

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010**

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YEAR ENDED JUNE 30, 2010**

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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, 2010, 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 Fund, which comprise 10% of the assets, and 8% of the operating revenues of the Enterprise Fund. Those financial statements were audited by other auditors whose report has 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 Fund, 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; interest expense; and depreciation expense for the governmental activities reported in the government-wide financial statements of \$24,839,889, \$9,192,444, 845,200 and \$1,057,533, respectively, or the business-type activities reported in the government-wide and fund financial statements of \$102,646,294, \$90,131,156, 1,341,778 and \$1,407,789, respectively.

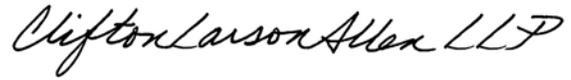
In our opinion, based on our audit and the reports of the other auditors, except for the effects, if any, of not maintaining adequate internal controls and accounting records for capital assets in the governmental and business-type activities, as described in the preceding paragraph, the basic financial 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, 2010, 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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 29, 2012 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.

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.



CliftonLarsonAllen LLP

Mesa, Arizona
February 29, 2012

Basic Financial Statements

**CITY OF NOGALES, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 6,343,311	\$ 2,798,669	\$ 9,141,980
Receivables, Net:			
Accounts Receivable	419,601	2,534,382	2,953,983
Intergovernmental Receivables	1,512,362	601,019	2,113,381
Special Assessments Receivable	899,694	-	899,694
Interest Receivable	-	902	902
Interfund Balances	5,533,520	(5,533,520)	-
Prepaid Items	11,071	21,025	32,096
Inventory	20,198	16,624	36,822
Deferred Charges	494,787	639,599	1,134,386
Restricted Assets	2,999,583	9,698,161	12,697,744
Capital Assets:			
Non-Depreciable	13,225,436	49,729,496	62,954,932
Depreciable (Net)	11,614,453	52,916,798	64,531,251
Total Assets	43,074,016	113,423,155	156,497,171
LIABILITIES			
Accounts Payable	512,301	710,147	1,222,448
Accrued Wages and Benefits	541,824	123,167	664,991
Interest Payable	2,613	20,174	22,787
Customer Deposits Payable	43,853	673,941	717,794
Unearned Revenue	-	14,119	14,119
Intergovernmental Payable	500	939	1,439
Claims Payable	424,519	-	424,519
Noncurrent Liabilities:			
Due Within One Year	1,754,353	772,460	2,526,813
Due in More Than One Year	18,159,110	21,165,628	39,324,738
Total Liabilities	21,439,073	23,480,575	44,919,648
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,192,444	90,131,156	99,323,600
Restricted for:			
Highways and Streets	367,996	-	367,996
Housing	-	37,864	37,864
Public Safety	727,337	-	727,337
Health Insurance	1,967,499	-	1,967,499
Unrestricted	9,379,667	(226,440)	9,153,227
Total Net Assets	\$ 21,634,943	\$ 89,942,580	\$ 111,577,523

