<u>1,128,842</u>	<u>65,422,657</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts Payable	\$ 1,091,249	\$ 159,012	\$ 617,641	\$ 1,867,902
Accrued Payroll Liabilities	139,416	24,331	145,775	309,522
Accrued Interest Payable			21,615	21,615
Interfund Payable		11,073,337		11,073,337
Due to Other Agencies	2,217		413	2,630
Refundable Deposits		14,644	43	14,687
Current Portion of Contracts Payable	4,485			4,485
Claims Payable		10,218,016		10,218,016
Total current liabilities	<u>1,237,367</u>	<u>21,489,340</u>	<u>785,487</u>	<u>23,512,194</u>
Noncurrent liabilities:				
Contracts Payable	14,480			14,480
Claims Payable		21,876,376		21,876,376
Total non-current liabilities	<u>14,480</u>	<u>21,876,376</u>		<u>21,890,856</u>
Total liabilities	<u>1,251,847</u>	<u>43,365,716</u>	<u>785,487</u>	<u>45,403,050</u>
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	33,952,654	169,542	224,460	34,346,656
Restricted for Self Insurance Mandates		24,595,252		24,595,252
Unrestricted	3,331,928	(42,373,124)	118,895	(38,922,301)
Total net assets	<u>\$ 37,284,582</u>	<u>\$ (17,608,330)</u>	<u>\$ 343,355</u>	<u>\$ 20,019,607</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
ALL NON-MAJOR INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Fleet Services	Self Insurance Fund	General Services Fund	Totals
Operating revenues:				
Charges for Services	\$ 26,036,001	\$ 13,783,102	\$ 16,969,017	\$ 56,788,120
Other Agencies			101,889	101,889
Miscellaneous	567,469	100,026	4,630	672,125
Total operating revenues	<u>26,603,470</u>	<u>13,883,128</u>	<u>17,075,536</u>	<u>57,562,134</u>
Operating expenses:				
Personal Services	6,211,258	1,460,668	6,594,116	14,266,042
Contractual Services	3,568,044	3,952,583	6,728,033	14,248,660
Commodities	16,939,328	261,183	1,754,661	18,955,172
Benefits and Claims		13,882,195		13,882,195
Depreciation	6,362,388	3,850	8,664	6,374,902
Total operating expenses	<u>33,081,018</u>	<u>19,560,479</u>	<u>15,085,474</u>	<u>67,726,971</u>
Operating income (loss)	<u>(6,477,548)</u>	<u>(5,677,351)</u>	<u>1,990,062</u>	<u>(10,164,837)</u>
Nonoperating revenues (expenses):				
Investment Income	22,212	813,048	708	835,968
Gain (loss) on Sale of Property/ Equipment	387,274		400	387,674
Interest Expense	(641)		(16,523)	(17,164)
Total nonoperating revenues (expenses)	<u>408,845</u>	<u>813,048</u>	<u>(15,415)</u>	<u>1,206,478</u>
Income (loss) before operating transfers	<u>(6,090,274)</u>	<u>(5,677,351)</u>	<u>1,990,462</u>	<u>(9,777,163)</u>
Capital Contributions	8,540,609			8,540,609
Transfers In	456,690		31,985	488,675
Change in net assets	<u>2,928,596</u>	<u>(4,864,303)</u>	<u>2,006,632</u>	<u>70,925</u>
Total net assets, beginning of year	34,355,986	(12,744,027)	(1,663,277)	19,948,682
Total net assets, end of year	<u>\$ 37,284,582</u>	<u>\$ (17,608,330)</u>	<u>\$ 343,355</u>	<u>\$ 20,019,607</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Fleet Services	Self Insurance Fund	General Services Fund	Total
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 25,823,770	\$ 13,906,141	\$ 17,044,446	\$ 56,774,357
Cash Payments to Suppliers for Goods and Services	(19,570,283)	(4,565,667)	(8,699,263)	(32,835,213)
Cash Payments to Employees for Services	(6,179,589)	(1,458,503)	(6,568,358)	(14,206,450)
Other Operating Revenues	567,469			567,469
Cash Payments to Claimants		(9,800,329)		(9,800,329)
Net Cash Provided (Used) by Operating Activities	<u>641,367</u>	<u>(1,918,358)</u>	<u>1,776,825</u>	<u>499,834</u>
Cash Flows from Noncapital Financing Activities:				
Transfer from Other Funds	456,690		31,985	488,675
Advances from Other Funds		3,580,690	(819,926)	2,760,764
Net Cash Provided (Used) by Noncapital Financing Activities	<u>456,690</u>	<u>3,580,690</u>	<u>(787,941)</u>	<u>3,249,439</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	(368,362)	(60,186)	(196,032)	(624,580)
Principal Paid on Capital Debt	(16,092)			(16,092)
Interest Paid on Capital Debt	(792)			(792)
Proceeds from Sale of Assets/Equipment	456,675		400	457,075
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>71,429</u>	<u>(60,186)</u>	<u>(195,632)</u>	<u>(184,389)</u>
Cash Flows from Investing Activities:				
Interest on Investments	7,762	604,364	(16,811)	595,315
Proceeds from Sale of Investments		21,100,000		21,100,000
Purchase of Investments		(22,062,016)		(22,062,016)
Net Cash Provided (Used) by Investing Activities	<u>7,762</u>	<u>(357,652)</u>	<u>(16,811)</u>	<u>(366,701)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,177,248</u>	<u>1,244,494</u>	<u>776,441</u>	<u>3,198,183</u>
Cash and Cash Equivalents - July 1	<u>2,249,235</u>	<u>1,255,506</u>	<u>3,504,741</u>	<u>3,504,741</u>
Cash and Cash Equivalents - June 30	<u>\$ 3,426,483</u>	<u>\$ 2,500,000</u>	<u>\$ 776,441</u>	<u>\$ 6,702,924</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (6,477,548)	\$ (5,677,351)	\$ 1,990,062	\$ (10,164,837)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	6,362,388	3,850	8,664	6,374,902
Other Adjustments:				
Decrease (Increase) in Assets:				
Accounts Receivable	(12,479)	23,014	(31,429)	(20,894)
Inventory	25,859			25,859
Prepaid Expenses		121,084		121,084
Due from Other Agencies	(193,112)			(193,112)
Decrease in Other Assets			338	338
Increase (Decrease) in Liabilities:				
Accounts Payable	916,025	(472,138)	(216,795)	227,092
Accrued Payroll Liabilities	31,669	2,165	25,758	59,592
Customer/Refundable Deposits	(6,639)	(845)		(7,484)
Claims and Judgments Payable		4,081,866		4,081,866
Due to Other Agencies	(4,796)	(3)	227	(4,572)
Net Cash Provided (Used) by Operating Activities	<u>\$ 641,367</u>	<u>\$ (1,918,358)</u>	<u>\$ 1,776,825</u>	<u>\$ 499,834</u>
Noncash Investing, Capital, and Financing Activities:				
Contributions of capital assets	\$ 8,540,609			\$ 8,540,609
Total Noncash Investing, Capital, and Financing Activities:	<u>\$ 8,540,609</u>	<u>\$</u>	<u>\$</u>	<u>\$ 8,540,609</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS
JUNE 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Sewer User Fee Fund				
<u>Assets</u>				
Pooled Cash and Investments	\$ 2,665,659	\$ 65,485,325	\$ 65,117,460	\$ 3,033,524
Accounts Receivable, Net	4,149,261	68,248,258	67,928,275	4,469,244
Interest Receivable	14,203	60,613	73,249	1,567
Total assets	\$ 6,829,123	\$ 133,794,196	\$ 133,118,984	\$ 7,504,335
<u>Liabilities</u>				
Due to Other Agencies	6,829,123	197,858,320	197,183,108	7,504,335
Total liabilities	\$ 6,829,123	\$ 197,858,320	\$ 197,183,108	\$ 7,504,335
Employee Prepaid Insurance Fund				
<u>Assets</u>				
Pooled Cash and Investments	\$	\$ 179,965,839	\$ 179,965,839	\$
Accounts Receivable, Net	3,410	210,441	212,016	1,835
Due From Other Agencies	2,039,793	1,757,133	2,039,793	1,757,133
Total assets	\$ 2,043,203	\$ 181,933,413	\$ 182,217,648	\$ 1,758,968
<u>Liabilities</u>				
Accounts Payable	342,974	171,662,657	171,871,431	134,200
Due to Other Agencies	1,700,229	1,715,213	1,790,674	1,624,768
Total liabilities	\$ 2,043,203	\$ 173,377,870	\$ 173,662,105	\$ 1,758,968
Totals				
<u>Assets</u>				
Pooled Cash and Investments	\$ 2,665,659	\$ 245,451,164	\$ 245,083,299	\$ 3,033,524
Accounts Receivable, Net	4,152,671	68,458,699	68,140,291	4,471,079
Due From Other Agencies	2,039,793	1,757,133	2,039,793	1,757,133
Interest Receivable	14,203	60,613	73,249	1,567
Total assets	\$ 8,872,326	\$ 315,727,609	\$ 315,336,632	\$ 9,263,303
<u>Liabilities</u>				
Accounts Payable	342,974	171,662,657	171,871,431	134,200
Due to Other Agencies	8,529,352	199,573,533	198,973,782	9,129,103
Total liabilities	\$ 8,872,326	\$ 371,236,190	\$ 370,845,213	\$ 9,263,303

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF NET ASSETS - ALL NON-MAJOR COMPONENT UNITS
DECEMBER 31, 2007

	Silverbell Homes Limited Partnership	Posadas Sentinel. L.L.L.P.	South Park Development Partners, L.L.L.P.	Tucson House Apartments, L.L.L.P.	Totals
<u>ASSETS</u>					
Current assets:					
Cash and Cash Equivalents	\$ 1,077	\$ 36,899	\$ 49,799		\$ 87,775
Cash and Investments - Restricted	3,708	498,336	78,790	62,420	643,254
Accounts Receivable, Net	231,348	37,065		165,732	434,145
Other Assets		628	20,517		21,145
Total current assets	<u>236,133</u>	<u>572,928</u>	<u>149,106</u>	<u>228,152</u>	<u>1,186,319</u>
Noncurrent assets:					
Deferred Charges				123,569	123,569
Land & Construction in Progress	364,000		661,900	1	1,025,901
Other Capital Assets, Net	4,852,041	21,497,319	5,272,208	13,298,240	44,919,808
Total noncurrent assets	<u>5,216,041</u>	<u>21,497,319</u>	<u>5,934,108</u>	<u>13,421,810</u>	<u>46,069,278</u>
Total assets	<u>5,452,174</u>	<u>22,070,247</u>	<u>6,083,214</u>	<u>13,649,962</u>	<u>47,255,597</u>
<u>LIABILITIES</u>					
Current liabilities:					
Accounts Payable	\$ 749,648	\$ 116,225	\$ 4,646	\$ 34,931	\$ 905,450
Accrued Payroll Liabilities				8,325	8,325
Accrued Interest Payable	71,163		505,541		576,704
Unearned Revenue		2,568		7,153	9,721
Refundable Deposits	3,708	107,277	20,508	62,420	193,913
Other Accrued Expenses	377,752	136,626	42,119		556,497
Total current liabilities	<u>824,519</u>	<u>226,070</u>	<u>530,695</u>	<u>112,829</u>	<u>2,250,610</u>
Noncurrent liabilities:					
Notes and Loans Payable	2,520,193	15,654,003	2,577,963	17,419,218	38,171,377
Other Long Term Liabilities				455,420	455,420
Total non-current liabilities	<u>2,520,193</u>	<u>15,654,003</u>	<u>2,577,963</u>	<u>17,874,638</u>	<u>38,626,797</u>
Total liabilities	<u>3,344,712</u>	<u>15,880,073</u>	<u>3,108,658</u>	<u>17,987,467</u>	<u>40,877,407</u>
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of					
Related Debt	2,695,848	5,843,316	3,356,145	(4,120,977)	7,774,332
Restricted Other	3,708	498,336	78,790	62,420	643,254
Unrestricted	(969,846)	(288,104)	(502,498)	(278,948)	(2,039,396)
Total net assets	<u>\$ 1,729,710</u>	<u>\$ 6,053,548</u>	<u>\$ 2,932,437</u>	<u>\$ (4,337,505)</u>	<u>\$ 6,378,190</u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
ALL NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2008

