

CITY OF NOGALES, ARIZONA

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2009

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YEAR ENDED JUNE 30, 2009**

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the City Council
City of Nogales, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nogales, Arizona (City), as of and for the year ended June 30, 2009, 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 City's Nogales Housing Authority Enterprise and Health Insurance Internal Service Funds, which comprise 9% and 92% of the assets, and 7% and 76% of the operating revenues of the Enterprise and Internal Service Funds, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the Nogales Housing Authority Enterprise and Health Insurance Internal Service Funds, is based solely 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City's management did not maintain a cumulative capital assets list and we were, therefore, unable to audit the City's capital assets; net assets invested in capital assets, net of related debt; and depreciation expense for the governmental activities reported in the government-wide financial statements of \$23,664,981, \$9,044,949, and \$1,064,253, respectively, or the business-type activities reported in the government-wide and fund financial statements of \$101,502,341, \$69,155,977 and \$1,356,859.

In our opinion, based on our audit and the reports of the other auditors, except for the effects, if any, of not maintaining adequate internal controls and accounting records for capital assets in the governmental and business-type activities, as described in the preceding paragraph, the basic 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 remaining fund information of the City of Nogales, Arizona, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, and HURF Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable Mayor and the City Council
City of Nogales, Arizona

The City has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Public Safety Personnel Retirement System Schedule of Funding Progress on page 46 is 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2010 on our consideration of the City's internal control over financial reporting and 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.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
September 27, 2010

Basic Financial Statements

CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 8,472,115	\$ 2,435,645	\$ 10,907,760
Receivables, Net:			
Accounts Receivable	223,115	3,258,378	3,481,493
Intergovernmental Receivables	1,412,171	1,055,499	2,467,670
Special Assessments Receivable	915,825	-	915,825
Interest Receivable	-	295	295
Interfund Balances	5,833,073	(5,833,073)	-
Prepaid Items	9,183	37,984	47,167
Inventory	55,650	28,563	84,213
Deferred Charges	501,048	1,087,942	1,588,990
Restricted Assets	5,150,926	22,417,880	27,568,806
Capital Assets:			
Non-Depreciable	13,225,436	50,180,328	63,405,764
Depreciable (Net)	10,439,545	51,322,013	61,761,558
Total Assets	46,238,087	125,991,454	172,229,541
LIABILITIES			
Accounts Payable	892,602	780,835	1,673,437
Accrued Wages and Benefits	805,950	142,535	948,485
Interest Payable	2,613	20,174	22,787
Customer Deposits Payable	55,111	664,534	719,645
Unearned Revenue	3,570	10,080	13,650
Intergovernmental Payable	500	939	1,439
Claims and Judgments Payable	428,537	-	428,537
Retainage Payable	-	2,578,103	2,578,103
Noncurrent Liabilities:			
Due Within One Year	1,753,017	3,292,903	5,045,920
Due in More Than One Year	19,392,744	29,540,671	48,933,415
Total Liabilities	23,334,644	37,030,774	60,365,418
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,024,781	69,155,977	78,180,758
Restricted for:			
Highways and Streets	290,411	-	290,411
Housing	-	21,723	21,723
Unrestricted	13,588,251	19,782,980	33,371,231
Total Net Assets	\$ 22,903,443	\$ 88,960,680	\$ 111,864,123

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 6,069,032	\$ 1,507,286	\$ 24,546	\$ -	\$ (4,537,200)	\$ -	\$ (4,537,200)
Public Safety	12,236,717	538,156	796,283	-	(10,902,278)	-	(10,902,278)
Highways and Streets	3,332,443	3,863	2,048,607	-	(1,279,973)	-	(1,279,973)
Culture and Recreation	2,074,729	67,178	226,203	465,857	(1,315,491)	-	(1,315,491)
Interest on Long-Term Debt	995,487	-	-	-	(995,487)	-	(995,487)
Total Governmental Activities	24,708,408	2,116,483	3,095,639	465,857	(19,030,429)		(19,030,429)
Business-Type Activities:							
Sewer	3,895,842	1,799,156	-	24,796,055	-	22,699,369	22,699,369
Water	2,926,691	2,684,742	-	164,709	-	(77,240)	(77,240)
Sanitation	2,598,415	2,618,287	-	-	-	19,872	19,872
NHA	2,373,414	534,660	-	1,929,438	-	90,684	90,684
Total Business-Type Activities	11,794,362	7,636,845	-	26,890,202	-	22,732,685	22,732,685
Total Primary Government	\$ 36,502,770	\$ 9,753,328	\$ 3,095,639	\$ 27,356,059	(19,030,429)	22,732,685	3,702,256
General Revenues:							
Taxes:							
Sales Taxes					10,127,466	-	10,127,466
Franchise Taxes					748,136	-	748,136
Impact Fees					-	1,378,025	1,378,025
State Revenue Sharing					6,472,633	-	6,472,633
Investment Earnings					114,185	918,651	1,032,836
Other					385,650	59,072	444,722
Total General Revenues					17,848,070	2,355,748	20,203,818
Change in Net Assets					(1,182,359)	25,088,433	23,906,074
Net Assets - Beginning					24,085,802	63,872,247	87,958,049
Net Assets - Ending					\$ 22,903,443	\$ 88,960,680	\$ 111,864,123