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities:							
General Government	\$ 6,156,730	\$ 1,409,927	\$ 23,939	\$ -	\$ (4,722,864)		\$ (4,722,864)
Public Safety	12,144,276	725,579	1,515,247	-	(9,903,450)		(9,903,450)
Highways and Streets	2,868,064	210	2,058,591	-	(809,263)		(809,263)
Culture and Recreation	1,840,945	75,133	224,400	5,946	(1,535,466)		(1,535,466)
Interest on Long-Term Debt	845,200	-	-	-	(845,200)		(845,200)
Total Governmental Activities	<u>23,855,215</u>	<u>2,210,849</u>	<u>3,822,177</u>	<u>5,946</u>	<u>(17,816,243)</u>		<u>(17,816,243)</u>
Business-Type Activities:							
Sewer	3,080,915	1,688,901	-	1,485,985		\$ 93,971	93,971
Water	2,277,594	2,470,796	-	-		193,202	193,202
Sanitation	2,670,763	2,460,183	-	-		(210,580)	(210,580)
NHA	2,522,169	549,899	1,667,974	627,842		323,546	323,546
Total Business-Type Activities	<u>10,551,441</u>	<u>7,169,779</u>	<u>1,667,974</u>	<u>2,113,827</u>		<u>400,139</u>	<u>400,139</u>
Total Primary Government	<u>\$ 34,406,656</u>	<u>\$ 9,380,628</u>	<u>\$ 5,490,151</u>	<u>\$ 2,119,773</u>	(17,816,243)	400,139	(17,416,104)
General Revenues:							
Taxes:							
Sales Taxes					9,951,315	-	9,951,315
Franchise Taxes					655,397	-	655,397
Impact Fees					-	66,181	66,181
State Revenue Sharing					5,794,998	-	5,794,998
Investment Earnings					12,306	406,884	419,190
Other					133,727	108,696	242,423
Total General Revenues					<u>16,547,743</u>	<u>581,761</u>	<u>17,129,504</u>
Change in Net Assets					(1,268,500)	981,900	(286,600)
Net Assets - Beginning					<u>22,903,443</u>	<u>88,960,680</u>	<u>111,864,123</u>
Net Assets - Ending					<u>\$ 21,634,943</u>	<u>\$ 89,942,580</u>	<u>\$ 111,577,523</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,189,102	\$ -	\$ 1,728,630	\$ 3,917,732
Restricted Assets	229,878	1,305	2,768,400	2,999,583
Receivables:				
Accounts Receivables	275,520	-	-	275,520
Intergovernmental Receivable	338,764	177,952	995,646	1,512,362
Special Assessments Receivable	799,668	-	100,026	899,694
Due from Other Funds	6,189,222	-	-	6,189,222
Prepaid Items	11,071	-	-	11,071
Total Assets	<u>\$ 10,033,225</u>	<u>\$ 179,257</u>	<u>\$ 5,592,702</u>	<u>\$ 15,805,184</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 328,871	\$ 38,595	\$ 98,904	\$ 466,370
Accrued Wages and Benefits	492,558	37,814	28,120	558,492
Intergovernmental Payable	-	-	500	500
Due to Other Funds	-	346,455	285,526	631,981
Interest Payable	-	-	2,613	2,613
Deferred Revenue	-	-	100,026	100,026
Customer Deposits Payable	43,853	-	-	43,853
Total Liabilities	<u>865,282</u>	<u>422,864</u>	<u>515,689</u>	<u>1,803,835</u>
Fund Balances				
Reserved for Prepaid Items	11,071	-	-	11,071
Unreserved	9,156,872	(243,607)	-	8,913,265
Unreserved, Reporting in Nonmajor:				
Special Revenue Funds	-	-	1,095,333	1,095,333
Debt Service Funds	-	-	(95,920)	(95,920)
Capital Projects Funds	-	-	4,077,600	4,077,600
Total Fund Balances	<u>9,167,943</u>	<u>(243,607)</u>	<u>5,077,013</u>	<u>14,001,349</u>
Total Liabilities and Fund Balances	<u>\$ 10,033,225</u>	<u>\$ 179,257</u>	<u>\$ 5,592,702</u>	<u>\$ 15,805,184</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances for Governmental Funds	\$ 14,001,349
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	100,026
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Governmental Capital Assets	42,036,990
Less: Accumulated Depreciation	(17,231,997)
Capital Assets Used in Governmental Activities	24,804,993
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.	
Deferred Issuance Costs	494,787
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	(15,839,318)
Deferred Amount on Refunding	143,279
Deferred Amount on Premium	(356,138)
Capital Leases	(2,487,236)
Compensated Absences	(1,331,228)
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.	
	2,104,429
Total Net Assets of Governmental Activities	\$ 21,634,943

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, 2010

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 9,951,315	\$ -	\$ -	\$ 9,951,315
Franchise Taxes	655,397	-	-	655,397
Intergovernmental	6,019,398	1,945,103	1,658,620	9,623,121
Fines and Forfeitures	537,485	-	-	537,485
Licenses and Permits	666,631	-	-	666,631
Charges for Services	1,006,733	-	-	1,006,733
Special Assessments	-	-	1,277	1,277
Investment Earnings (Loss)	9,720	312	(9)	10,023
Other	96,197	32,866	4,664	133,727
Total Revenues	18,942,876	1,978,281	1,664,552	22,585,709
EXPENDITURES				
Current:				
General Government	5,356,569	-	15,000	5,371,569
Public Safety	10,820,650	-	1,486,034	12,306,684
Highways and Streets	1,327,692	1,300,342	111,098	2,739,132
Culture and Recreation	1,821,245	-	22,980	1,844,225
Debt Service:				
Principal Retirement	575,560	409,554	267,469	1,252,583
Interest on Long-Term Debt	427,455	386,339	-	813,794
Issuance Costs	71,396	-	-	71,396
Capital Outlay	-	-	1,527,914	1,527,914
Total Expenditures	20,400,567	2,096,235	3,430,495	25,927,297
Excess (Deficiency) of Revenues Over Expenditures	(1,457,691)	(117,954)	(1,765,943)	(3,341,588)
OTHER FINANCING SOURCES (USES)				
Issuance of Long-Term Debt	2,671,032	-	-	2,671,032
Premium on the Issuance of Long-Term Debt	31,618	-	-	31,618
Payment to Refunding Escrow Agent	(2,527,746)	-	-	(2,527,746)
Total Other Financing Sources (Uses)	174,904	-	-	174,904
Net Change in Fund Balances	(1,282,787)	(117,954)	(1,765,943)	(3,166,684)
FUND BALANCES				
Beginning of Year	10,450,730	(125,653)	6,842,956	17,168,033
End of Year	\$ 9,167,943	\$ (243,607)	\$ 5,077,013	\$ 14,001,349