	Silverbell Homes Limited Partnership	Posadas Sentinel. L.L.L.P.	South Park Development Partners, L.L.L.P.	Tucson House Apartments, L.L.L.P.	Totals
Operating revenues:					
Federal Grants and Contributions	\$	\$ 384,898	\$ 78,678	\$ 1,015,868	\$ 1,479,444
Charges for Services		545,886	194,067	954,851	1,694,804
Miscellaneous		9,899		47,629	57,528
Total operating revenues		<u>940,683</u>	<u>272,745</u>	<u>2,018,348</u>	<u>3,231,776</u>
Operating expenses:					
Personal Services		335,146	125,875	433,258	894,279
Contractual Services		512,748	137,239	1,112,548	1,762,535
Commodities		149,721		375,885	525,606
Depreciation		602,548	284,486	496,689	1,383,723
Total operating expenses		<u>1,600,163</u>	<u>547,600</u>	<u>2,418,380</u>	<u>4,566,143</u>
Operating income (loss)		<u>(659,480)</u>	<u>(274,855)</u>	<u>(400,032)</u>	<u>(1,334,367)</u>
Nonoperating revenues (expenses):					
Investment Income		9,265	2,357		11,622
Interest Expense		(1,103,154)	(133,566)	(1,211,023)	(2,447,743)
Total nonoperating revenues (expenses)		<u>(1,093,889)</u>	<u>(131,209)</u>	<u>(1,211,023)</u>	<u>(2,436,121)</u>
Income (loss) before capital contributions and transfers		<u>(1,753,369)</u>	<u>(406,064)</u>	<u>(1,611,055)</u>	<u>(3,770,488)</u>
Capital Contributions	<u>1,729,710</u>				<u>1,729,710</u>
Change in net assets	<u>1,729,710</u>	<u>(1,753,369)</u>	<u>(406,064)</u>	<u>(1,611,055)</u>	<u>(2,040,778)</u>
Total net assets, beginning of year		7,806,917	3,338,501	(2,726,450)	8,418,968
Total net assets, end of year	<u><u>\$1,729,710</u></u>	<u><u>\$6,053,548</u></u>	<u><u>\$ 2,932,437</u></u>	<u><u>\$ (4,337,505)</u></u>	<u><u>\$ 6,378,190</u></u>

CITY OF TUCSON, ARIZONA
COMBINING STATEMENT OF CASH FLOWS - ALL NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2008

	Silverbell Homes Limited Partnership	Posadas Sentinel. L.L.L.P.	South Park Development Partners, L.L.L.P.	Tucson House Apartments, L.L.L.P.	Totals
Cash Flows from Operating Activities:					
Cash Received from Operations	\$ 1,198,563	\$ 10,232	\$ 19,557	\$ 106,241	\$ 1,334,593
Net Cash Provided (Used) by Operating Activities	<u>1,198,563</u>	<u>10,232</u>	<u>19,557</u>	<u>106,241</u>	<u>1,334,593</u>
Cash Flows from Noncapital Financing Activities:					
Transfers to Partners	(231,348)				(231,348)
Transfers from Partners			4,175		4,175
Transfers to City of Tucson		(124,439)		(106,241)	(230,680)
Transfers from City of Tucson	964,068	97,074	5,821		1,066,963
Net Cash Provided (Used) by Noncapital Financing Activities	<u>732,720</u>	<u>(27,365)</u>	<u>9,996</u>	<u>(106,241)</u>	<u>609,110</u>
Cash Flows from Capital and Related Financing Activities:					
Long Term Debt Proceeds	1,556,125				1,556,125
Capital Contributions	1,729,710				1,729,710
Capital Debt Payments			(16,220)		(16,220)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>3,285,835</u>		<u>(16,220)</u>		<u>3,269,615</u>
Cash Flows from Investing Activities:					
Reserve Deposits		(47,747)			(47,747)
Purchase of Investments	(5,216,041)				(5,216,041)
Net Cash Provided (Used) by Investing Activities	<u>(5,216,041)</u>	<u>(47,747)</u>			<u>(5,263,788)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,077</u>	<u>(64,880)</u>	<u>13,333</u>		<u>(50,470)</u>
Cash and Cash Equivalents - July 1		<u>101,779</u>	<u>36,466</u>		<u>138,245</u>
Cash and Cash Equivalents - June 30	<u>\$ 1,077</u>	<u>\$ 36,899</u>	<u>\$ 49,799</u>	<u>\$</u>	<u>\$ 87,775</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$	\$ (1,753,369)	\$ (406,064)	\$ (1,611,055)	\$ (3,770,488)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization		602,548	284,486	496,689	1,383,723
Other Adjustments:					
Decrease (Increase) in Assets:					
Accounts Receivable		(3,629)	(202)	(424)	(4,255)
Prepaid Expenses		1,621	(731)		890
Accounts Payable	749,648	1,064	73	14,978	765,763
Accrued Interest Payable	71,163	1,087,954	118,013	1,211,020	2,488,150
Accrued Payroll Liabilities				(9,767)	(9,767)
Accrued Expenses	377,752	25,920	23,505		427,177
Accrued Admin Fees		48,362		5,000	53,362
Customer/Refundable Deposits		(239)	477		238
Prepaid Revenue				(200)	(200)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,198,563</u>	<u>\$ 10,232</u>	<u>\$ 19,557</u>	<u>\$ 106,241</u>	<u>\$ 1,334,593</u>
Total Noncash Investing, Capital, and Financing Activities:					



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, 2008

	Public Safety Academy Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Developer Fees			
Use of Money and Property			
Federal Grants and Contributions			
Other Agencies	150,000	150,000	
Charges for Services	527,530	245,346	(282,184)
Miscellaneous		2,670	2,670
Total revenues	<u>677,530</u>	<u>398,016</u>	<u>(279,514)</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	5,620,773	7,940,601	(2,319,828)
Environment and Development			
Strategic Initiatives			
Non-Departmental			
Capital Outlay	44,220	19,368	24,852
Capital Projects			
Debt service -			
Principal	265,000	265,000	
Interest	13,370	13,375	(5)
Total expenditures	<u>5,943,363</u>	<u>8,238,344</u>	<u>(2,294,981)</u>
Excess (deficiency) of revenues over expenditures	<u>(5,265,833)</u>	<u>(7,840,328)</u>	<u>(2,574,495)</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Lease Purchases and Contract Proceeds			
Transfers from Other Funds	5,265,840	7,840,328	2,574,488
Transfers to Other Funds			
Total other financing sources (uses)	<u>5,265,840</u>	<u>7,840,328</u>	<u>2,574,488</u>
Change in fund balances	<u>7</u>	<u></u>	<u>(7)</u>
Fund balances (deficits), July 1, 2007, as restated			
Fund balances (deficits), June 30, 2008	<u>\$ 7</u>	<u>\$</u>	<u>\$ (7)</u>

Team/Parkwise			Convention Center Fund		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 610,000	\$ 418,325	\$ (191,675)			
	142,552	142,552	20,000	42,183	22,183
	250,000	250,000			
3,948,100	2,280,859	(1,667,241)	4,292,830	3,538,419	(754,411)
139,000	26,198	(112,802)	109,970	932	(109,038)
<u>4,697,100</u>	<u>3,117,934</u>	<u>(1,579,166)</u>	<u>4,422,800</u>	<u>3,581,534</u>	<u>(841,266)</u>
3,805,400	3,263,606	541,794	6,814,120	7,017,029	(202,909)
			3,774,310	3,774,306	4
			541,000	130,312	410,688
6,037,054		6,037,054			
1,102,680	597,463	505,217			
948,570	456,772	491,798			
<u>11,893,704</u>	<u>4,317,841</u>	<u>7,575,863</u>	<u>11,129,430</u>	<u>10,921,647</u>	<u>207,783</u>
<u>(7,196,604)</u>	<u>(1,199,907)</u>	<u>5,996,697</u>	<u>(6,706,630)</u>	<u>(7,340,113)</u>	<u>(633,483)</u>
8,021,000		(8,021,000)			
1,103,820	1,103,820		6,706,630	7,011,885	305,255
	(61,031)	(61,031)			
<u>9,124,820</u>	<u>1,042,789</u>	<u>(8,082,031)</u>	<u>6,706,630</u>	<u>7,011,885</u>	<u>305,255</u>
<u>1,928,216</u>	<u>(157,118)</u>	<u>(2,085,334)</u>		<u>(328,228)</u>	<u>(328,228)</u>
	(1,238,931)	(1,238,931)		966,179	966,179
<u>\$ 1,928,216</u>	<u>\$ (1,396,049)</u>	<u>\$ (3,324,265)</u>	<u>\$</u>	<u>\$ 637,951</u>	<u>\$ 637,951</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, 2008
(Continued)

	Capital Improvements Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Developer Fees			
Use of Money and Property		2,540,541	2,540,541
Federal Grants and Contributions			
Other Agencies	44,025,100	28,549,441	(15,475,659)
Charges for Services			
Miscellaneous			
Total revenues	44,025,100	31,089,982	(12,935,118)
Expenditures:			
Current -			
Elected and Official			
Support Services	135,993	120,392	15,601
Neighborhood Services	113,845	110,290	3,555
Environment and Development	732,192	346,997	385,195
Strategic Initiatives			
Non-Departmental			
Capital Outlay	1,830,000	3,082,270	(1,252,270)
Capital Projects	87,766,483	58,800,948	28,965,535
Debt service -			
Principal	750,000		750,000
Interest	420,053	961,232	(541,179)
Total expenditures	91,748,566	63,422,129	28,326,437
Excess (deficiency) of revenues over expenditures	(47,723,466)	(32,332,147)	15,391,319
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Lease Purchases and Contract Proceeds	46,649,000		(46,649,000)
Transfers from Other Funds		61,031	61,031
Transfers to Other Funds		(6,188,357)	(6,188,357)
Total other financing sources (uses)	46,649,000	(6,127,326)	(52,776,326)
Change in fund balances	(1,074,466)	(38,459,473)	(37,385,007)
Fund balances (deficits), July 1, 2007, as restated		86,517,872	86,517,872
Fund balances (deficits), June 30, 2008	\$ (1,074,466)	\$ 48,058,399	\$ 49,132,865

H.U.R.F. Fund			Civic Contribution Fund		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 1,586,490	\$ 87,020	\$ (1,499,470)	\$	\$	\$
	100,000	100,000			
550,000	106,241	(443,759)		82,062	82,062
45,388,000	41,532,668	(3,855,332)			
	225,965	225,965			
7,957,060	823,713	(7,133,347)	310,000	529,046	219,046
55,481,550	42,875,607	(12,605,943)	310,000	611,108	301,108
				17,813	(17,813)
1,081,937	1,141,243	(59,306)	200,000	207,169	(7,169)
35,594,461	35,682,561	(88,100)			
536,090	666,297	(130,207)		114,697	(114,697)
2,794,746	3,214,675	(419,929)			
5,612,710	2,617,852	2,994,858	110,000	63,055	46,945
236,030	1,057,333	(821,303)			
1,568,420	144,333	1,424,087			
47,424,394	44,524,294	2,900,100	310,000	402,734	(92,734)
8,057,156	(1,648,687)	(9,705,843)		208,374	208,374
	1,119,328	1,119,328			
	6,245	6,245			
(8,041,140)	(8,135,425)	(94,285)			
(8,041,140)	(7,009,852)	1,031,288			
16,016	(8,658,539)	(8,674,555)		208,374	208,374
	5,382,559	5,382,559		2,290,305	2,290,305
\$ 16,016	\$ (3,275,980)	\$ (3,291,996)	\$	\$ 2,498,679	\$ 2,498,679