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 4,003,102	\$ -	\$ 1,462,466	\$ 5,465,568
Restricted Assets	107,615	-	5,043,311	5,150,926
Receivables:				
Accounts Receivables	215,267	-	-	215,267
Intergovernmental Receivable	347,322	193,449	871,400	1,412,171
Special Assessments Receivable	814,522	-	101,303	915,825
Due from Other Funds	6,119,864	-	-	6,119,864
Prepaid Items	9,183	-	-	9,183
Total Assets	\$ 11,616,875	\$ 193,449	\$ 7,478,480	\$ 19,288,804
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 379,309	\$ 57,374	\$ 416,792	\$ 853,475
Accrued Wages and Benefits	731,725	39,436	46,247	817,408
Intergovernmental Payable	-	-	500	500
Due to Other Funds	-	222,292	64,499	286,791
Interest Payable	-	-	2,613	2,613
Deferred Revenue	-	-	104,873	104,873
Customer Deposits Payable	55,111	-	-	55,111
Total Liabilities	1,166,145	319,102	635,524	2,120,771
Fund Balance:				
Reserved for Prepaid Items	9,183	-	-	9,183
Unreserved	10,441,547	(125,653)	-	10,315,894
Unreserved, Reporting in Nonmajor:				
Special Revenue Funds	-	-	1,073,116	1,073,116
Debt Service Funds	-	-	(97,198)	(97,198)
Capital Projects Funds	-	-	5,867,038	5,867,038
Total Fund Balance	10,450,730	(125,653)	6,842,956	17,168,033
Total Liabilities and Fund Balance	\$ 11,616,875	\$ 193,449	\$ 7,478,480	\$ 19,288,804

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Fund Balances for Governmental Funds	\$ 17,168,033
Amounts reported for governmental activities in the statement of activities are different because:	
Deferred revenues reported in the governmental funds are recognized as revenues in government - wide statements	101,303
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Governmental Capital Assets	39,839,445
Less: Accumulated Depreciation	(16,181,188)
Capital Assets Used in Governmental Activities	23,658,257
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.	
	501,048
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Revenue Bonds	(16,223,992)
Deferred Amount on Refunding	56,617
Deferred Amount on Premium	(342,273)
Capital Leases	(3,153,695)
Compensated Absences	(1,418,381)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
	2,556,526
Total Net Assets of Governmental Activities	\$ 22,903,443

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 10,127,466	\$ -	\$ -	\$ 10,127,466
Franchise Taxes	748,136	-	-	748,136
Intergovernmental	6,698,836	1,917,509	1,417,784	10,034,129
Fines and Forfeitures	550,060	-	-	550,060
Licenses and Permits	775,472	-	-	775,472
Charges for Services	790,951	-	-	790,951
Special Assessments	-	-	2,579	2,579
Investment Earnings (Loss)	29,845	(229)	84,569	114,185
Other	332,082	-	53,569	385,651
Total Revenues	<u>20,052,848</u>	<u>1,917,280</u>	<u>1,558,501</u>	<u>23,528,629</u>
EXPENDITURES				
Current:				
General Government	5,293,800	-	80,278	5,374,078
Public Safety	11,134,069	-	700,964	11,835,033
Highways and Streets	1,513,091	1,614,773	131,553	3,259,417
Culture and Recreation	2,008,592	-	27,482	2,036,074
Debt Service:				
Principal Retirement	296,380	396,800	-	693,180
Interest on Long-Term Debt	414,862	440,490	-	855,352
Capital Outlay	-	-	1,861,598	1,861,598
Total Expenditures	<u>20,660,794</u>	<u>2,452,063</u>	<u>2,801,875</u>	<u>25,914,732</u>
Excess (Deficiency) of Revenues Over Expenditures	(607,946)	(534,783)	(1,243,374)	(2,386,103)
Other Financing Sources (Uses):				
Proceeds from Capital Lease	-	-	2,771,085	2,771,085
Net Change in Fund Balances	(607,946)	(534,783)	1,527,711	384,982
Fund Balance:				
Beginning of Year	11,058,676	409,130	5,315,245	16,783,051
End of Year	<u>\$ 10,450,730</u>	<u>\$ (125,653)</u>	<u>\$ 6,842,956</u>	<u>\$ 17,168,033</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Net Change in Fund Balances of Governmental Funds \$ 384,982

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for Capital Assets	1,856,494
Less: Current Year Depreciation	<u>(1,050,809)</u>
Excess Depreciation over Capital Expenditures	805,685

Some revenues reported in the governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and, therefore, are not reported as revenues in the statement of activities.

Special Assessments Recognized	(2,580)
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The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long term debt in the statement of activities.

Principal Payments on Long-Term Debt	693,180
Principal Payments on Capital Leases	351,402
Issuance Costs	(35,005)
Proceeds of Capital Lease	(2,771,085)
Amortization of Deferred Amount on Bond Premium	17,753
Amortization of Deferred Amount on Refunding	(8,358)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net Increase in Compensated Absences	(189,669)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund is reported with governmental activities.	(428,664)
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Change in Net Assets of Governmental Activities	<u><u>\$ (1,182,359)</u></u>
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**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2009**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 12,876,199	\$ 10,875,602	\$ (2,000,597)
Intergovernmental	7,033,443	6,698,836	(334,607)
Fines and Forfeitures	360,000	550,060	190,060
Licenses and Permits	1,056,853	775,472	(281,381)
Charges for Services	1,004,251	790,951	(213,300)
Investment Earnings	181,998	29,845	(152,153)
Other	170,269	332,082	161,813
Total Revenues	<u>22,683,013</u>	<u>20,052,848</u>	<u>(2,630,165)</u>
EXPENDITURES			
Current:			
General Government:			
Mayor	78,937	89,882	(10,945)
Council	96,834	71,755	25,079
Administration	528,616	599,018	(70,402)
Finance	985,966	869,612	116,354
Human Resources	254,763	218,334	36,429
MIS	719,551	552,401	167,150
Revenue	547,590	409,176	138,414
Planning and Zoning	414,050	216,108	197,942
Elections	46,450	4,993	41,457
City Attorney	778,403	606,302	172,101
City Court	485,735	433,018	52,717
Cemetery	756,578	211,604	544,974
Community Economic Development	389,237	243,101	146,136
Nondepartmental	6,523,460	768,496	5,754,964
Total General Government	<u>12,606,170</u>	<u>5,293,800</u>	<u>7,312,370</u>
Public Safety:			
Police	5,928,967	6,145,606	(216,639)
Fire	3,807,031	3,763,165	43,866
Ambulance	670,160	659,905	10,255
Animal Control	268,978	289,753	(20,775)
Building Inspections	168,479	109,417	59,062
Emergency Response	3,360	166,223	(162,863)
Total Public Safety	<u>10,846,975</u>	<u>11,134,069</u>	<u>(287,094)</u>
Highways and Streets:			
Streets	287,657	245,534	42,123
Facilities Maintenance	947,892	925,138	22,754
Engineering	381,988	342,419	39,569
Total Highways and Streets	<u>1,617,537</u>	<u>1,513,091</u>	<u>104,446</u>
Culture and Recreation:			
Parks	811,758	731,003	80,755
Recreation	667,801	614,086	53,715
Library	565,507	536,294	29,213
Golf Course	170,000	127,209	42,791
Total Culture and Recreation	<u>2,215,066</u>	<u>2,008,592</u>	<u>206,474</u>
Debt Service			
Principal Retirement	-	296,380	(296,380)
Interest on Long-Term Debt	-	414,862	(414,862)
Total Expenditures	<u>27,285,748</u>	<u>20,660,794</u>	<u>6,624,954</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,602,735)</u>	<u>(607,946)</u>	<u>3,994,789</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2009**