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, 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, 2010**

Net Change in Fund Balances of Governmental Funds \$ (3,166,684)

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	2,197,545
Less: Current Year Depreciation	(1,050,809)
Excess Depreciation over Capital Expenditures	1,146,736

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	(1,277)
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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.

Issuance of Long-Term Debt	(2,671,032)
Premium on the Issuance of Long-Term Debt	(31,618)
Principal Payments on Long-Term Debt	586,124
Payment to Escrow Agent	2,527,746
Principal Payments on Capital Leases	666,459
Issuance Costs	71,396
Amortization of Deferred Amount on Bond Premium	17,753
Amortization of Deferred Amount on Refunding	(14,154)
Amortization of Issuance Costs	(35,005)

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	87,153
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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.

Change in Net Assets of Governmental Activities	\$ (1,268,500)
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See accompanying Notes to Basic Financial Statements.

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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, 2010**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 11,286,000	\$ 10,606,712	\$ (679,288)
Intergovernmental	6,146,098	6,019,398	(126,700)
Fines and Forfeitures	498,000	537,485	39,485
Licenses and Permits	980,700	666,631	(314,069)
Charges for Services	1,035,000	1,006,733	(28,267)
Investment Earnings	160,000	9,720	(150,280)
Other	244,508	96,197	(148,311)
Total Revenues	20,350,306	18,942,876	(1,407,430)
EXPENDITURES			
Current:			
General Government:			
Mayor	81,684	79,178	2,506
Council	129,623	86,701	42,922
Administration	506,522	441,671	64,851
Finance	866,678	761,941	104,737
Human Resources	244,078	212,053	32,025
MIS	469,952	406,867	63,085
Revenue	609,028	485,776	123,252
Planning and Zoning	416,006	315,698	100,308
City Attorney	690,231	564,800	125,431
City Court	437,296	397,590	39,706
Cemetery	154,364	131,841	22,523
Nondepartmental	5,412,474	1,472,453	3,940,021
Total General Government	10,017,936	5,356,569	4,661,367
Public Safety:			
Police	6,178,622	6,351,603	(172,981)
Fire	3,722,640	3,521,203	201,437
Ambulance	645,448	603,217	42,231
Animal Control	261,384	242,597	18,787
Building Inspections	117,157	102,030	15,127
Total Public Safety	10,925,251	10,820,650	104,601
Highways and Streets:			
Streets	307,774	234,794	72,980
Facilities Maintenance	855,550	788,206	67,344
Engineering	338,748	304,692	34,056
Total Highways and Streets	1,502,072	1,327,692	174,380
Culture and Recreation:			
Parks	726,281	657,211	69,070
Recreation	663,700	616,416	47,284
Library	525,322	501,176	24,146
Golf Course	170,000	46,442	123,558
Total Culture and Recreation	2,085,303	1,821,245	264,058
Debt Service			
Principal Retirement	587,836	575,560	12,276
Interest on Long-Term Debt	501,205	427,455	73,750
Issuance Costs	-	71,396	(71,396)
Total Debt Service	1,089,041	1,074,411	14,630
Total Expenditures	25,619,603	20,400,567	5,219,036

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, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,269,297)	\$ (1,457,691)	\$ 3,811,606
OTHER FINANCING SOURCES (USES)			
Transfers In	670,000	-	(670,000)
Transfers Out	(40,500)	-	40,500
Issuance of Long-Term Debt	-	2,671,032	2,671,032
Premium on the Issuance of Long-Term Debt	-	31,618	31,618
Payment to Escrow Agent	-	(2,527,746)	(2,527,746)
Total Other Financing Sources (Uses)	<u>629,500</u>	<u>174,904</u>	<u>(454,596)</u>
Net Change in Fund Balance	(4,639,797)	(1,282,787)	3,357,010
FUND BALANCE			
Beginning of Year	4,639,797	10,450,730	5,810,933
End of Year	<u>\$ -</u>	<u>\$ 9,167,943</u>	<u>\$ 9,167,943</u>