(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, 2008
(Continued)

	Human & Community Development Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Developer Fees			
Use of Money and Property		32,870	32,870
Federal Grants and Contributions	10,425,800	6,256,814	(4,168,986)
Other Agencies			
Charges for Services			
Miscellaneous		800	800
Total revenues	10,425,800	6,290,484	(4,135,316)
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	7,923,478	5,625,566	2,297,912
Environment and Development			
Strategic Initiatives			
Non-Departmental			
Capital Outlay	59,800	87,699	(27,899)
Capital Projects	2,570,180	516,982	2,053,198
Debt service -			
Principal	17,530		17,530
Interest		17,530	(17,530)
Total expenditures	10,570,988	6,247,777	4,323,211
Excess (deficiency) of revenues over expenditures	(145,188)	42,707	187,895
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Lease Purchases and Contract Proceeds			
Transfers from Other Funds			
Transfers to Other Funds			
Total other financing sources (uses)			
Change in fund balances	(145,188)	42,707	187,895
Fund balances (deficits), July 1, 2007, as restated		4,577,781	4,577,781
Fund balances (deficits), June 30, 2008	\$ (145,188)	\$ 4,620,488	\$ 4,765,676

Development Fee Fund		
Budget	Actual	Variance - Positive (Negative)
\$	\$	\$
5,721,300	5,936,592	215,292
	536,090	536,090
<u>5,721,300</u>	<u>6,472,682</u>	<u>751,382</u>
350,000	39,093	310,907
5,371,201	965,846	4,405,355
<u>5,721,201</u>	<u>1,004,939</u>	<u>4,716,262</u>
<u>99</u>	<u>5,467,743</u>	<u>5,467,644</u>
<u>99</u>	<u>5,467,743</u>	<u>5,467,644</u>
	11,338,703	11,338,703
<u>\$ 99</u>	<u>\$ 16,806,446</u>	<u>\$ 16,806,347</u>

Miscellaneous Housing Grant Fund		
Budget	Actual	Variance - Positive (Negative)
\$	\$	\$
14,654,560	5,293,809	(9,360,751)
<u>14,654,560</u>	<u>5,293,809</u>	<u>(9,360,751)</u>
7,597,755	5,664,939	1,932,816
115,300	20,443	94,857
<u>7,713,055</u>	<u>5,685,382</u>	<u>2,027,673</u>
<u>6,941,505</u>	<u>(391,573)</u>	<u>(7,333,078)</u>
	(12,780)	(12,780)
	(12,780)	(12,780)
<u>6,941,505</u>	<u>(404,353)</u>	<u>(7,345,858)</u>
	433,609	433,609
<u>\$ 6,941,505</u>	<u>\$ 29,256</u>	<u>\$ (6,912,249)</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, 2008
(Continued)

	Public Housing Section 8 Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Developer Fees			
Use of Money and Property		155,828	155,828
Federal Grants and Contributions	27,727,370	28,751,639	1,024,269
Other Agencies			
Charges for Services		17,367	17,367
Miscellaneous		112,277	112,277
Total revenues	<u>27,727,370</u>	<u>29,037,111</u>	<u>1,309,741</u>
Expenditures:			
Current -			
Elected and Official			
Support Services			
Neighborhood Services	28,365,522	28,638,369	(272,847)
Environment and Development			
Strategic Initiatives			
Non-Departmental			
Capital Outlay	11,590	11,582	8
Capital Projects			
Debt service -			
Principal	85,320	67,829	17,491
Interest	20,000	37,491	(17,491)
Total expenditures	<u>28,482,432</u>	<u>28,755,271</u>	<u>(272,839)</u>
Excess (deficiency) of revenues over expenditures	<u>(755,062)</u>	<u>281,840</u>	<u>1,036,902</u>
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Lease Purchases and Contract Proceeds			
Transfers from Other Funds			
Transfers to Other Funds			
Total other financing sources (uses)			
Change in fund balances	<u>(755,062)</u>	<u>281,840</u>	<u>1,036,902</u>
Fund balances (deficits), July 1, 2007, as restated		4,607,353	4,607,353
Fund balances (deficits), June 30, 2008	<u>\$ (755,062)</u>	<u>\$ 4,889,193</u>	<u>\$ 5,644,255</u>

Public Housing HOME Program Fund			Other Federal Grants Fund		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
12,146,060	5,437,955	(6,708,105)	31,740,540	15,794,720	(15,945,820)
<u>12,146,060</u>	<u>5,437,955</u>	<u>(6,708,105)</u>	<u>31,740,540</u>	<u>15,836,993</u>	<u>(15,903,547)</u>
10,860,731	5,062,164	5,798,567	11,172,341	4,278,485	6,893,856
402,348	364,697	37,651	1,754,454	833,367	921,087
455,152	11,094	444,058	16,483,025	9,373,115	7,109,910
<u>11,718,231</u>	<u>5,437,955</u>	<u>6,280,276</u>	<u>32,608,029</u>	<u>16,138,614</u>	<u>16,469,415</u>
<u>427,829</u>		<u>(427,829)</u>	<u>(867,489)</u>	<u>(301,621)</u>	<u>565,868</u>
				13,400,000	13,400,000
				(31,985)	(31,985)
				<u>13,368,015</u>	<u>13,368,015</u>
<u>427,829</u>		<u>(427,829)</u>	<u>(867,489)</u>	<u>13,066,394</u>	<u>13,933,883</u>
				296,669	296,669
<u>\$ 427,829</u>	<u>\$</u>	<u>\$ (427,829)</u>	<u>\$ (867,489)</u>	<u>\$ 13,363,063</u>	<u>\$ 14,230,552</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, 2008
(Concluded)

	Non-Federal Grants Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Licenses and Permits	\$	\$	\$
Fines and Forfeitures			
Developer Fees			
Use of Money and Property		316	316
Federal Grants and Contributions			
Other Agencies	5,788,280	2,821,105	(2,967,175)
Charges for Services			
Miscellaneous			
Total revenues	5,788,280	2,821,421	(2,966,859)
Expenditures:			
Current -			
Elected and Official	261,920	78,575	183,345
Support Services			
Neighborhood Services	3,394,312	1,715,956	1,678,356
Environment and Development	1,236,490	896,349	340,141
Strategic Initiatives			
Non-Departmental			
Capital Outlay	172,474	130,541	41,933
Capital Projects	250,000		250,000
Debt service -			
Principal			
Interest			
Total expenditures	5,315,196	2,821,421	2,493,775
Excess (deficiency) of revenues over expenditures	473,084		(473,084)
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Lease Purchases and Contract Proceeds			
Transfers from Other Funds			
Transfers to Other Funds			
Total other financing sources (uses)			
Change in fund balances	473,084		(473,084)
Fund balances (deficits), July 1, 2007, as restated			
Fund balances (deficits), June 30, 2008	\$ 473,084	\$	\$ (473,084)

Regional Transportation Authority Fund			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 1,586,490	\$ 87,020	\$ (1,499,470)
			610,000	518,325	(91,675)
			5,721,300	5,936,592	215,292
			570,000	3,680,956	3,110,956
			96,694,330	61,534,937	(35,159,393)
25,498,400	11,984,837	(13,513,563)	120,849,780	85,288,051	(35,561,729)
			8,768,460	6,307,956	(2,460,504)
			8,516,030	1,495,636	(7,020,394)
<u>25,498,400</u>	<u>11,984,837</u>	<u>(13,513,563)</u>	<u>243,316,390</u>	<u>164,849,473</u>	<u>(78,466,917)</u>
			856,540	403,366	453,174
			580,863	167,807	413,056
			76,680,694	60,423,875	16,256,819
386,000	343,298	42,702	43,913,262	41,832,065	2,081,197
			6,814,120	7,017,029	(202,909)
			4,310,400	4,555,300	(244,900)
4,136,150	1,118,509	3,017,641	11,862,082	9,013,463	2,848,619
20,976,263	10,523,030	10,453,233	145,632,068	82,871,922	62,760,146
			2,456,560	1,987,625	468,935
			<u>2,970,413</u>	<u>1,630,733</u>	<u>1,339,680</u>
<u>25,498,413</u>	<u>11,984,837</u>	<u>13,513,576</u>	<u>296,077,002</u>	<u>209,903,185</u>	<u>86,173,817</u>
(13)		13	(52,760,612)	(45,053,712)	7,706,900
				13,400,000	13,400,000
			54,670,000	1,119,328	(53,550,672)
			13,076,290	16,023,309	2,947,019
			(8,041,140)	(14,429,578)	(6,388,438)
			<u>59,705,150</u>	<u>16,113,059</u>	<u>(43,592,091)</u>
(13)		13	6,944,538	(28,940,653)	(35,885,191)
				115,172,099	115,172,099
<u>\$ (13)</u>	<u>\$</u>	<u>\$ 13</u>	<u>\$ 6,944,538</u>	<u>\$ 86,231,446</u>	<u>\$ 79,286,908</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, 2008

	Special Assessment Bond & Interest Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$	\$	\$
Fines and Forfeitures		12,256	12,256
Use of Money and Property		68,979	68,979
Other Agencies			
Special Assessments	641,000	1,243,911	602,911
Miscellaneous		45,025	45,025
Total revenues	<u>641,000</u>	<u>1,370,171</u>	<u>729,171</u>
Expenditures:			
Debt service -			
Principal	450,000	570,887	(120,887)
Interest	180,000	210,457	(30,457)
Fiscal agent fees and other	11,000	9,700	1,300
Issuance Costs of Debt			
Total expenditures	<u>641,000</u>	<u>791,044</u>	<u>(150,044)</u>
Excess (deficiency) of revenues over expenditures		<u>579,127</u>	<u>579,127</u>
Other financing sources (uses):			
Transfers from Other Funds			
Total other financing sources (uses)			
Change in fund balances		<u>579,127</u>	<u>579,127</u>
Fund balances, July 1, 2007		1,650,301	1,650,301
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 2,229,428</u>	<u>\$ 2,229,428</u>

General Obligation Bond & Interest Fund		
Budget	Actual	Variance - Positive (Negative)
\$ 28,022,940	\$ 27,747,598	\$ (275,342)
	199,404	199,404
<u>28,022,940</u>	<u>27,947,002</u>	<u>(75,938)</u>
14,982,290	13,874,437	1,107,853
13,030,650	11,057,208	1,973,442
	6,575	(6,575)
10,000		10,000
<u>28,022,940</u>	<u>24,938,220</u>	<u>3,084,720</u>
	<u>3,008,782</u>	<u>3,008,782</u>
	<u>3,008,782</u>	<u>3,008,782</u>
	10,833,913	10,833,913
<u>\$</u>	<u>\$ 13,842,695</u>	<u>\$ 13,842,695</u>

Street & Highway Bond & Interest Fund		
Budget	Actual	Variance - Positive (Negative)
\$	\$	\$
	8,106	8,106
8,796,060	8,688,424	(107,636)
<u>8,796,060</u>	<u>8,696,530</u>	<u>(99,530)</u>
10,000,000	10,000,000	
6,831,200	6,831,205	(5)
	750	(750)
6,000		6,000
<u>16,837,200</u>	<u>16,831,955</u>	<u>5,245</u>
<u>(8,041,140)</u>	<u>(8,135,425)</u>	<u>(94,285)</u>
<u>8,041,140</u>	<u>8,135,425</u>	<u>94,285</u>
<u>8,041,140</u>	<u>8,135,425</u>	<u>94,285</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>