	Original and Final Budget	Actual	Variance with Final Budget
Other Financing Sources (Uses):			
Transfers In	\$ 721,278	\$ -	\$ (721,278)
Transfers Out	(665,758)	-	665,758
Total Other Financing Sources (Uses)	55,520	-	(55,520)
Net Change in Fund Balance	(4,547,215)	(607,946)	3,939,269
Fund Balance:			
Beginning of Year	4,547,215	11,058,676	6,511,461
End of Year	\$ -	\$ 10,450,730	\$ 10,450,730

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2009**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 2,671,648	\$ 1,917,509	\$ (754,139)
Investment Earnings (Loss)	-	(229)	(229)
Total Revenues	2,671,648	1,917,280	(754,368)
EXPENDITURES			
Current:			
Highways and Streets	1,870,324	1,614,773	255,551
Debt Service			-
Principal Retirement	427,170	396,800	30,370
Interest on Long-Term Debt	374,154	440,490	(66,336)
Total Expenditures	2,671,648	2,452,063	219,585
Excess (Deficiency) of Revenues Over Expenditures	-	(534,783)	(534,783)
FUND BALANCE			
Beginning of Year	-	409,130	409,130
End of Year	\$ -	\$ (125,653)	\$ (125,653)

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	Business-Type Funds - Enterprise Funds		
	Sewer	Water	Sanitation
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 887,325	\$ -
Prepaid Assets	-	-	-
Receivables, Net:			
Accounts Receivable	2,491,948	419,412	329,437
Intergovernmental Receivable	486,226	-	-
Interest Receivable	-	-	-
Inventories	-	-	-
Deferred Charges	667,908	409,529	10,505
Restricted Assets	14,663,190	7,342,967	390,000
Total Current Assets	<u>18,309,272</u>	<u>9,059,233</u>	<u>729,942</u>
Noncurrent Assets:			
Advances to Other Funds	49,100	-	-
Capital Assets:			
Non-Depreciable	45,454,245	2,696,526	-
Depreciable (Net)	33,542,066	10,442,805	293,985
Total Noncurrent Assets	<u>79,045,411</u>	<u>13,139,331</u>	<u>293,985</u>
Total Assets	<u>97,354,683</u>	<u>22,198,564</u>	<u>1,023,927</u>
Liabilities			
Current Liabilities:			
Accounts Payable	195,874	305,955	52,112
Accrued Wages and Benefits	53,846	35,759	52,930
Interest Payable	-	20,174	-
Intergovernmental Payable	-	939	-
Retainage Payable	2,538,007	40,096	-
Unearned Revenue	-	-	-
Customer Deposits Payable	-	615,253	-
Claims Payable	-	-	-
Due To Other Funds	3,479,578	-	2,353,495
Compensated Absences	22,749	26,264	45,466
Capital Leases Payable	64,650	50,858	73,248
Bonds and Notes Payable	2,720,822	259,243	26,529
Total Current Liabilities	<u>9,075,526</u>	<u>1,354,541</u>	<u>2,603,780</u>
Noncurrent Liabilities:			
Advances from Other Funds	-	-	49,100
Compensated Absences	63,687	63,085	27,552
Capital Leases Payable	307,731	676,930	269,743
Bonds and Notes Payable	16,588,715	11,383,430	132,132
Total Noncurrent Liabilities	<u>16,960,133</u>	<u>12,123,445</u>	<u>478,527</u>
Total Liabilities	<u>26,035,659</u>	<u>13,477,986</u>	<u>3,082,307</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	59,314,393	768,870	-
Restricted	-	-	-
Unrestricted	12,004,631	7,951,708	(2,058,380)
Total Net Assets	<u>\$ 71,319,024</u>	<u>\$ 8,720,578</u>	<u>\$ (2,058,380)</u>

See accompanying Notes to Basic Financial Statements.

<u>Business-Type Funds - Enterprise</u>		Governmental
<u>NHA</u>	<u>Totals</u>	<u>Internal Service Funds</u>
\$ 1,548,320	\$ 2,435,645	\$ 3,006,547
37,984	37,984	-
17,581	3,258,378	7,848
569,273	1,055,499	-
295	295	-
28,563	28,563	55,650
-	1,087,942	-
21,723	22,417,880	-
<u>2,223,739</u>	<u>30,322,186</u>	<u>3,070,045</u>
-	49,100	-
2,029,557	50,180,328	-
7,043,157	51,322,013	6,724
<u>9,072,714</u>	<u>101,551,441</u>	<u>6,724</u>
11,296,453	131,873,627	3,076,769
226,894	780,835	39,127
-	142,535	17,604
-	20,174	-
-	939	-
-	2,578,103	-
10,080	10,080	-
49,281	664,534	-
-	-	399,475
-	5,833,073	-
3,074	97,553	27,375
-	188,756	-
-	3,006,594	-
<u>289,329</u>	<u>13,323,176</u>	<u>483,581</u>
-	49,100	-
27,666	181,990	36,662
-	1,254,404	-
-	28,104,277	-
<u>27,666</u>	<u>29,589,771</u>	<u>36,662</u>
<u>316,995</u>	<u>42,912,947</u>	<u>520,243</u>
9,072,714	69,155,977	6,724
21,723	21,723	-
1,885,021	19,782,980	2,549,802
<u>\$ 10,979,458</u>	<u>\$ 88,960,680</u>	<u>\$ 2,556,526</u>