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, 2010**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 1,877,369	\$ 1,945,103	\$ 67,734
Investment Earnings	60,000	312	(59,688)
Other	-	32,866	32,866
Total Revenues	1,937,369	1,978,281	40,912
EXPENDITURES			
Current:			
Highways and Streets	1,549,097	1,300,342	248,755
Debt Service			
Principal Retirement	395,569	409,554	(13,985)
Interest on Long-Term Debt	398,061	386,339	11,722
Total Expenditures	2,342,727	2,096,235	246,492
Excess (Deficiency) of Revenues Over Expenditures	(405,358)	(117,954)	287,404
OTHER FINANCING SOURCES (USES)			
Transfers In	180,000	-	(180,000)
Net Change in Fund Balance	(225,358)	(117,954)	107,404
FUND BALANCE			
Beginning of Year	-	(125,653)	(125,653)
End of Year	\$ (225,358)	\$ (243,607)	\$ (18,249)

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Funds - Enterprise Funds		
	Sewer	Water	Sanitation
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 956,576	\$ -
Prepaid Assets	-	-	-
Receivables, Net:			
Accounts Receivable	1,954,907	319,716	233,000
Intergovernmental Receivable	123,632	-	-
Interest Receivable	-	-	-
Inventories	-	-	-
Deferred Charges	284,260	350,871	4,468
Restricted Assets	1,825,288	7,773,268	60,496
Total Current Assets	<u>4,188,087</u>	<u>9,400,431</u>	<u>297,964</u>
Noncurrent Assets:			
Advances to Other Funds	49,100	-	-
Capital Assets:			
Non-Depreciable	45,454,245	2,696,526	-
Depreciable (Net)	34,336,187	10,325,500	524,652
Total Noncurrent Assets	<u>79,839,532</u>	<u>13,022,026</u>	<u>524,652</u>
Total Assets	84,027,619	22,422,457	822,616
Liabilities			
Current Liabilities:			
Accounts Payable	219,540	154,631	64,411
Accrued Wages and Benefits	52,454	28,937	41,776
Interest Payable	-	20,174	-
Intergovernmental Payable	-	939	-
Unearned Revenue	-	-	-
Customer Deposits Payable	-	628,594	-
Claims Payable	-	-	-
Due To Other Funds	3,050,091	-	2,483,429
Compensated Absences	35,355	34,686	48,286
Capital Leases Payable	56,766	51,209	63,126
Bonds and Notes Payable	349,171	122,790	7,498
Total Current Liabilities	<u>3,763,377</u>	<u>1,041,960</u>	<u>2,708,526</u>
Noncurrent Liabilities:			
Advances from Other Funds	-	-	49,100
Compensated Absences	38,375	55,799	40,109
Capital Leases Payable	212,325	616,445	159,008
Bonds and Notes Payable	8,483,735	11,394,723	132,948
Total Noncurrent Liabilities	<u>8,734,435</u>	<u>12,066,967</u>	<u>381,165</u>
Total Liabilities	<u>12,497,812</u>	<u>13,108,927</u>	<u>3,089,691</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	72,513,723	8,085,681	222,568
Restricted	-	-	-
Unrestricted	(983,916)	1,227,849	(2,489,643)
Total Net Assets	<u>\$ 71,529,807</u>	<u>\$ 9,313,530</u>	<u>\$ (2,267,075)</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Funds - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Totals	
\$ 1,842,093	\$ 2,798,669	\$ 2,425,574
21,025	21,025	-
26,759	2,534,382	144,081
477,387	601,019	-
902	902	-
16,624	16,624	20,198
-	639,599	-
39,109	9,698,161	-
2,423,899	16,310,381	2,589,853
-	49,100	-
1,578,725	49,729,496	-
7,730,459	52,916,798	34,896
9,309,184	102,695,394	34,896
11,733,083	119,005,775	2,624,749
271,565	710,147	45,931
-	123,167	12,389
-	20,174	-
-	939	-
14,119	14,119	-
45,347	673,941	-
-	-	395,457
-	5,533,520	23,721
3,573	121,900	33,618
-	171,101	-
-	479,459	-
334,604	7,848,467	511,116
-	49,100	-
32,161	166,444	9,204
-	987,778	-
-	20,011,406	-
32,161	21,214,728	9,204
366,765	29,063,195	520,320
9,309,184	90,131,156	34,896
37,864	37,864	1,967,499
2,019,270	(226,440)	102,034
\$ 11,366,318	\$ 89,942,580	\$ 2,104,429