(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, 2008
(Concluded)

	Totals		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Taxes	\$ 28,022,940	\$ 27,747,598	\$ (275,342)
Fines and Forfeitures		12,256	12,256
Use of Money and Property		276,489	276,489
Other Agencies	8,796,060	8,688,424	(107,636)
Special Assessments	641,000	1,243,911	602,911
Miscellaneous		45,025	45,025
Total revenues	<u>37,460,000</u>	<u>38,013,703</u>	<u>553,703</u>
Expenditures:			
Debt service -			
Principal	25,432,290	24,445,324	986,966
Interest	20,041,850	18,098,870	1,942,980
Fiscal agent fees and other	11,000	17,025	(6,025)
Issuance Costs of Debt	16,000		16,000
Total expenditures	<u>45,501,140</u>	<u>42,561,219</u>	<u>2,939,921</u>
Excess (deficiency) of revenues over expenditures	<u>(8,041,140)</u>	<u>(4,547,516)</u>	<u>3,493,624</u>
Other financing sources (uses):			
Transfers from Other Funds	8,041,140	8,135,425	94,285
Total other financing sources (uses)	<u>8,041,140</u>	<u>8,135,425</u>	<u>94,285</u>
Change in fund balances		<u>3,587,909</u>	<u>3,587,909</u>
Fund balances, July 1, 2007		12,484,214	12,484,214
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 16,072,123</u>	<u>\$ 16,072,123</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, 2008

	Special Assessment Construction Fund		
	Budget*	Actual	Variance - Positive (Negative)
Revenues:			
Use of Money and Property	\$	\$	\$
Special Assessments		468,971	468,971
Miscellaneous			
Total revenues		468,971	468,971
Expenditures:			
Current -			
Neighborhood Services			
Environment and Development			
Capital Outlay			
Capital Projects		66,651	(66,651)
Debt service -			
Interest			
Total expenditures		66,651	(66,651)
Excess (deficiency) of revenues over expenditures		402,320	402,320
Other financing sources (uses):			
Face Amount of Bond Proceeds		1,572,655	1,572,655
Transfers from Other Funds		5,693	5,693
Total other financing sources (uses)		1,578,348	1,578,348
Change in fund balances		1,980,668	1,980,668
Fund balances (deficits), July 1, 2007		(2,508,873)	(2,508,873)
Fund balances (deficits), June 30, 2008	\$	\$ (528,205)	\$ (528,205)

*The Special Assessment Construction Fund Fund was included in the budget, however, the budget was -0-.

**The 2000 Street & Highway Improvement 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 CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2008
(Concluded)

	1994 General Obligation Fund		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Use of Money and Property	\$ 208,800	\$ 3,121	\$ (205,679)
Special Assessments			
Miscellaneous			
Total revenues	208,800	3,121	(205,679)
Expenditures:			
Current -			
Neighborhood Services			
Environment and Development			
Capital Outlay			
Capital Projects			
Debt service -			
Interest	208,872	208,872	
Total expenditures	208,872	208,872	
Excess (deficiency) of revenues over expenditures	(72)	(205,751)	(205,679)
Other financing sources (uses):			
Face Amount of Bond Proceeds			
Transfers from Other Funds			
Total other financing sources (uses)			
Change in fund balances	(72)	(205,751)	(205,679)
Fund balances (deficits), July 1, 2007		205,751	205,751
Fund balances (deficits), June 30, 2008	\$ (72)	\$	\$ 72

Totals		
Budget	Actual	Variance - Positive (Negative)
\$ 208,800	\$ 357,332	\$ 148,532
	468,971	468,971
	9,053	9,053
<u>208,800</u>	<u>835,356</u>	<u>626,556</u>
16,074	145,907	(129,833)
7,666		7,666
63,030	20,955	42,075
10,341,531	3,974,195	6,367,336
<u>208,872</u>	<u>217,925</u>	<u>(9,053)</u>
<u>10,637,173</u>	<u>4,358,982</u>	<u>6,278,191</u>
<u>(10,428,373)</u>	<u>(3,523,626)</u>	<u>6,904,747</u>
10,417,300	1,572,655	(8,844,645)
	5,693	5,693
<u>10,417,300</u>	<u>1,578,348</u>	<u>(8,838,952)</u>
<u>(11,073)</u>	<u>(1,945,278)</u>	<u>(1,934,205)</u>
	10,812,082	10,812,082
<u>\$ (11,073)</u>	<u>\$ 8,866,804</u>	<u>\$ 8,877,877</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, 2008

	Environmental Services		Variance - Positive (Negative)
	Budget	Actual	
Operating revenues:			
Charges for Services	\$ 41,283,710	\$ 40,613,294	\$ (670,416)
Miscellaneous	1,233,490	2,314,778	1,081,288
Total operating revenues	<u>42,517,200</u>	<u>42,928,072</u>	<u>410,872</u>
Operating expenses:			
Personal Services	17,643,470	17,563,543	(79,927)
Contractual Services	20,214,290	20,786,642	572,352
Commodities	4,916,640	5,335,549	418,909
Depreciation		3,545,989	3,545,989
Total operating expenses	<u>42,774,400</u>	<u>47,231,723</u>	<u>4,457,323</u>
Operating Income (Loss)	<u>(257,200)</u>	<u>(4,303,651)</u>	<u>(4,046,451)</u>
Nonoperating revenues (expenses):			
Investment Income	196,000	598,314	402,314
Gain (Loss) on Sale of Property/Equipment		(58,934)	(58,934)
Federal Grants and Contributions	591,500	256,831	(334,669)
Interest Expense	(2,906,115)	(2,471,062)	435,053
Amortization of Cost Issuance		(148,027)	(148,027)
Total nonoperating revenues (expenses)	<u>(2,118,615)</u>	<u>(1,822,878)</u>	<u>295,737</u>
Income (Loss) before capital contributions and transfers	<u>(2,375,815)</u>	<u>(6,126,529)</u>	<u>(3,750,714)</u>
Transfers In		<u>505,909</u>	<u>505,909</u>
Changes in net assets	<u>\$ (2,375,815)</u>	<u>(5,620,620)</u>	<u>\$ (3,244,805)</u>
Total net assets, beginning of year		(52,743,933)	
Total net assets, end of year		<u>\$ (58,364,553)</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, 2008

	Golf Course Fund		Variance - Positive (Negative)
	Budget	Actual	
Operating revenues:			
Charges for Services	\$ 11,063,820	\$ 9,258,641	\$ (1,805,179)
Miscellaneous Revenue		26,283	26,283
Total operating revenues	<u>11,063,820</u>	<u>9,284,924</u>	<u>(1,778,896)</u>
Operating expenses:			
Personal Services	5,674,010	4,826,741	(847,269)
Contractual Services	2,388,430	2,081,465	(306,965)
Commodities	2,404,790	2,371,367	(33,423)
Cost of Goods Sold		362,671	362,671
Depreciation	500	772,601	772,101
Amortization of Goodwill		1,499	1,499
Total operating expenses	<u>10,467,730</u>	<u>10,416,344</u>	<u>(51,386)</u>
Operating income (loss)	<u>596,090</u>	<u>(1,131,420)</u>	<u>(1,727,510)</u>
Nonoperating revenues (expenses):			
Interest Expense	(195,680)	(331,279)	(135,599)
Amortization of Cost Issuance		(2,438)	(2,438)
Total nonoperating revenues (expenses)	<u>(195,680)</u>	<u>(333,717)</u>	<u>(138,037)</u>
Income (loss) before capital contributions and transfers	<u>400,410</u>	<u>(1,465,137)</u>	<u>(1,865,547)</u>
Changes in net assets	<u>\$ 400,410</u>	<u>(1,465,137)</u>	<u>\$ (1,865,547)</u>
Total net assets, beginning of year		14,094,589	
Total net assets, end of year		<u>\$ 12,629,452</u>	

CITY OF TUCSON, ARIZONA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PUBLIC HOUSING FUND - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Public Housing Fund		Variance - Positive (Negative)
	Budget	Actual	
Operating revenues:			
Charges for Services	\$ 2,280,000	\$ 3,001,299	\$ 721,299
Grants and Contributions	3,877,660	4,355,735	478,075
Miscellaneous		58,936	58,936
Total operating revenues	<u>6,157,660</u>	<u>7,415,970</u>	<u>1,258,310</u>
Operating expenses:			
Personal Services	3,661,038	3,601,181	(59,857)
Contractual Services	9,009,766	4,763,711	(4,246,055)
Commodities	560,996	862,052	301,056
Depreciation/Amortization		1,955,370	1,955,370
Total operating expenses	<u>13,231,800</u>	<u>11,182,314</u>	<u>(2,049,486)</u>
Operating Income (Loss)	<u>(7,074,140)</u>	<u>(3,766,344)</u>	<u>3,307,796</u>
Nonoperating revenues (expenses):			
Investment Income		156,748	156,748
Gain (Loss) on Sale of Property/Equipment		(129,672)	(129,672)
Interest Expense	(31,620)	(2,401)	29,219
Total nonoperating revenues (expenses)	<u>(31,620)</u>	<u>24,675</u>	<u>56,295</u>
Income (Loss) before capital contributions and transfers	<u>(7,105,760)</u>	<u>(3,741,669)</u>	<u>3,364,091</u>
Transfers In		283,140	283,140
Transfers Out		(5,250)	(5,250)
Changes in net assets	<u>\$ (7,105,760)</u>	<u>(3,463,779)</u>	<u>\$ 3,641,981</u>
Total net assets, beginning of year, restated		34,961,404	
Total net assets, end of year		<u>\$ 31,497,625</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, 2008

	Water Utility Fund		Variance - Positive (Negative)
	Budget	Actual	
Operating revenues:			
Charges for Services	\$ 124,794,000	\$121,267,266	\$ (3,526,734)
Miscellaneous	4,438,010	1,526,817	(2,911,193)
Total operating revenues	<u>129,232,010</u>	<u>122,794,083</u>	<u>(6,437,927)</u>
Operating expenses:			
Personal Services	33,817,920	35,423,709	1,605,789
Contractual Services	43,533,980	40,644,138	(2,889,842)
Commodities	8,380,210	8,541,608	161,398
Depreciation/Amortization	24,676,270	24,676,270	24,676,270
Total operating expenses	<u>85,732,110</u>	<u>109,285,725</u>	<u>23,553,615</u>
Operating Income (Loss)	<u>43,499,900</u>	<u>13,508,358</u>	<u>(29,991,542)</u>
Nonoperating revenues (expenses):			
Investment Income	1,696,000	1,773,635	77,635
Gain (Loss) on Sale of Property/Equipment		293,784	293,784
Federal Grants and Contributions	779,990	317,295	(462,695)
Interest Expense	(22,900,550)	(19,013,624)	3,886,926
Amortization of Cost Issuance		(245,510)	(245,510)
Other Nonoperating Income (Expenses)	32,131,960	(736,025)	(32,867,985)
Total nonoperating revenues (expenses)	<u>11,707,400</u>	<u>(17,610,445)</u>	<u>(29,317,845)</u>
Income (Loss) before capital contributions and transfers	<u>55,207,300</u>	<u>(4,102,087)</u>	<u>(59,309,387)</u>
Capital Contributions	12,728,000	17,800,123	5,072,123
Transfers In		(687,022)	
Transfers Out		687,022	
Changes in net assets	<u>\$ 67,935,300</u>	<u>13,698,036</u>	<u>\$(54,237,264)</u>
Total net assets, beginning of year, restated		667,134,639	
Total net assets, end of year		<u>\$680,832,675</u>	