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Business-Type Funds - Enterprise Funds		
	Sewer	Water	Sanitation
OPERATING REVENUES			
Charges for Services	\$ 1,799,156	\$ 2,684,742	\$ 2,618,287
Rents and Royalties	-	-	-
Contributions	-	-	-
Total Operating Revenues	<u>1,799,156</u>	<u>2,684,742</u>	<u>2,618,287</u>
OPERATING EXPENSES			
Cost of Sales and Services	2,386,497	2,056,425	2,479,915
Claims	-	-	-
Depreciation	671,310	246,270	98,837
Total Operating Expenses	<u>3,057,807</u>	<u>2,302,695</u>	<u>2,578,752</u>
OPERATING INCOME	<u>(1,258,651)</u>	<u>382,047</u>	<u>39,535</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental Revenue	-	164,709	-
Development Impact Fees	1,215,638	162,387	-
Investment Earnings	727,514	181,001	-
Interest Expense	(838,035)	(623,996)	(19,663)
Miscellaneous Nonoperating Revenues	12,416	2,345	2
Total Nonoperating Revenues (Expenses)	<u>1,117,533</u>	<u>(113,554)</u>	<u>(19,661)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(141,118)</u>	<u>268,493</u>	<u>19,874</u>
Capital Contributions	24,796,055	-	-
Transfers In	-	76,086	-
Transfers Out	<u>(38,043)</u>	<u>-</u>	<u>(38,043)</u>
CHANGE IN NET ASSETS	<u>24,616,894</u>	<u>344,579</u>	<u>(18,169)</u>
NET ASSETS			
Beginning of Year	46,702,130	8,375,999	(2,040,211)
End of Year	<u>\$ 71,319,024</u>	<u>\$ 8,720,578</u>	<u>\$ (2,058,380)</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Funds - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Totals	
\$ -	\$ 7,102,185	\$ 953,910
534,660	534,660	-
-	-	2,965,695
<u>534,660</u>	<u>7,636,845</u>	<u>3,919,605</u>
2,032,972	8,955,809	1,650,902
-	-	2,706,521
340,442	1,356,859	13,443
<u>2,373,414</u>	<u>10,312,668</u>	<u>4,370,866</u>
(1,838,754)	(2,675,823)	(451,261)
1,571,596	1,736,305	-
-	1,378,025	-
10,142	918,657	22,597
-	(1,481,694)	-
44,303	59,066	-
<u>1,626,041</u>	<u>2,610,359</u>	<u>22,597</u>
(212,713)	(65,464)	(428,664)
357,842	25,153,897	-
-	76,086	-
-	(76,086)	-
145,129	25,088,433	(428,664)
10,834,329	63,872,247	2,985,190
<u>\$ 10,979,458</u>	<u>\$ 88,960,680</u>	<u>\$ 2,556,526</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Sanitation
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 1,037,765	\$ 2,709,168	\$ 2,604,416
Payments to Suppliers	(2,788,741)	(1,941,182)	(2,522,625)
Payments to Employees	-	-	-
Payments for Claims	-	-	-
Other Receipts	12,416	2,345	2
Customer Deposits Payable	-	79,200	-
Net Cash Provided (Used) by Operating Activities	<u>(1,738,560)</u>	<u>849,531</u>	<u>81,793</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Revenues	-	164,709	-
Interfund Borrowing	1,234,379	-	47,418
Interfund Transfers	(38,043)	76,086	(38,043)
Development Impact Fees	1,215,638	162,387	-
Net Cash Provided by Noncapital Financing Activities	<u>2,411,974</u>	<u>403,182</u>	<u>9,375</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES			
Capital Contributions	24,542,915	-	-
Purchases of Capital Assets	(25,465,747)	(269,531)	-
Proceeds from Capital Lease	316,500	76,000	390,000
Principal Paid on Capital Debt	(255,276)	(290,947)	(72,437)
Interest Paid on Capital Debt	(798,310)	(590,814)	(18,731)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,659,918)</u>	<u>(1,075,292)</u>	<u>298,832</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	<u>727,514</u>	<u>181,001</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(258,990)	358,422	390,000
Cash and Cash Equivalents, Beginning of Year	<u>14,922,180</u>	<u>7,871,870</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 14,663,190</u></u>	<u><u>\$ 8,230,292</u></u>	<u><u>\$ 390,000</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Cash and Cash Equivalents	\$ -	887,325	\$ -
Restricted Assets	14,663,190	7,342,967	390,000
Total Cash and Cash Equivalents	<u><u>\$ 14,663,190</u></u>	<u><u>\$ 8,230,292</u></u>	<u><u>\$ 390,000</u></u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Total	
\$ 679,888	\$ 7,031,237	\$ 3,926,396
(1,299,401)	(8,551,949)	(4,215,551)
(625,766)	(625,766)	-
-	-	-
44,303	59,066	-
5,270	84,470	-
<u>(1,195,706)</u>	<u>(2,002,942)</u>	<u>(289,155)</u>
876,402	1,041,111	-
-	1,281,797	(22,086)
-	-	-
-	1,378,025	-
<u>876,402</u>	<u>3,700,933</u>	<u>(22,086)</u>
302,810	24,845,725	-
(393,820)	(26,129,098)	-
-	782,500	-
-	(618,660)	-
-	(1,407,855)	-
<u>(91,010)</u>	<u>(2,527,388)</u>	<u>-</u>
9,847	918,362	22,598
(400,467)	88,965	(288,643)
1,970,510	24,764,560	3,295,190
<u>\$ 1,570,043</u>	<u>\$ 24,853,525</u>	<u>\$ 3,006,547</u>
\$ 1,548,320	\$ 2,435,645	\$ 3,006,547
21,723	22,417,880	-
<u>\$ 1,570,043</u>	<u>\$ 24,853,525</u>	<u>\$ 3,006,547</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Sanitation</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (1,258,651)	\$ 382,047	\$ 39,535
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	671,310	246,270	98,837
Nonoperating Receipts	12,416	2,345	2
Change in Assets/Liabilities:			
Receivables	(761,391)	28,554	(13,871)
Prepaid Items	-	-	-
Inventories	-	-	-
Accounts Payable	(245,665)	62,575	(46,650)
Accrued Wages and Benefits	6,304	18,931	11,977
Intergovernmental Payable	-	(4,128)	-
Retainage Payable	(167,715)	40,096	-
Compensated Absences	4,832	(6,359)	(8,037)
Claims Payable	-	-	-
Customer Deposits Payable	-	79,200	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,738,560)</u>	<u>\$ 849,531</u>	<u>\$ 81,793</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities -		Governmental
NHA	Total	Internal
		Service Funds
\$ (1,838,754)	\$ (2,675,823)	\$ (451,261)
340,442	1,356,859	13,443
44,303	59,066	-
145,228	(601,480)	6,791
3,821	3,821	-
1,500	1,500	-
104,913	(124,827)	33,655
-	37,212	2,217
-	(4,128)	-
-	(127,619)	-
(2,429)	(11,993)	22,736
-	-	83,264
5,270	84,470	-
<u>\$ (1,195,706)</u>	<u>\$ (2,002,942)</u>	<u>\$ (289,155)</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009**