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-Type Funds - Enterprise Funds		
	Sewer	Water	Sanitation
OPERATING REVENUES			
Charges for Services	\$ 1,688,901	\$ 2,470,796	\$ 2,460,183
Rents and Royalties	-	-	-
Contributions	-	-	-
Total Operating Revenues	<u>1,688,901</u>	<u>2,470,796</u>	<u>2,460,183</u>
OPERATING EXPENSES			
Cost of Sales and Services	1,642,798	1,487,641	2,540,638
Claims	-	-	-
Depreciation	671,310	246,270	98,837
Total Operating Expenses	<u>2,314,108</u>	<u>1,733,911</u>	<u>2,639,475</u>
OPERATING INCOME (LOSS)	<u>(625,207)</u>	<u>736,885</u>	<u>(179,292)</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental Revenue	-	-	-
Development Impact Fees	37,625	28,556	-
Investment Earnings	79,186	319,241	1,885
Interest Expense	(766,807)	(543,683)	(31,288)
Miscellaneous Nonoperating Revenues	1	51,953	-
Total Nonoperating Revenues (Expenses)	<u>(649,995)</u>	<u>(143,933)</u>	<u>(29,403)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,275,202)	592,952	(208,695)
Capital Contributions	<u>1,485,985</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	210,783	592,952	(208,695)
NET ASSETS			
Beginning of Year	71,319,024	8,720,578	(2,058,380)
End of Year	<u>\$ 71,529,807</u>	<u>\$ 9,313,530</u>	<u>\$ (2,267,075)</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Funds - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Totals	
\$ -	\$ 6,619,880	\$ 1,148,412
549,899	549,899	-
-	-	2,965,695
<u>549,899</u>	<u>7,169,779</u>	<u>4,114,107</u>
2,130,797	7,801,874	1,584,279
-	-	2,977,484
391,372	1,407,789	6,724
<u>2,522,169</u>	<u>9,209,663</u>	<u>4,568,487</u>
(1,972,270)	(2,039,884)	(454,380)
1,667,974	1,667,974	-
-	66,181	-
6,572	406,884	2,283
-	(1,341,778)	-
56,742	108,696	-
<u>1,731,288</u>	<u>907,957</u>	<u>2,283</u>
(240,982)	(1,131,927)	(452,097)
627,842	2,113,827	-
386,860	981,900	(452,097)
10,979,458	88,960,680	2,556,526
<u>\$ 11,366,318</u>	<u>\$ 89,942,580</u>	<u>\$ 2,104,429</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Sanitation
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 2,225,942	\$ 2,570,492	\$ 2,556,620
Payments to Suppliers	(1,053,638)	(835,406)	(1,476,861)
Payments to Employees	(579,592)	(809,245)	(1,047,255)
Payments for Claims	-	-	-
Other Receipts	1	51,953	-
Customer Deposits Payable	-	13,341	-
Net Cash Provided (Used) by Operating Activities	<u>592,713</u>	<u>991,135</u>	<u>32,504</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Revenues	-	-	-
Interfund Borrowing	(429,487)	-	129,934
Development Impact Fees	37,625	28,556	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(391,862)</u>	<u>28,556</u>	<u>129,934</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES			
Capital Contributions	1,848,579	-	-
Purchases of Capital Assets	(4,003,438)	(169,061)	(329,504)
Issuance of Long-Term Debt	1,434,789	92,741	2,965
Discount on Issuance of Long-Term Debt	(50,653)	-	-
Issuance Costs	(35,154)	-	-
Payment to Escrow Agent	(11,021,668)	-	-
Principal Paid on Capital Debt	(523,666)	(218,274)	(134,125)
Interest Paid on Capital Debt	(766,728)	(544,786)	(31,278)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(13,117,939)</u>	<u>(839,380)</u>	<u>(491,942)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	<u>79,186</u>	<u>319,241</u>	<u>1,885</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(12,837,902)</u>	<u>499,552</u>	<u>(329,504)</u>
Cash and Cash Equivalents, Beginning of Year	14,663,190	8,230,292	390,000
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,825,288</u>	<u>\$ 8,729,844</u>	<u>\$ 60,496</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Cash and Cash Equivalents	\$ -	956,576	\$ -
Restricted Assets	1,825,288	7,773,268	60,496
Total Cash and Cash Equivalents	<u>\$ 1,825,288</u>	<u>\$ 8,729,844</u>	<u>\$ 60,496</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Total	
\$ 544,760	\$ 7,897,814	\$ 3,977,874
(552,894)	(3,918,799)	(1,186,231)
(1,499,340)	(3,935,432)	(382,222)
-	-	(2,981,502)
56,742	108,696	-
(3,934)	9,407	-
<u>(1,454,666)</u>	<u>161,686</u>	<u>(572,081)</u>
1,759,860	1,759,860	-
-	(299,553)	23,721
-	66,181	-
<u>1,759,860</u>	<u>1,526,488</u>	<u>23,721</u>
627,842	2,476,421	-
(627,842)	(5,129,845)	(34,896)
-	1,530,495	-
-	(50,653)	-
-	(35,154)	-
-	(11,021,668)	-
-	(876,065)	-
-	(1,342,792)	-
<u>-</u>	<u>(14,449,261)</u>	<u>(34,896)</u>
5,965	406,277	2,283
311,159	(12,356,695)	(580,973)
1,570,043	24,853,525	3,006,547
<u>\$ 1,881,202</u>	<u>\$ 12,496,830</u>	<u>\$ 2,425,574</u>
\$ 1,842,093	\$ 2,798,669	\$ 2,425,574
39,109	9,698,161	-
<u>\$ 1,881,202</u>	<u>\$ 12,496,830</u>	<u>\$ 2,425,574</u>

CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Sanitation
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (625,207)	\$ 736,885	\$ (179,292)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	671,310	246,270	98,837
Nonoperating Receipts	1	51,953	-
Change in Assets/Liabilities:			
Receivables	537,041	99,696	96,437
Prepaid Items	-	-	-
Inventories	-	-	-
Accounts Payable	23,666	(151,324)	12,299
Accrued Wages and Benefits	(1,392)	(6,822)	(11,154)
Unearned Revenue	-	-	-
Compensated Absences	(12,706)	1,136	15,377
Claims Payable	-	-	-
Customer Deposits Payable	-	13,341	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 592,713</u>	<u>\$ 991,135</u>	<u>\$ 32,504</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During the fiscal year ended June 30, 2010, the City issued refunding bonds to advance refund debt. Non-cash transactions related to this refunding are as follows:

Issuance of Refunding Bonds	\$ 8,576,903	\$ 2,198,480	\$ 61,056
Premium on Issuance of Refunding Bonds	25,772	26,080	1,830
Discount on Issuance of Refunding Bond	(239,980)	-	-
Issuance Costs of Refunding Bonds	(232,485)	(61,244)	(1,631)
Payment to Escrow Agent	(8,130,210)	(2,163,316)	(61,255)

The amortization of issuance costs, premiums, discounts and deferred amounts on refundings represent non-cash transactions

Amortization of Issuance Costs	\$ 1,956	\$ 15,415	\$ 334
Amortization of Premium	(1,877)	(16,518)	(324)

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Total	
\$ (1,972,270)	\$ (2,039,884)	\$ (454,380)
391,372	1,407,789	6,724
56,742	108,696	-
(9,178)	723,996	(136,233)
16,959	16,959	-
11,939	11,939	35,452
44,671	(70,688)	6,804
-	(19,368)	(5,215)
4,039	4,039	-
4,994	8,801	(21,215)
-	-	(4,018)
(3,934)	9,407	-
<u>\$ (1,454,666)</u>	<u>\$ 161,686</u>	<u>\$ (572,081)</u>

\$ -	\$ 10,836,439	\$ -
-	53,682	-
-	(239,980)	-
-	(295,360)	-
-	(10,354,781)	-

\$ -	\$ 17,705	\$ -
-	(18,719)	-

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010**

	<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, 2010**

	Pension Trust
ADDITIONS	
Investment Earnings	\$ 1,293
DEDUCTIONS	
Benefits	1,293
CHANGE IN NET ASSETS	-
Net Assets, Beginning of Year	27,596
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, 2010

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 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, 2010 fiscal year-end.

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. The MDA has the authority to issue bonded debt to finance City capital projects, providing a financial benefit to the City because the debt issued by the MDA is not subject to the City's debt limit. The City also incurs a financial burden as the City is responsible for the paying the outstanding bonded debt.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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, 2010

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 unit's 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, 2010

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Continued)

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.

2. Receivables

Receivables include all trade receivables, intergovernmental receivables for earned, but not yet received sales tax, state shared revenues, federal and state grants, and interest revenue.