**CITY OF TUCSON, ARIZONA
WATER UTILITY FUND
REVENUES, EXPENSES AND FLOWS OF FUNDS
PER ORDINANCE NO. 6347 (1)
YEAR ENDED JUNE 30, 2008**

Revenues:

Sale of Water:		
Potable Water Sales	\$	101,308,256
Reclaimed Water Sales		7,574,307
Central Arizona Project Surcharge		2,302,414
Connection Fees		3,232,682
Environmental and Sewer Billing Services		3,171,463
Miscellaneous Revenue:		
TCE Clean Up Reimbursement	1,006,327	
Plan Review and Inspection Fees	1,073,226	
Other	3,188,282	
Total Miscellaneous Revenue	5,267,835	
Non-Operating Income:		
Impact Fees	5,703,448	
Investment Earnings - Operating Fund	300,792	
Investment Earnings - Debt Service	390,343	
Proceeds from Sale of Property/Equipment	324,195	
Total Non-Operating Income	6,718,778	
Total Revenues		129,575,735

Operation and Maintenance Expenses:

Director's Office	4,509,708
Business Services	4,624,285
Customer Services	6,600,584
Water Operations	19,726,866
Planning and Engineering	6,583,286
Quality Management	9,965,220
Power - Potable System	13,652,625
Power - Reclaimed System	1,052,033
CAP Water Purchases:	
Commodity	9,354,385
Capital Charges	3,027,612
Total CAP Water Purchases	12,381,997
General Expenses	4,520,206
Capitalized Operation and Maintenance Expense	(6,500,060)
Total Operation and Maintenance Expense	77,116,750

Net Revenue Available After Operations (2)	\$ 52,458,985
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**CITY OF TUCSON, ARIZONA
WATER UTILITY FUND
REVENUES, EXPENSES AND FLOWS OF FUNDS
PER ORDINANCE NO. 6347 (1)
YEAR ENDED JUNE 30, 2008**

Bond Debt Service:

Senior Liens

Interest	\$ 17,813,015
Principal	10,515,000
Total Debt Service for Water Revenue Bonds	28,328,015

Junior Liens (Water Infrastructure Finance Authority)

Interest	1,003,772
Principal	3,074,134
Total Debt Service for Water Infrastructure Finance Authority	4,077,906

Combined Senior and Junior Liens

Interest	18,816,787
Principal	13,589,134
Total Debt Service	32,405,921

Net Revenue Available After Operations and Water Revenue	
Bond Debt Service for Senior Liens	\$ 24,130,970

Net Revenue Available After Operations and	
Bond Debt Service for Combined Liens	\$ 20,053,064

(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 senior lien bonds only if Net Revenue Available After Operations has been at least equal to 120% of the maximum future annual debt service requirement of \$33,973,998. The City's experience has shown that more favorable interest rates (and thus lower debt service costs) can be attained if such coverage is 150% to 200%. For the period ended June 30, 2008, the maximum future annual debt service coverage of senior lien debt is 154%.

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 Senior Lien Annual Debt Service Requirement for that fiscal year, the City will deposit additional monies into a reserve account. For the fiscal year ended June 30, 2008, the debt coverage on Senior Lien Annual Debt Service Requirement was 185%.

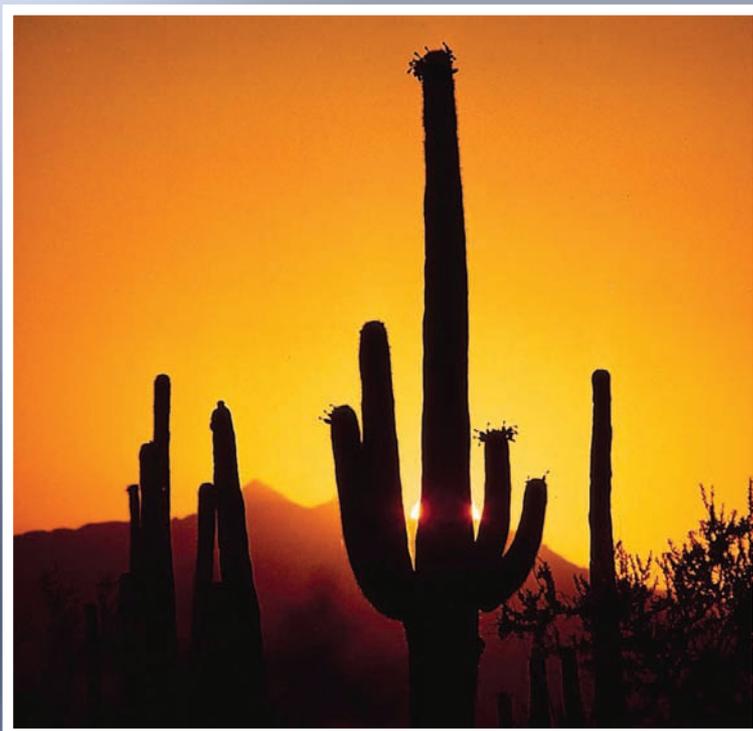
The Water Utility's Junior Lien Debt has requirements that Net Revenues Available After Operations and Senior Lien debt service payments for any fiscal year must equal or exceed 175% of the Annual Debt Service Requirement for that fiscal year. If this requirement is not met, the City will deposit additional monies into a reserve account. For the fiscal year ended June 30, 2008, the debt coverage for the Annual Debt Service Requirement for the Junior Lien is 591%.

In Comprehensive Annual Financial Reports for prior fiscal years, the debt coverage ratio was calculated on combined Senior and Junior Lien coverage ratio. For comparative purposes, the combined Annual Debt Service coverage ratio for the fiscal year period ended June 30, 2008, is 161%. The maximum future debt service coverage is 133%.



City of Tucson, Arizona

Statistical Section



Statistical Section

This part of the City of Tucson'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.

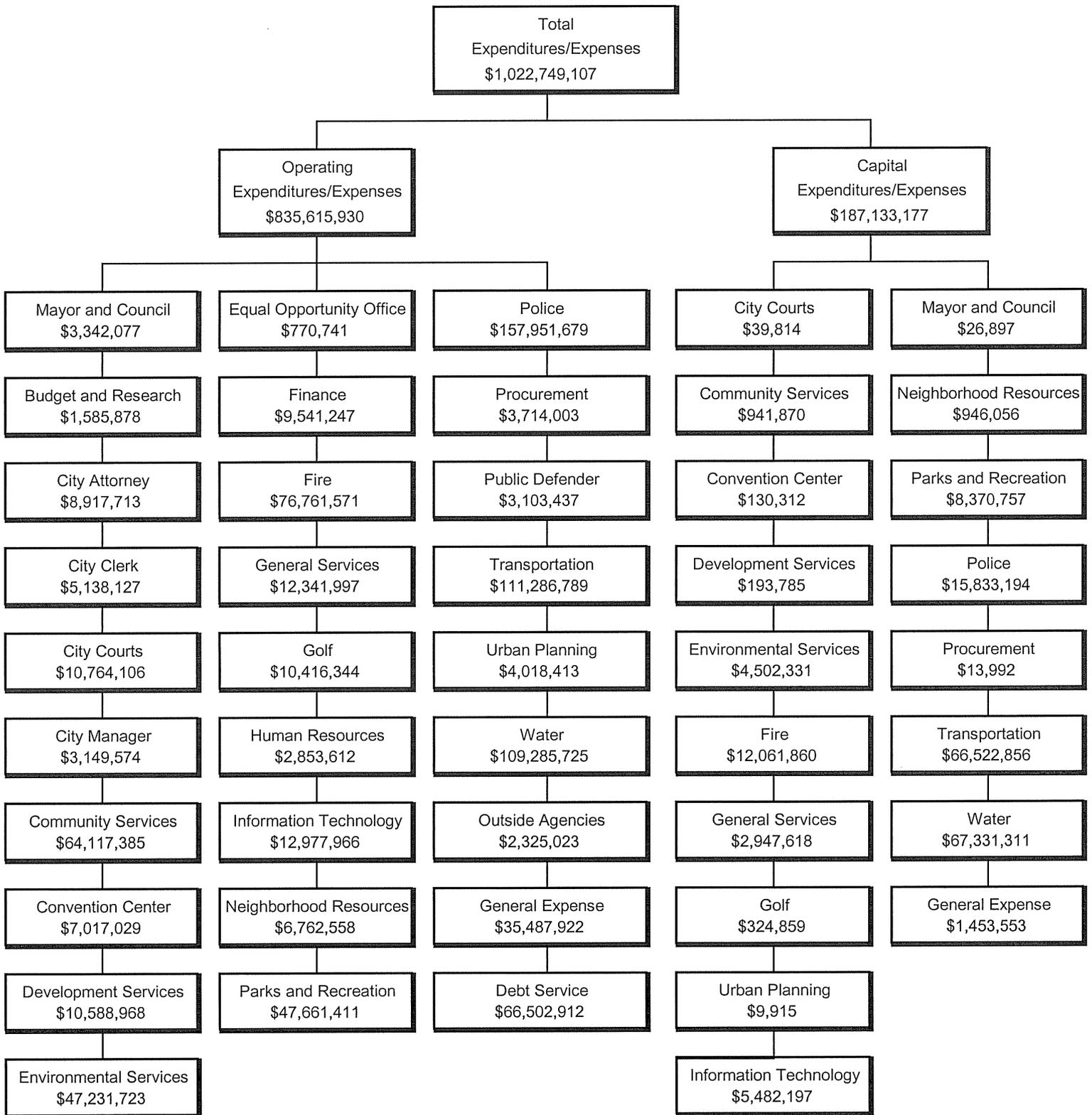
Contents

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Financial Trends	128
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	136
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its sales taxes.	
Debt Capacity	139
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.	
Demographic and Economic Information	144
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.	
Operating Information	147
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
Fiscal Year 2008

TABLE I



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

	Fiscal Year						
	2002	2003(1)	2004(2)	2005	2006(3)	2007(4)	2008
Governmental Activities							
Invested in Capital Assets, Net of Related Debt	\$ 903,284,000	974,031,888	996,134,436	998,221,324	976,649,504	959,636,068	1,048,004,576
Restricted	155,080,000	63,053,748	69,416,688	82,813,522	138,645,084	177,158,918	164,195,246
Unrestricted	(43,480,000)	(36,914,246)	22,536,654	18,134,646	42,058,585	28,276,910	(2,780,426)
Total Net assets	<u>1,014,884,000</u>	<u>1,000,171,390</u>	<u>1,088,087,778</u>	<u>1,099,169,492</u>	<u>1,157,353,173</u>	<u>1,165,071,896</u>	<u>1,209,419,396</u>
Business-type Activities							
Invested in Capital Assets, Net of Related Debt	533,162,000	552,151,011	576,958,002	594,423,874	583,166,485	681,599,255	696,128,404
Restricted	6,145,000	484,199	2,670,658	9,013,682	3,254,815	25,024,209	26,615,863
Unrestricted	30,524,000	33,543,287	(19,982,539)	(27,574,213)	(20,024,020)	(42,876,565)	(60,875,072)
Total Net assets	<u>569,831,000</u>	<u>586,178,497</u>	<u>559,646,121</u>	<u>575,863,343</u>	<u>566,397,280</u>	<u>663,746,899</u>	<u>661,869,195</u>
Primary Government							
Invested in Capital Assets, Net of Related Debt	1,436,446,000	1,526,182,899	1,573,092,438	1,592,645,198	1,559,815,989	1,641,235,323	1,744,132,980
Restricted	161,225,000	63,537,947	72,087,346	91,827,204	141,899,899	202,183,127	190,811,109
Unrestricted	(12,956,000)	(3,370,959)	2,554,115	(9,439,567)	22,034,565	(14,599,655)	(63,655,498)
Total Net assets	<u>\$ 1,584,715,000</u>	<u>1,586,349,887</u>	<u>1,647,733,899</u>	<u>1,675,032,835</u>	<u>1,723,750,453</u>	<u>1,828,818,795</u>	<u>1,871,288,591</u>

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 Environmental Services Fund became an enterprise fund. This caused the deficit unreserved 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.