	<u>Pension Trust</u>
Assets	
Cash and Cash Equivalents	<u>\$ 27,596</u>
Net Assets	
Held In Trust	<u>\$ 27,596</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2009**

	Pension Trust
ADDITIONS	
Investment Earnings	\$ 2,355
Total Additions	2,355
DEDUCTIONS	
Benefits	5,280
Total Deductions	5,280
CHANGE IN NET ASSETS	(2,925)
Net Assets, Beginning of Year	30,521
NET ASSETS, END OF YEAR	\$ 27,596

See accompanying Notes to Basic Financial Statements.

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CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Nogales, Arizona (City) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting Entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Included within the reporting entity:

Nogales Municipal Development Authority (MDA) – The MDA is a nonprofit corporation formed by the City to obtain financing for various City capital needs. The Directors of the MDA are appointed by the City Council. As such, the financial activity of the MDA is not reported in a separate fund.

Nogales Housing Authority (NHA) – The NHA is a public benefit corporation formed to provide subsidized public housing in accordance with federal legislation. The City Council acts as the Governing Board of the NHA. The Governing Board employs executives, authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency's regulations and statutory authorizations, and causes the corporation to construct, own and operate public housing facilities within the boundaries of the City. The financial liability of the housing agency is essentially supported by the operating and debt service or cash subsidies received under contract from the federal government, although services or cash subsidies may be, and from time to time, are received from the City as well. The NHA is reported as an enterprise fund and a blended component unit of the City. The audited financial statements of the NHA may be obtained at the offices of the NHA. The financial information reported for the NHA is based on a March 31, 2009 fiscal year-end.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Highway Users Revenue Fund* accounts for the operations of the street maintenance department. Financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the costs to operate, construct and finance the City's water system.

The *Sewer Fund* accounts for the costs to operate, construct and finance the wastewater treatment system.

The *Sanitation Fund* accounts for the costs to operate, construct and finance the City's sanitation service.

The *Nogales Housing Authority (NHA) Fund* accounts for the activity of the City's subsidized public housing agency, a component unit of the City.

Additionally, the City reports the following fund types:

The *Internal Service Funds* accounts for the City's limited risk, self-insurance program for employee and dependent medical care and for the fleet maintenance and inventory warehouse operations provided to the other departments of the City.

The *Fiduciary Fund* accounts for assets held by the City in a trustee capacity and consists of the City's Volunteer Firefighters Relief and Pension Trust.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) fees, fines and charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges for services. Operating expenses for the proprietary funds include the cost of sales and services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The primary government and component units cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasury's Local Government Investment Pool. Investments are stated at fair value.

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

3. Inventories

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method.

4. Restricted Assets

Certain assets of the City's primary government and component units are set aside for repayment due to outside restrictions imposed on those funds. Customer deposits recorded in the primary government's business-type activities and customer deposits in the component units' governmental and business-type activities are set aside for repayment to customers.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

General infrastructure assets acquired prior to July 1, 2002 are not reported in the basic financial statements. Those assets will be transitioned in over the next two fiscal years in accordance with GASB Statements No. 34.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and Improvements	45 Years
Improvements Other than Buildings	20 to 45 Years
Infrastructure	20 to 45 Years
Machinery, Equipment and Vehicles	7 to 15 Years

6. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Long-Term Obligations

In the government-wide financial statements, and 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 statements of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

9. 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 for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. The City Council legally adopts a budget by department for the General Fund and in total by other funds. The City Manager, subject to the City Council, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without City Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures..

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Mayor	\$ 10,945
Administration	70,402
Police	216,639
Animal Control	20,775
Emergency Response	162,863
Interest	414,862

Cash was available to meet all of the overexpenditures listed above.

C. Deficit Fund Equity

A deficit fund balance in the amount of \$125,643, \$97,197 and \$2,058,380 was reported in the HURF, MPC Debt Service and Sanitation Funds, respectively. The city does not expect to recover the deficit in the upcoming fiscal year, but plans to reduce costs in future years to reduce the deficit.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2009 consist of the following:

Deposits:	
Cash on Hand	\$ 4,221
Cash in Bank	4,629,329
Cash on Deposit with Trustee	21,151,850
Investments:	
Certificates of Deposit	1,209,599
U.S. Treasury Bill	2,538,007
Overnight Repurchase Agreement	<u>6,022,406</u>
Total Deposits and Investments	35,555,412
Restricted Cash and Investments	(24,620,056)
Fiduciary Funds	<u>(27,596)</u>
Total Cash and Cash Equivalents	<u><u>\$ 10,907,760</u></u>

Deposits – The carrying value of the City’s deposits at June 30, 2009 was \$4,629,329 and the bank balance was \$8,447,870 The bank balance was entirely covered by federal depository insurance under the continuing deposit security agreement The deposits held by the trustee were insured by federal depository insurance or were collateralized by securities held by the pledging financial institution in the trustee’s name.