All trade receivables are shown net of an allowance for uncollectibles. The governmental activities report an allowance of \$1,026,329 related to ambulance billings and the business-type activities report an allowance of \$224,225

3. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method and are recorded as an expenditure in the governmental fund financial statements at the time of purchase and as an expense in the government-wide and proprietary fund financial statements at the time of consumption.

Prepaid items represent goods and/or services paid in advance of receiving the benefit associated with the prepaid item. Expenses are recognized in the period in which the goods and/or services are received/rendered.

4. Restricted Assets

Certain assets of the City's primary government and component units are set aside for repayment of debt or are restricted for construction, operation and maintenance or the purchase of assets by parties outside the City, through bond covenant agreements or other restrictions.

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, 2010**

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 included in the City's capital assets upon completion of a complete physical inventory.

The City has active construction contracts funded through debt obligations; however, the City does not currently have a policy to capitalize interest paid on the debt used to finance active construction contracts.

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, 2010

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.

None of the restricted net assets are restricted by enabling legislation.

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, 2010

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, 2010**

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:	
Police	\$ 172,981

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

C. Deficit Fund Equity

A deficit fund balance in the amount of \$243,607, \$95,920 and \$2,267,075 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.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2010 consist of the following:

Deposits:	
Cash on Hand	\$ 4,221
Cash in Bank	3,293,006
Certificates of Deposit	643,869
Investments:	
U.S. Government Money Market Securities	1,287,217
U.S. Treasury Bill	10,351,626
Overnight Repurchase Agreement	<u>6,287,376</u>
Total Deposits and Investments	21,867,315
Restricted Cash and Investments	(12,697,744)
Fiduciary Funds	<u>(27,596)</u>
Total Cash and Cash Equivalents	<u><u>\$ 9,141,975</u></u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Deposits – The carrying value of the City's deposits at June 30, 2010 was \$3,936,875, including certificates of deposit, and the bank balance was \$4,486,979. Of the bank balance, \$4,474,038 was covered by federal depository insurance or collateral held under the continuing deposit security agreement and \$12,941 was uninsured and uncollateralized.

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, 2010, the carrying value of cash invested in overnight repurchase agreement was \$6,287,376 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.

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 City has invested funds in U.S. Government Money Market Funds and U.S. Treasury Bills 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 has investments in U.S. Government Money Market, U.S. Treasury Bills and an overnight repurchase agreement at June 30, 2010.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2010 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Sale of Easement of Escrow Funds	\$ 107,615	\$ -	\$ 107,615
Operation and Maintenance	-	121,696	121,696
Repair and Replacement Fund	-	80,192	80,192
Future Debt Service and Construction	2,222,714	8,847,616	11,070,330
Housing Assistance Payments	-	39,109	39,109
Customer Deposits	-	524,446	524,446
Unspent Lease Proceeds	669,254	85,102	754,356
Total	<u>\$ 2,999,583</u>	<u>\$ 9,698,161</u>	<u>\$ 12,697,744</u>

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:

	<u>Unavailable</u>
Nonmajor Governmental Funds	
Special Assessments Receivable	<u>\$ 100,026</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital assets activity for the primary government's business-type activities for the year ended June 30, 2010 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	8,947,273	-	-	8,947,273
Total Capital Assets, Not Being Depreciated	<u>13,225,436</u>	<u>-</u>	<u>-</u>	<u>13,225,436</u>
Capital Assets, Being Depreciated:				
Infrastructure	1,727,654	62,733	-	1,790,387
Buildings	7,441,208	23,243	-	7,464,451
Improvements Other than Buildings	4,448,595	330,293	-	4,778,888
Vehicles, Machinery and Equipment	13,219,581	1,816,172	-	15,035,753
Total Capital Assets, Being Depreciated	<u>26,837,038</u>	<u>2,232,441</u>	<u>-</u>	<u>29,069,479</u>
Accumulated Depreciation for:				
Infrastructure	(110,439)	(33,929)	-	(144,368)
Buildings	(3,171,634)	(93,039)	-	(3,264,673)
Improvements Other than Buildings	(2,330,299)	(153,716)	-	(2,484,015)
Vehicles, Machinery and Equipment	(10,785,121)	(776,849)	-	(11,561,970)
Total Accumulated Depreciation	<u>(16,397,493)</u>	<u>(1,057,533)</u>	<u>-</u>	<u>(17,455,026)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,439,545</u>	<u>1,174,908</u>	<u>-</u>	<u>11,614,453</u>
Governmental Activities Capital Assets, Net	<u>\$ 23,664,981</u>	<u>\$ 1,174,908</u>	<u>\$ -</u>	<u>\$ 24,839,889</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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	47,417,852	627,842	(1,078,674)	46,967,020
Total Capital Assets, Not Being Depreciated	50,180,328	627,842	(1,078,674)	49,729,496
Capital Assets, Being Depreciated:				
Buildings	6,332,510	-	-	6,332,510
Improvements Other than Buildings	47,373,953	1,221,044	-	48,594,997
Vehicles, Machinery and Equipment	8,078,463	702,856	-	8,781,319
Housing Authority	11,364,836	1,078,674	-	12,443,510
Total Capital Assets, Being Depreciated	73,149,762	3,002,574	-	76,152,336
Accumulated Depreciation for:				
Buildings	(4,902,857)	(276,850)	-	(5,179,707)
Improvements Other than Buildings	(8,219,574)	(434,148)	-	(8,653,722)
Vehicles, Machinery and Equipment	(4,383,639)	(305,419)	-	(4,689,058)
Housing Authority	(4,321,679)	(391,372)	-	(4,713,051)
Total Accumulated Depreciation	(21,827,749)	(1,407,789)	-	(23,235,538)
Total Capital Assets, Being Depreciated, Net	51,322,013	1,594,785	-	52,916,798
Business-Type Activities Capital Assets, Net	\$ 101,502,341	\$ 2,222,627	\$ (1,078,674)	\$ 102,646,294