(3) Restated ending FY 2006/beginning FY 2007 Governmental Activities net assets because of an error due to reporting of construction in progress. This caused the Invested in Capital Assets, Net of Related Debt to decrease by \$9,009,120. The ending FY 2006/beginning FY 2007 Business-type Activities were restated because of an asset impairment. The Invested in Capital Assets, Net of Related Debt decreased by \$32,225,361.

(4) Restated ending FY 2007/beginning FY 2008 Net Assets for Governmental and Business-type Activities to meet new HUD reporting requirements.

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

TABLE III

	Fiscal Year						
	2002	2003	2004	2005(1)	2006	2007	2008
Expenses							
Governmental Activities							
Elected and Official	\$ 16,780,000	14,457,000	15,724,295	15,418,836	17,443,632	18,282,947	20,700,143
Support Services	51,768,000	45,314,000	42,465,015	58,587,923	58,092,060	48,489,229	47,471,907
Neighborhood Services	274,536,000	292,322,000	295,870,113	337,049,181	341,517,918	359,333,504	372,033,490
Environment and Development	115,901,000	142,322,000	149,983,180	131,039,748	137,175,591	153,134,680	156,511,559
Strategic Initiatives	29,073,000	14,303,000	13,359,186	14,039,464	12,499,925	8,156,745	7,217,537
Non-Departmental	18,899,000	13,196,000	10,439,491	12,788,223	14,972,390	35,332,418	46,693,111
Interest on Long-term Debt	26,619,000	21,975,000	23,701,247	22,270,724	24,108,533	27,227,363	27,105,560
Fiscal Agent Fees and Other	-	-	32,158	46,301	74,613	43,875	41,025
Total Governmental Activities	<u>533,576,000</u>	<u>543,889,000</u>	<u>551,574,685</u>	<u>591,240,400</u>	<u>605,884,662</u>	<u>650,000,761</u>	<u>677,774,332</u>
Business-type Activities							
Neighborhood Resources (2)							11,184,715
Environmental Services				39,464,082	42,987,747	46,037,471	53,420,043
Golf	10,082,000	9,640,000	9,323,864	10,064,093	9,003,837	9,692,464	10,847,587
Water	106,731,000	105,200,000	104,427,551	112,359,007	119,187,111	118,221,611	130,340,130
Total Business-type Activities	<u>116,813,000</u>	<u>114,840,000</u>	<u>113,751,415</u>	<u>161,887,182</u>	<u>171,178,695</u>	<u>173,951,546</u>	<u>205,792,475</u>
Total Primary Government Expenses	\$ <u>650,389,000</u>	<u>658,729,000</u>	<u>665,326,100</u>	<u>753,127,582</u>	<u>777,063,357</u>	<u>823,952,307</u>	<u>883,566,807</u>
Program Revenues							
Governmental Activities:							
Charges for Services:							
Building/Review fees	8,692,000	8,911,000	10,040,714	10,090,878	12,359,186	10,190,224	10,160,837
Recreation Fees	3,321,000	3,870,000	4,146,918	4,329,235	4,388,275	4,240,903	4,302,267
Paramedic Services Fees	4,101,000	5,066,000	7,721,889	6,645,483	7,184,801	7,243,133	8,510,101
Refuse/Landfill Fees (1)	9,658,000	10,025,000	15,159,517				
Transit Fees	7,161,000	7,741,000	8,217,698	8,327,423	8,879,486	9,576,722	10,205,276
Other Charges for Service	39,530,000	40,242,000	41,704,463	64,021,068	67,970,643	59,651,892	68,504,419
Operating Grants & Contributions	127,254,000	129,445,000	96,836,225	127,785,107	134,853,525	119,726,357	112,001,911
Capital Grants and Contributions	23,666,000	17,063,000	74,014,269	26,158,108	36,449,563	56,340,464	87,427,159
Total Governmental Activities Program Revenues	<u>223,383,000</u>	<u>222,363,000</u>	<u>257,841,693</u>	<u>247,357,302</u>	<u>272,085,479</u>	<u>266,969,695</u>	<u>301,111,970</u>
Business-type Activities:							
Charge for Services:							
Neighborhood Resources (2)							7,415,970
Environmental Services (1)				35,506,968	39,809,587	42,960,815	42,533,898
Water	112,794,000	109,405,000	114,557,992	111,347,469	119,838,422	115,937,118	122,794,083
Golf	9,620,000	9,769,000	9,513,921	8,980,101	8,230,509	8,900,670	9,284,924
Operating Grants and Contributions	1,000						
Capital Grants and Contributions		10,172,000	11,889,083	15,396,024	23,309,465	18,305,223	18,768,422
Total Business-type Activities Program Revenues	<u>122,415,000</u>	<u>129,346,000</u>	<u>135,960,996</u>	<u>171,230,562</u>	<u>191,187,983</u>	<u>186,103,826</u>	<u>200,797,297</u>
Total Primary Government Program Revenues	\$ <u>345,798,000</u>	<u>351,709,000</u>	<u>393,802,689</u>	<u>418,587,864</u>	<u>463,273,462</u>	<u>453,073,521</u>	<u>501,909,267</u>

	Fiscal Year						
	2002	2003	2004	2005(1)	2006	2007	2008
Net (Expenses) Revenue							
Governmental Activities	\$ (310,193,000)	(321,526,000)	(293,732,992)	(343,883,098)	(333,799,183)	(383,031,066)	(376,662,362)
Business-type Activities	5,602,000	14,506,000	22,209,581	9,343,380	20,009,288	12,152,280	(4,995,178)
Total Primary Government Net Expense	\$ (304,591,000)	(307,020,000)	(271,523,411)	(334,539,718)	(313,789,895)	(370,878,786)	(381,657,540)
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	37,669,367	38,247,154
Business Privilege Taxes	159,525,000	167,589,000	177,117,183	183,102,463	195,790,010	209,180,346	204,012,348
Public Utility Taxes	7,853,000	9,267,000	7,887,631	7,654,851	7,585,462	7,176,742	7,048,842
Transient Occupancy Taxes	6,339,000	6,395,000	9,145,965	10,768,492	12,276,201	12,979,893	12,367,631
Occupational Taxes	1,941,000	2,115,000	2,049,759	2,098,216	2,044,040	2,124,410	881,679
Liquor Taxes	746,000	731,000	713,674	740,742	721,117	731,380	670,480
Unrestricted Grants and Contributions	107,524,000	108,437,000	106,317,054	114,662,691	129,370,825	136,287,823	148,335,159
Investment Income (Loss)	6,467,000	3,737,000	1,037,894	2,605,029	3,932,688	11,613,881	6,480,118
Contributions to Term and Permanent Endowments	5,000						
Miscellaneous	7,916,000	5,253,000	5,782,790	7,100,302	15,542,035	8,370,501	3,750,250
Transfers				(3,971,822)	59,894	(410,991)	(783,799)
Total Governmental Activities	\$ 322,622,000	328,593,000	337,381,939	354,964,812	400,991,984	425,723,352	421,009,862
Business-type Activities:							
Unrestricted Grants and Contributions	9,972,000						
Investment Income (Loss)	1,958,000	1,630,000	705,809	2,902,021	2,809,904	3,586,680	2,633,875
Miscellaneous	114,000	211,000					
Transfers				3,971,822	(59,894)	410,991	783,799
Total Business-type Activities	12,044,000	1,841,000	705,809	6,873,843	2,750,010	3,997,671	3,417,674
Total Primary Government	\$ 334,666,000	330,434,000	338,087,748	361,838,655	403,741,994	429,721,023	424,427,536
Change in Net Assets							
Governmental Activities	12,429,000	7,067,000	43,648,947	11,081,714	67,192,801	42,692,286	44,347,500
Business-type Activities	17,646,000	16,347,000	22,915,390	16,217,223	22,759,298	16,149,951	(1,577,504)
Total Primary Government	\$ 30,075,000	23,414,000	66,564,337	27,298,937	89,952,099	58,842,237	42,769,996

Note: (1) Refuse/Landfill fees are included in the Environmental Services Fund, which became an enterprise fund.

Note: (2) Conventional Public Housing accounting moved from governmental funds to enterprise funds.

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

TABLE IV

	Fiscal Year						
	2002	2003	2004	2005	2006(2)	2007	2008 (3)
General Fund							
Reserved	\$ 58,631,000	51,966,000	50,316,501	54,991,632	101,993,894	116,841,230	26,948,312
Unreserved (1)	15,894,000	4,262,000	23,045,832	43,069,860	62,715,037	50,947,576	31,124,703
Total General Fund	\$ 74,525,000	56,228,000	73,362,333	98,061,492	164,708,931	167,788,806	58,073,015
All Other Governmental Funds							
Reserved	71,110,000	68,318,000	56,832,573	68,845,203	53,211,786	58,199,299	128,066,834
Unreserved, Reported In:							
Special Revenue Funds	35,213,000	18,738,000	20,146,697	9,331,994	4,648,468	(487,809)	(11,863,316)
Capital Project Funds	(7,106,000)	1,642,000	173,256	(3,680,590)	(3,140,518)	(2,508,873)	(528,205)
Total Unreserved (1)	28,107,000	20,380,000	20,319,953	5,651,404	1,507,950	(2,996,682)	(12,391,521)
Total All Other Governmental Funds	\$ 99,217,000	88,698,000	77,152,526	74,496,607	54,719,736	55,202,617	115,675,313

Notes: (1) Includes designations

(2) Restated ending FY 2006/beginning FY 2007 General Fund reserved fund balance by \$60,882 because of the incorporation of the reserves from the Library Fund. The General Fund unreserved fund balance increased and Other Governmental Fund unreserved decreased by \$4,424,628 because of the creation of a special revenue and internal service fund.

(3) The decrease of reserve balance in the general fund and the increase in the Other Governmental funds reserve balance is due to the recording of Certificate of Participations proceeds and expenditures in a special revenue fund.

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

TABLE V

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Tax Revenues							
Property Taxes	\$ 3,495,000	3,767,000	4,091,638	8,929,598	9,727,445	9,975,822	10,122,161
Public Utility Taxes	7,853,000	9,267,000	7,887,631	7,654,851	7,585,462	7,176,742	7,048,842
Local Use Taxes			4,266,605	4,949,414	5,406,243	6,839,887	7,949,205
Business Privilege Taxes	158,140,000	160,781,000	174,345,398	176,654,012	190,383,766	202,340,460	196,063,144
Transient Occupancy Taxes	6,339,000	6,395,000	9,145,964	10,768,492	10,206,786	10,963,953	10,488,453
Other Taxes	2,687,000	2,846,000	2,763,433	2,838,957	4,869,058	4,871,730	3,431,368
Total Tax Revenues	\$ 178,514,000	183,056,000	202,500,669	211,795,324	228,178,760	242,168,594	235,103,173
Other Agency Revenues							
Auto Lieu Taxes - State	19,058,000	19,790,000	21,077,563	23,187,797	23,134,336	23,429,781	23,445,568
Sales Tax - State	37,533,000	38,161,000	41,216,598	45,700,066	51,801,435	50,310,855	48,272,651
Urban Revenue Sharing - State	50,934,000	50,486,000	44,022,893	45,774,828	52,493,683	62,547,187	75,343,982
Contributions and Agency Billings(1)	7,335,000	8,037,000	8,983,800	11,710,044	10,784,563	1,262,098	2,663,381
Total Other Agency Revenue	\$ 114,860,000	116,474,000	115,300,854	126,372,735	138,214,017	137,549,921	149,725,582

(1) Intergovernmental Billings were transferred into a separate special revenue fund in FY 2007.