Investments – All investments of the City are uninsured and unregistered with the securities held by the counterparty’s trust department or agent in the City’s name.

The City invests funds pending clearance of outstanding checks in a Corporate Cash Management Account. Under the terms of the Corporate Cash Management Account agreement, excess funds in the City’s checking account are invested in overnight securities. At June 30, 2009, the carrying value of cash invested in overnight repurchase agreement was \$6,022,406 and was equal to the bank balance. All amounts were fully collateralized by their banking institution.

Interest rate risk. In accordance with the City’s investment policy, the City manages its exposure to declines in fair values by limiting the City’s investment portfolio to U.S. government securities with maturities of less than six months.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy regarding custodial credit risk.

Credit risk – The City limits its investments to U.S. Government Securities. The cash on deposit with the trustee is invested in U.S. Government Money Market Funds and, therefore, has no credit risk.

Concentration of Credit Risk – The Town’s investment policy does not address concentration of credit risk. However, the City only invests in funds authorized by Arizona State law and only invests in certificates of deposit, U.S. Treasury Bills and an overnight repurchase agreement.

2. Restricted Assets

Restricted assets of the City at June 30, 2009 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Sale of Easement of Escrow Funds	\$ 107,615	\$ -	\$ 107,615
Retainage	-	2,538,006	2,538,006
Operation and Maintenance	-	125,240	125,240
Repair and Replacement Fund	-	40,096	40,096
Future Debt Service	-	1,186,199	1,186,199
Construction	2,877,061	17,217,218	20,094,279
Customer Deposits	-	528,621	528,621
Unspent Lease Proceeds	2,166,250	782,500	2,948,750
Total	<u>\$ 5,150,926</u>	<u>\$ 22,417,880</u>	<u>\$ 27,568,806</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unearned	Unavailable
Nonmajor Governmental Funds		
Special Assessments Receivable	\$ -	\$ 101,303
Unearned Grant Revenue	3,570	-
	\$ 3,570	\$ 101,303

4. Capital Assets

Capital assets activity for the primary government's business-type activities for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 4,278,163	\$ -	\$ -	\$ 4,278,163
Construction in Progress	8,402,761	544,512	-	8,947,273
Total Capital Assets, Not Being Depreciated	12,680,924	544,512	-	13,225,436
Capital Assets, Being Depreciated:				
Infrastructure	1,614,682	112,972	-	1,727,654
Buildings	7,395,931	45,277	-	7,441,208
Improvements Other than Buildings	4,153,336	295,259	-	4,448,595
Vehicles, Machinery and Equipment	12,361,107	858,474	-	13,219,581
Total Capital Assets, Being Depreciated	25,525,056	1,311,982	-	26,837,038
Accumulated Depreciation for:				
Infrastructure	(76,510)	(33,929)	-	(110,439)
Buildings	(3,078,595)	(93,039)	-	(3,171,634)
Improvements Other than Buildings	(2,176,583)	(153,716)	-	(2,330,299)
Vehicles, Machinery and Equipment	(10,001,552)	(783,569)	-	(10,785,121)
Total Accumulated Depreciation	(15,333,240)	(1,064,253)	-	(16,397,493)
Total Capital Assets, Being Depreciated, Net	10,191,816	247,729	-	10,439,545
Governmental Activities Capital Assets, Net	\$ 22,872,740	\$ 792,241	\$ -	\$ 23,664,981

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 762,476	\$ -	\$ -	\$ 762,476
Water Rights	2,000,000	-	-	2,000,000
Construction in Progress	47,355,179	460,175	(397,502)	47,417,852
Total Capital Assets, Not Being Depreciated	50,117,655	460,175	(397,502)	50,180,328
Capital Assets, Being Depreciated:				
Buildings	6,332,510	-	-	6,332,510
Improvements Other than Buildings	23,521,285	23,852,668	-	47,373,953
Vehicles, Machinery and Equipment	6,195,853	1,882,610	-	8,078,463
Housing Authority	11,033,689	331,147	-	11,364,836
Total Capital Assets, Being Depreciated	47,083,337	26,066,425	-	73,149,762
Accumulated Depreciation for:				
Buildings	(4,626,007)	(276,850)	-	(4,902,857)
Improvements Other than Buildings	(7,785,426)	(434,148)	-	(8,219,574)
Vehicles, Machinery and Equipment	(4,078,220)	(305,419)	-	(4,383,639)
Housing Authority	(3,981,237)	(340,442)	-	(4,321,679)
Total Accumulated Depreciation	(20,470,890)	(1,356,859)	-	(21,827,749)
Total Capital Assets, Being Depreciated, Net	26,612,447	24,709,566	-	51,322,013
Business-Type Activities Capital Assets, Net	\$ 76,730,102	\$ 25,169,741	\$ (397,502)	\$ 101,502,341

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 379,051
Public Safety	475,982
Highways and Streets	137,050
Culture and Recreation	72,170
Total Depreciation Expense	\$ 1,064,253
Business-Type Activities:	
Sewer	\$ 671,310
Water	246,270
Sanitation	98,837
Nogales Housing Authority	340,442
Total Depreciation Expense	\$ 1,356,859

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers

As of June 30, 2009 interfund receivable and payables were as follows:

		<u>Due To</u>	
<u>Due From</u>			<u>General Fund</u>
HURF Fund	\$	222,292	
Nonmajor Governmental Fund		64,499	
Sewer Fund		3,479,578	
Sanitation Fund		2,353,495	
		<u>\$ 6,119,864</u>	
<u>Advances From</u>			
			<u>Advances To</u>
			<u>Sanitation Fund</u>
Sewer Fund	\$	49,100	

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2009 to cover the deficit.