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

TABLE VI

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Revenues							
Taxes	\$ 199,468,000	203,731,000	225,509,779	233,069,574	252,399,097	268,850,174	262,850,771
Licenses and Permits	18,098,000	17,088,000	17,762,372	19,502,424	21,014,411	22,211,469	23,372,170
Fines and Forfeitures	8,958,000	10,653,000	10,220,137	11,558,361	12,536,270	13,025,976	13,688,009
Developer Fees					8,585,307	6,985,561	5,936,592
Use of Money and Property	7,456,000	5,069,000	2,288,009	5,904,930	5,515,756	13,645,750	8,564,946
Federal Grants and Contributions	78,150,000	71,867,000	75,140,868	70,681,079	80,001,063	88,800,500	75,144,483
Other Agencies	176,900,000	178,658,000	179,542,430	196,010,931	209,999,995	210,751,555	256,350,134
Charges for Services	40,432,000	42,692,000	57,262,036	55,727,507	60,290,340	47,584,931	56,153,508
Special Assessments	1,631,000	1,559,000	684,162	863,322	1,337,976	873,801	1,712,882
Miscellaneous	2,935,000	3,505,000	5,540,913	7,349,494	9,704,478	6,046,159	4,916,002
Total Revenues	<u>534,028,000</u>	<u>534,822,000</u>	<u>573,950,706</u>	<u>600,667,622</u>	<u>661,384,693</u>	<u>678,775,876</u>	<u>708,689,497</u>
Expenditures							
Current							
Elected and Official	16,415,000	14,357,000	15,651,255	14,936,120	17,638,983	18,113,339	20,547,490
Support Services	41,582,000	42,399,000	40,499,625	53,968,431	56,762,595	45,444,738	43,182,510
Neighborhood Services	257,045,000	279,737,000	285,010,266	311,024,012	338,648,790	336,416,150	354,437,324
Environment and Development	108,810,000	116,314,000	121,560,502	103,510,740	111,266,055	119,417,994	125,894,170
Strategic Initiatives	11,927,000	13,597,000	12,811,453	13,297,336	12,368,978	7,760,831	7,017,029
Non-Departmental	7,544,000	10,549,000	8,298,062	11,976,825	12,349,781	34,744,063	39,918,390
Capital Outlay	20,130,000	11,019,000	6,878,900	8,844,020	22,131,307	11,767,166	20,350,305
Capital Projects	67,540,000	78,802,000	62,651,586	86,727,476	58,419,415	84,542,323	94,607,634
Debt Service							
Principal	21,328,000	21,079,000	21,917,431	22,391,353	28,092,430	32,408,561	39,356,327
Interest	26,424,000	21,842,000	23,701,247	22,270,724	24,108,533	27,227,363	27,105,560
Fiscal Agent Fees	251,000	1,213,000	32,158	46,301	74,613	43,875	41,025
Issuance Cost of Debt	1,325,000	27,000	783,501	2,363,772	1,334,278	1,512,249	
Total Expenditures	<u>580,321,000</u>	<u>610,935,000</u>	<u>599,795,986</u>	<u>651,357,110</u>	<u>683,195,758</u>	<u>719,398,652</u>	<u>772,457,764</u>
Excess of Revenues Over (Under) Expenditures	\$ (46,293,000)	(76,113,000)	(25,845,280)	(50,689,488)	(21,811,065)	(40,622,776)	(63,768,267)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Other Financing Sources (Uses)							
Face Amount of Bond Proceeds	\$ 73,426,000	145,701,000	23,500,000	109,719,606	347,766	72,167,871	14,972,655
Lease Purchase and Contract Proceeds	781,000	918,000	19,451,315	55,908,283	72,597,366	46,925,648	3,403,554
Premium on Issuance of Debt		-	408,845	8,054,895	1,095,521	5,263,499	
Transfers from Other Funds	76,205,000	73,421,000	66,914,931	65,305,681	69,095,663	64,238,616	66,240,407
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)		(65,418,781)	
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)	(80,940,455)	(67,512,881)
Total Other Financing Sources (Uses)	49,847,000	38,439,000	42,865,960	73,128,937	68,681,633	42,236,398	17,103,735
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	1,613,622	(46,664,532)
Debt Service as a % of Noncapital Expenditures (1)	9.7%	8.2%	8.6%	8.0%	8.7%	9.6%	10.1%

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

CITY OF TUCSON
Taxable Sales by Category
Last Six Fiscal Years

TABLE VII

Activity	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Utilities	\$ 890,884,761	1,011,953,381	1,056,963,347	1,052,260,259	1,056,932,157	1,092,862,650
Communications	358,249,077	336,616,804	289,225,380	277,701,526	296,114,202	274,517,930
Publishing & Printing	172,342,455	56,323,977	55,065,209	72,998,559	62,908,391	44,630,626
Restaurants	735,991,041	777,668,157	851,826,135	957,084,748	983,764,883	944,829,729
Amusements	51,861,916	49,997,899	54,664,073	60,603,914	69,179,339	61,369,236
Rentals	953,734,013	1,004,851,765	1,029,049,007	1,117,216,113	1,220,596,574	1,035,401,328
Contracting	771,816,123	845,537,417	912,930,149	896,249,698	1,090,299,763	1,111,139,795
Retail	4,640,805,874	4,851,948,423	5,171,389,247	5,584,386,248	5,789,394,611	5,643,126,171
Use Tax		145,338,032	184,561,040	266,189,312	303,859,500	397,460,235
Other	977,380	2,549,510	3,313,707	2,306,455	3,300,469	4,847,409
Total Business Privilege Activity	\$ 8,576,662,640	9,082,785,365	9,608,987,294	10,286,996,832	10,876,349,889	10,610,185,109
City's Tax Rate	2%	2%	2%	2%	2%	2%

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

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

TABLE VIII

<u>Fiscal Year</u>	<u>City's Rate</u>	<u>State's Rate</u>	<u>County's Rate - RTA (1)</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%	
2007	2.0%	5.6%	0.5%
2008	2.0%	5.6%	0.5%

Note: (1) On May 16, 2006 voters in Pima County approved a 20-year Regional Transportation Plan and a regional half-cent sales tax to pay for roadway, transit, bike and pedestrian improvements.

CITY OF TUCSON

TABLE IX

Principal Business Privilege Tax Remitters By Activity
Current Year and Five Years Ago (1)

Business Sector	Fiscal Year 2003		Fiscal Year 2008	
	Tax Paid	% of Total	Tax Paid	% of Total
Utility	\$ 19,377,937	11.1%	\$ 22,404,988	10.3%
Communications	6,930,606	4.0%	6,289,881	2.9%
Publishing & Printing	1,095,575	0.6%	1,106,151	0.5%
Restaurants	15,011,123	8.6%	19,325,116	8.9%
Amusements	1,049,558	0.6%	1,257,976	0.6%
Rentals	21,705,274	12.4%	21,038,566	9.7%
Contracting	15,361,137	8.8%	23,619,586	10.9%
Retail	94,376,152	54.0%	114,909,610	53.0%
Use Tax (3)		0.0%	6,853,801	3.2%
Other Activities	14,238	0.0%	86,757	0.0%
Total (2)	\$ <u>174,921,600</u>	<u>100%</u>	\$ <u>216,892,432</u>	<u>100%</u>

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 Seven Fiscal Years

Governmental Activities							
Fiscal Year	General Obligation Bonds	Street & Highway Revenue Bonds	Highway Expansion Loan Program	Certificates of Participation	Special Assessment Debt	Capital Leases	Total Governmental Activities
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
2007	237,464,814	134,665,000		184,215,000	3,331,486	11,505,815	571,182,115
2008	223,590,377	124,665,000	13,400,000	172,670,000	4,333,254	11,484,700	550,143,331

Business-type Activities								
Fiscal Year	Water System Revenue Bonds	General Obligation Bonds (2)	Capital Leases	Certificates of Participation	Total Business-type Activities	Total Primary Government	Percentage of Personnel Income (1)	Per Capita (1)
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
2007	411,342,495	45,835,796	7,096,351	5,080,000	469,354,642	1,040,536,757	3.61%	1,901.16
2008	436,255,222	45,515,223	7,687,215	4,645,000	494,102,660	1,044,245,991	3.15%	1,877.38

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 XV
- (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 Seven Fiscal Years

TABLE XI

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
2007 (2)	283,300,610	10,833,913	272,466,697	22,220,936,879	1.23%	497.82
2008 (3)	269,105,600	13,842,695	255,262,905	26,219,680,375	0.97%	458.92

Source: Estimated net full cash value is from the latest Water Revenue Bond 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.
- (2) Includes \$45,835,796 of General Bonded debt in the Environment Services Fund.
- (3) Includes \$45,515,223 of General Bonded debt in the Environment Services Fund.

CITY OF TUCSON
Direct and Overlapping Governmental Activities Debt
As of June 30, 2008

TABLE XII

<u>Overlapping Jurisdiction</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt Paid with Property Taxes			
Pima County, Arizona	\$ 289,590,000	43.90%	\$ 127,130,010
Pima Community College District	51,155,000	43.90%	22,457,045
Pima County Flood Control District	1,470,000	43.90%	645,330
Tucson Unified School District No. 1	281,105,000	77.02%	216,507,071
Flowing Wells Unified School District No. 8	9,590,000	5.10%	489,090
Amphitheater Unified School District No. 10	56,740,000	15.99%	9,072,726
Sunnyside Unified School District No. 12	36,400,000	77.51%	28,213,640
Tanque Verde Unified School District No. 13	3,330,000	1.16%	38,628
Vail Unified School District No. 20	25,575,000	39.19%	10,022,843
Sahuarita Unified School District No. 30	30,170,000	0.29%	87,493
Other Debt (1)			
Pima County Capital Leases	98,953	43.90%	43,440
Pima Community College District Capital Leases	4,505,000	43.90%	1,977,695
Tucson Unified School District No. 1 Capital Leases	2,256,936	77.02%	1,738,292
Flowing Wells Unified School District No. 8 Capital Leases	355,563	5.10%	18,134
Amphitheater Unified School District No. 10 Capital Leases	605,261	15.99%	96,781
Sunnyside Unified School District No. 12 Capital Leases	1,934,402	77.51%	1,499,355
Vail Unified School District No. 20 Capital Leases	750,715	39.19%	294,205
Sahuarita Unified School District No. 30 Capital Leases	166,063	0.29%	482
Subtotal, Overlapping Debt			420,332,260
City of Tucson, Arizona Direct Debt			550,143,331
Total Direct and Overlapping Debt			\$ <u>970,475,591</u>

Source: State Report of Indebtedness and Official Statement Dated June 10, 2008, Water System Revenue and Refunding

CITY OF TUCSON
 Legal Debt Margin Information
 Last Seven Fiscal Years

TABLE XIII

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Primary Tax Rate	\$ 0.1403	0.2089	0.2089	0.3531	0.3469	0.3411	0.3296
Secondary Tax Rate	0.9799	0.9113	0.9480	0.8316	0.8895	0.8846	0.8025
Total Property Tax Rate (1)	\$ 1.1202	1.1202	1.1569	1.1847	1.2364	1.2257	1.1321
Secondary Assessed Value	\$ 2,138,461,318	2,268,733,334	2,427,120,926	2,558,231,181	2,722,915,853	3,016,230,759	3,491,926,602
6% Limitation (2)	128,307,679	136,124,000	145,627,256	153,493,871	163,374,951	180,973,846	209,515,596
Less: Direct G.O. Bonds Outstanding	79,678,000	84,671,460	82,446,460	60,988,460	51,333,460	20,715,000	9,145,000
Legal Debt Margin	48,629,679	51,452,540	63,180,796	92,505,411	112,041,491	160,258,846	200,370,596
Legal Debt Margin as a Percentage of the Debt Limit	37.90%	37.80%	43.39%	60.27%	68.58%	88.55%	95.64%
20% Limitation (2)	427,692,264	453,746,667	485,424,185	511,646,236	544,583,171	603,246,152	698,385,320
Less: Direct G.O. Bonds Outstanding	163,421,070	182,317,610	191,497,610	230,195,610	230,155,609	262,585,610	259,960,610
Legal Debt Margin	\$ 264,271,194	271,429,057	293,926,575	281,450,626	314,427,562	340,660,542	438,424,710
Legal Debt Margin as a Percentage of the Debt Limit	61.79%	59.82%	60.55%	55.01%	57.74%	56.47%	62.78%

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 it's secondary assessed valuation. For any other general purpose improvements, the City may issue bonds up to 6% of it's secondary assessed valuation.

CITY OF TUCSON
Pledged Revenue Coverage
For the Last Seven Fiscal Years

TABLE XIV

Water System Revenue Bonds									
Fiscal Year	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Combined Debt Service		Senior Lien Debt Service		Combined Annual Debt Service Coverage Ratio	Senior Lien Annual Debt Service Coverage Ratio
				Principal	Interest	Principal	Interest		
2002	\$ 114,282,000	\$ 57,295,000	\$ 56,987,000	\$ 7,501,000	\$ 15,786,000	\$	\$	2.42	
2003	110,444,000	60,031,000	50,413,000	7,934,000	16,822,000			2.01	
2004	115,298,950	61,669,935	53,629,015	8,985,510	17,436,712			1.99	
2005	119,852,788	66,217,746	53,635,042	9,987,817	17,922,422			1.88	
2006	128,693,649	71,289,091	57,404,558	11,201,882	18,924,918			1.87	
2007	124,708,152	73,544,769	51,163,383	15,414,363	15,950,064	13,070,000	15,000,057	1.63	1.82
2008	129,575,735	77,116,750	52,458,985	13,589,134	18,816,787	10,515,000	17,813,015	1.61	1.85

Special Assessments					
Fiscal Year	Special Assessments Collections	Debt Service		Coverage	
		Principal	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	
2007	692,291	453,001	170,514	1.11	
2008	1,370,171	570,887	210,457	1.75	

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.

The coverage ratio is based on the Annual Debt Service coverage as defined by City of Tucson Ordinance No. 6347. 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 Senior Lien Annual Debt Service Requirement for that fiscal year, the City will deposit additional monies into a reserve account. Prior to Fiscal Year 2007, the coverage ratio was based on both senior and junior lien debt service requirements. Starting in Fiscal Year 2007, the coverage ratio requirement will be based on the senior lien Annual Debt Service Requirement.

City of Tucson
 Demographic and Economic Statistics,
 Last Seven 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%
2007	547,316	30,837,500,000	56,343	3.8%
2008	556,225	33,117,770,000	59,540	4.7%

Source: Department of Urban Planning. Economic Outlook, University of Arizona

CITY OF TUCSON
Principal Employers
Current Year and Nine Years Ago

TABLE XVI

Employer	1999		Employer	2008	
	Employees	Percentage of Total Tucson Statistical Area Employment		Employees	Percentage of Total Tucson Statistical Area Employment
University of Arizona	10,520	3.16%	University of Arizona	11,661	3.07%
State Of Arizona	9,694	2.92%	Raytheon Missile Systems	11,182	2.94%
Davis-Monthan Air Force Base	8,352	2.51%	Davis-Monthan Air Force Base	8,600	2.26%
Tucson Unified School District	8,187	2.46%	Tucson Unified School District	7,440	1.96%
Raytheon	7,700	2.32%	State of Arizona	7,236	1.91%
Pima County	7,028	2.11%	Pima County	6,700	1.76%
City of Tucson	5,497	1.65%	U.S. Army Intelligence Center & Fort Huachuca	6,656	1.75%
Carondelet Health Services	4,489	1.35%	City of Tucson	5,125	1.35%
Tucson Medical Center	3,036	0.91%	Wal-Mart Stores, Inc.	4,850	1.28%
BPH Copper	2,924	0.88%	Carondelet Health Network	4,089	1.08%
Total	67,427	20.28%	Total	73,539	19.37%

Source: Water System Revenue Official Statement dated June 7, 1999 and Water System Revenue and Refunding Official Statement dated June 10, 2008.
 Arizona Workforce Web Site (CES/NAICS)

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

TABLE XVII

Function	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Elected and Official	254.74	228.25	235.75	215.00	234.50	223.50	253.50
Neighborhood Services	3,253.55	3,241.55	3,198.80	3,297.30	3,422.05	3,277.80	3,433.55
Environment and Development	811.00	795.00	799.00	1,098.50	578.00	564.50	577.50
Strategic Initiatives	85.50	85.50	78.75	93.25	93.75	63.75	63.75
Support Services	756.37	729.66	699.71	720.71	720.71	724.71	702.16
Non-Departmental	5.50	5.75	4.75	4.75	4.75	14.75	4.00
Utility Services-Environmental Services				263.00	262.00	251.00	264.00
Utility Services-Water	590.00	590.00	589.00	576.00	571.00	573.00	578.00
Golf	169.00	153.75	154.75	154.75	154.75	154.75	154.75
Total	5925.66	5,829.46	5,760.51	6,423.26	6,041.51	5,847.76	6,031.21

Source: Adopted Budget - Volume I

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

TABLE XVIII

Function	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Police Facilities	7	8	8	8	8	8	8
Fire Stations	18	18	18	20	20	20	21
Parks & Recreation							
Recreation/Regional Centers	16	17	17	19	18	18	18
Golf Courses	5	5	5	5	5	5	5
Parks	127	127	127	125	136	136	142
Playfields	195	195	195	182	231	231	231
Swimming Pools	26	26	26	27	27	27	27
Transportation							
Residential (Miles)	1,305	1,315	1,347	1,355	1,355	1,378	1,378
Collectors (Miles)	101	101	101	101	101	101	101
Arterials (Miles)	287	287	287	287	287	287	287
Interstate (Miles)	80	80	80	80	80	80	80
Transit							
Buses (Active Fleet)	194	194	189	189	189	196	203
Water							
Operable Wells	207	212	216	223	212	212	216
Miles of Water Mains	4,275	4,275	4,300	4,480	4,561	4,617	4,437

Source: Various City Departments

CITY OF TUCSON
Operating Indicators by Function
Last Seven Years

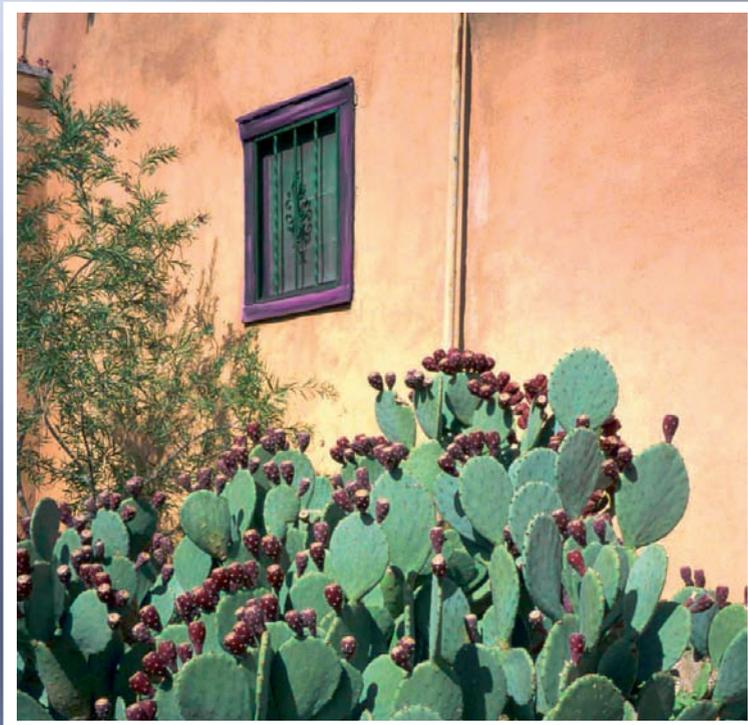
TABLE XIX

Function	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
General Government							
Building Permits - New Construction	7,926	5,238	4,438	3,328	3,083	1,709	983
Police							
Calls for Service	337,102	344,223	373,509	349,220	337,224	346,836	345,395
Calls for Service per Capita	0.66	0.67	0.72	0.67	0.62	0.63	0.62
Part I Crimes (% Cleared) (1)	13.64%	13.90%	13.72%	14.04%	16.30%	16.97%	19.39%
Part II Crimes (% Cleared) (1)	86.22%	87.24%	87.93%	71.60%	89.05%	86.07%	94.14%
Fire							
Emergency Responses	67,183	67,151	68,487	69,667	71,843	76,567	79,940
Inspections	2,645	2,828	2,991	3,200	2,801	2,644	3,028
Parks & Recreation							
KIDCO Registration	6,525	5,325	4,640	7,824	8,273	6,851	4,423
Class Enrollment-Other than KIDCO	26,641	23,670	30,023	35,153	35,703	19,681	10,531
Facility Rental	11,510	11,620	12,200	12,194	13,095	14,197	14,215
Zoo Visitors	412,680	385,933	376,535	434,252	439,380	467,108	504,528
Environmental Services							
Landfill Tons of Waste Collected (2)	Not Available	506,372	547,270	597,576	638,550	690,215	631,465
Tons of Material Recycled	Not Available	43,655	46,489	47,608	46,034	46,918	46,096
Water							
Average Total Monthly Connections							
Potable	199,613	204,701	211,466	215,785	220,571	225,048	224,129
Reclaimed	576	670	763	868	950	993	1,086
New Connections							
Potable	5,077	5,493	6,177	4,069	4,846	3,880	2,295
Reclaimed	88	113	89	99	48	55	15
Water Sales (1000 ccf)							
Potable	48,016	47,274	47,974	47,251	49,536	46,366	46,590
Reclaimed	4,990	4,638	5,197	5,003	5,998	5,848	6,617
Transportation							
Average Response Time (working days) to Complete							
Pothole Repairs (2)	4	6	7	8	10	10	2 to 4 weeks
The % of Lane Miles Assessed as Satisfactory or Better	78.8%	76.6%	73.4%	87.9%	85.0%	79%	80%
Traffic Signal Expenditure per Repair (3)	\$73.35	\$77.24	\$81.31	\$85.59	\$89.56	\$95.00	\$250
Sun Tran's Operating Expenses per Vehicle Revenue	\$4.65	\$4.73	\$5.00	\$5.28	\$5.67	\$5.91	\$6.02
Sun Tran's Operating Expenses per Passenger Mile	\$0.56	\$0.55	\$0.58	\$0.63	\$0.63	\$0.53	\$0.68

Source: 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.

Intangible Asset. An asset with a initial useful life beyond a single reporting life and lacks physical substance and is not in a monetary form similar cash or investment securities.

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

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

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

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

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

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

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

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

statements, and fiduciary fund financial statements is economic resources. The measurement focus of governmental fund financial statements is current financial resources.

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

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

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

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

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

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

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

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

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

Post-retirement healthcare benefits (OPEB). 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 a 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.