	<u>Transfers Out</u>		
<u>Transfers In</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Water Fund	<u>\$ 38,043</u>	<u>\$ 38,043</u>	<u>\$ 76,086</u>

The transfers from the Sewer and Sanitation Funds to the Water Fund were recorded to fund shared administrative costs.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases

The City has entered into lease agreements as a lessee for financing the acquisition of various equipment items. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Assets:		
Machinery and Equipment	\$ 4,416,380	\$ 1,645,326
Less: Accumulated Depreciation	(573,367)	-
Total	<u>\$ 3,843,013</u>	<u>\$ 1,645,326</u>

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2009, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2010	\$ 588,544	\$ 250,140
2011	589,160	250,857
2012	589,688	251,471
2013	591,424	253,492
2014	327,586	137,631
2015 - 2019	905,548	411,354
2020 - 2022	168,016	195,656
Total Minimum Lease Payments	<u>3,759,966</u>	<u>1,750,601</u>
Less: Amount Representing Interest	(606,271)	(307,441)
Present Value of Minimum Lease Payments	<u>\$ 3,153,695</u>	<u>\$ 1,443,160</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. Compensated absences are paid by the applicable fund where each employee is regularly paid.

The City of Nogales, Arizona reports the following outstanding bonds:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
Highway User Revenue Bond, Series 2002	2.50 - 3.60 %	07/01/08-13	\$ 3,345,000	\$ 1,490,000
Municipal Facilities Revenue Bonds, Series 1999	4.00-4.90	06/01/08-18	2,578,028	564,282
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/08-19	2,455,376	1,483,280
Municipal Facilities Revenue Bonds, Series 2004 B	1.50-5.25	06/01/08-18	2,197,620	1,905,300
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	07/01/18-31	4,639,800	4,639,800
Municipal Facilities Revenue Bonds, Series 2006	1.50-5.25	07/01/19-36	6,141,330	6,141,330
Total Governmental Activities			<u>\$ 21,357,154</u>	<u>\$ 16,223,992</u>
Business-Type Activities:				
Bonds Payable:				
Municipal Facilities Revenue Bonds, Series 1999	4.0-4.9	06/01/08-18	\$ 3,826,972	\$ 880,720
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/08-19	2,394,624	1,446,717
Municipal Facilities Revenue Bonds, Series 2004 B	1.50-5.25	06/01/08-18	4,117,380	3,569,700
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	06/01/08-31	5,810,200	5,810,200
Municipal Facilities Revenue Bonds, Series 2006	1.50-5.25	07/01/19-36	2,558,670	2,558,670
Municipal Facilities Revenue Bonds, Series 2006 A & B	3.75-5.42	10/01/09-47	16,500,000	16,500,000
Total Business-Type Activities			<u>\$ 35,207,846</u>	<u>\$ 30,766,007</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged excise tax revenues of the General Fund to repay \$15.1 million in governmental municipal facilities revenue obligation bonds presented above. Proceeds of the bonds provided financing for street improvements, bridges and other City infrastructure. The bonds are payable from the General Fund and the HURF excise tax revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 10.0% of revenues. The total principal and interest remaining to be paid on the bonds is \$28,453,402. Principal and interest paid for the current year and total excise taxes were \$1,272,271 and \$16,829,793, respectively.

The City has pledged operating and other miscellaneous revenues of the Sewer, Water and Sanitation Funds to repay \$31.3 million in business-type revenue obligation bonds presented above. Proceeds of the bonds provided financing for upgrades to the sewer treatment facility, water infrastructure and sanitation infrastructure. The bonds are payable from the applicable Sewer, Water or Sanitation Fund in proportion to the percent of funds used by the particular funds through 2047. Annual principal and interest payments on the bonds are expected to require approximately 25.0% of revenues. The total principal and interest remaining to be paid on the bonds is \$51,807,457. Principal and interest paid for the current year and total excise taxes were \$1,723,885 and \$7,102,185, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2009 are as follows:

	<u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 16,917,172	\$ -	\$ (693,180)	\$ 16,223,992	\$ 718,406
Deferred Amounts:					
Premium	360,026	-	(17,753)	342,273	-
Deferred Amount on Refunding	(64,975)	-	8,358	(56,617)	-
Total Bonds	<u>17,212,223</u>	<u>-</u>	<u>(702,575)</u>	<u>16,509,648</u>	<u>718,406</u>
Other Liabilities:					
Capital Leases	734,012	2,771,085	(351,402)	3,153,695	450,219
Compensated Absences	1,270,013	822,363	(609,958)	1,482,418	584,392
Total Other Liabilities	<u>2,004,025</u>	<u>3,593,448</u>	<u>(961,360)</u>	<u>4,636,113</u>	<u>1,034,611</u>
Governmental Activities Long-Term Liabilities	<u>\$ 19,216,248</u>	<u>\$ 3,593,448</u>	<u>\$ (1,663,935)</u>	<u>\$ 21,145,761</u>	<u>\$ 1,753,017</u>
Business-Type Activities					
Bonds Payable	\$ 31,252,827	\$ -	\$ (486,820)	\$ 30,766,007	\$ 3,006,594
Less: Deferred Amount on Refunding	(35,915)	-	35,915	-	-
Less: Deferred Amount on Premium	363,572	-	(18,708)	344,864	-
Total Bonds Payable	<u>31,580,484</u>	<u>-</u>	<u>(469,613)</u>	<u>31,110,871</u>	<u>3,006,594</u>
Other Liabilities:					
Capital Leases	792,500	782,500	(131,840)	1,443,160	188,756
Compensated Absences	291,536	106,403	(118,396)	279,543	97,553
Business-Type Activities Long-Term Liabilities	<u>\$ 32,664,520</u>	<u>\$ 888,903</u>	<u>\$ (719,849)</u>	<u>\$ 32,833,574</u>	<u>\$ 3,292,903</u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2009 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 718,406	\$ 762,050	\$ 3,006,594	\$ 1,276,703
2011	718,638	735,874	551,362	1,189,201
2012	743,076	709,487	566,924	1,167,381
2013	773,803	681,888	591,197	1,144,160
2014 - 2018	2,185,338	3,064,699	4,452,230	5,238,896
2019 - 2023	2,000,029	2,520,039	4,579,701	4,113,573
2024 - 2028	2,189,841	2,037,979	4,859,889	3,116,115
2029 - 2033	3,753,606	1,398,151	4,606,124	2,023,562
2034 - 2038	3,141,255	319,243	3,538,475	1,094,578
2039 - 2043	-	-	2,229,729	543,497
2044 - 2047	-	-	1,783,782	133,784
Total	<u>\$ 16,223,992</u>	<u>\$ 12,229,410</u>	<u>\$ 30,766,007</u>	<u>\$ 21,041,450</u>

NOTE 4 OTHER INFORMATION

A. Risk Management

The City of Nogales, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by a private carrier (Travelers), of which the City is a participating member. The limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$5,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The City established the City of Nogales Employee Benefit Trust (an internal service fund reported as the Health Insurance Fund) which accounts for and finances the City's uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. Under this program, the City is self-insured for up to \$75,000 for each insured's health care claim, not to exceed a maximum individual annual stop loss of \$2,000,000 and is self-insured for annual aggregate losses up to \$2,623 per covered employee plus \$4,196 per covered dependent unit per year. The city purchases commercial insurance for claims in excess of coverage provided by the Plan and for all other risks of loss. Settled claims did not exceed the aggregate stop loss for the year ended June 30, 2009. In addition, settlements did not exceed insurance coverage for each of the past three fiscal years.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

All funds of the City participate in the program and make payments to the Employee Benefit Trust based on estimates from the plan administrator of the amounts needed to pay prior and current-year claims and to establish a reserve for catastrophic losses. The claims liability reported at June 30, 2009 is based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount for the years ended June 20, 2009 and 2008 were as follows:

	Claims Liability at beginning of year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at end of year
2007-08	\$ 197,422	\$ 2,526,850	\$ 2,408,061	\$ 316,211
2008-09	316,211	2,789,785	2,706,521	399,475

B. Retirement Plans

Firefighters Relief and Pension Fund

The City of Nogales Volunteer Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed \$150 per month, as determined by the board of trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

No contributions were made and none were required to be made during the fiscal year.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its volunteer firefighters.

The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal year or as of the close of the fiscal year.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Arizona State Retirement System

Plan Descriptions – The City of Douglas, Arizona contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City of Douglas, Arizona's contribution rates. For the year ended June 30, 2009, active plan members were required by statute to contribute at the actuarially determined rate of 9.45% (8.95% for retirement and 0.50% for long-term disability) of the members' annual covered payroll and the City of Douglas, Arizona was required by statute to contribute at the actuarially determined rate of 9.45% (7.99% for retirement, 0.96% for health insurance premium, and 0.50% for long-term disability) of the members' annual covered payroll.

<u>Years Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2009	\$ 432,904	\$ 56,302	\$ 27,324
2008	356,041	46,453	22,122
2007	514,430	67,118	31,964

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description – The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy – Covered employees are required to contribute 7.65% of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 26.00% and 35.06% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost – During the year ended June 30, 2009 the most recent actuarial valuation, the City of Nogales, Arizona, Arizona's annual pension cost of \$583,033 for police and \$541,173 for fire was equal to the City of Douglas, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2007 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 6.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2009, the most recent actuarial valuation date, the plan for police was 75.5% funded and the plan for fire was 63.3% funded. The actuarial accrued liability for benefits was \$13.1 million and \$11.3 million for police and fire, respectively; and the actuarial value of assets was \$9.9 million and \$7.2 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$3.2 million and \$4.2 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.2 million and \$2.6 million, and the ratio of the UAAL to the covered payroll was 100.1% and 161.4%, respectively.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the City of Nogales, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Douglas, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009 was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

**Three-Year Trend Information
Police**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2007	\$ 314,234	100.0 %	\$ -
2008	362,423	100.0	-
2009	583,033	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2007	\$ 40,430	100.0 %	\$ -
2008	43,400	100.0	-
2009	50,284	100.0	-

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Three-Year Trend Information			
Fire			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2007	\$ 303,907	100.0 %	\$ -
2008	384,139	100.0	-
2009	541,173	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2007	\$ 54,818	100.0 %	\$ -
2008	54,525	100.0	-
2009	68,832	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 77.

Historical trend information is presented in order for the reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

C. Subsequent Events

Subsequent to June 30, 2009, the City issued \$15,135,000 in refunding and improvement bonds. The City issued \$1,155,000 in improvement bonds and refunded the Municipal Facilities Revenue Bonds, Series 1999 (\$1,445,000); the Municipal Facilities Revenue Bonds, Series 2004B (\$5,475,000); and partially refunded the Municipal Facilities Revenue Bonds, Series 2006 A and B (\$7,060,000). The Municipal Facilities Revenue Bonds, Series 2006 A and B were also refinanced, which was not included in the refunding. Annual principal and semi-annual interest payments are due through the fiscal year ended June 30, 2039 at a rate of 2.50 to 4.75 percent annually.

Required Supplementary Information

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**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2009**

Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2007	\$ 8,275,182	\$ 12,260,917	67.5%	\$ 3,985,735	\$ 2,901,619	137.4%
2008	8,734,927	11,839,554	73.8%	3,104,627	2,931,450	105.9%
2009	9,864,228	13,070,107	75.5%	3,205,879	3,204,242	100.1%

Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2007	\$ 6,154,678	\$ 11,028,308	55.8%	\$ 4,873,630	\$ 2,314,015	210.6%
2008	6,724,332	10,903,586	61.7%	4,179,254	2,284,185	183.0%
2009	7,187,502	11,353,019	63.3%	4,165,517	2,581,568	161.4%

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