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 372,331
Public Safety	475,982
Highways and Streets	137,050
Culture and Recreation	72,170
Total Depreciation Expense	\$ 1,057,533

Business-Type Activities:

Sewer	\$ 671,310
Water	246,270
Sanitation	98,837
Nogales Housing Authority	391,372
Total Depreciation Expense	\$ 1,407,789

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables and Payables

As of June 30, 2010 interfund receivable and payables were as follows:

	Due To
Due From	General Fund
HURF Fund	\$ 346,455
Nonmajor Governmental Fund	285,526
Sewer Fund	3,050,091
Sanitation Fund	2,483,429
Internal Service Fund	23,721
	\$ 6,189,222

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2010 for the Nonmajor Governmental Fund and Internal Service Fund to cover the deficit. Funds are not expected to be received within the next year for the HURF, Sewer or the Sanitation Fund to cover the deficit.

	Advances To
Advances From	Sanitation Fund
Sewer Fund	\$ 49,100

The advance represents a long-term loan between the Sewer fund and the Sanitation Fund. The advance is reported as a long-term liability and no short-term arrangements have been made to repay the advance.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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	\$ 3,843,013	\$ 1,645,326
Less: Accumulated Depreciation	<u>(573,367)</u>	<u>-</u>
Total	<u>\$ 3,269,646</u>	<u>\$ 1,645,326</u>

The City does not maintain a cumulative capital assets listing; therefore, the above depreciation may not reflect actual depreciation on the assets acquired through lease-purchase agreement.

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2010, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2011	\$ 519,110	\$ 219,912
2012	519,640	220,527
2013	521,374	222,548
2014	304,234	127,315
2015	195,749	79,529
2016 - 2020	783,250	417,359
2021 - 2023	<u>94,565</u>	<u>110,121</u>
Total Minimum Lease Payments	2,937,922	1,397,311
Less: Amount Representing Interest	<u>(450,686)</u>	<u>(238,432)</u>
Present Value of Minimum Lease Payments	<u>\$ 2,487,236</u>	<u>\$ 1,158,879</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 %	07/01/10-13	\$ 3,345,000	\$ 1,135,000
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/11-19	2,455,376	1,351,642
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
Series 2009 Bonds	3.75-5.42	10/01/10-47	2,671,023	2,571,546
Total Governmental Activities			<u>\$ 19,252,529</u>	<u>\$ 15,839,318</u>
Business-Type Activities:				
Bonds Payable:				
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/11-19	\$ 2,394,624	\$ 1,318,359
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	06/01/11-31	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 and Refunding Bonds, Series 2009	3.75-5.42	10/01/10-39	12,363,977	11,903,454
Total Business-Type Activities			<u>\$ 23,127,471</u>	<u>\$ 21,590,683</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 \$19.3 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 2039. 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 \$29,064,760. Principal and interest paid for the current year and total excise taxes were \$1,305,434 and \$18,718,464, respectively.

The City has pledged operating and other miscellaneous revenues of the Sewer, Water and Sanitation Funds to repay \$23.1 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 2039. 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 \$39,769,971. Principal and interest paid for the current year and total pledged revenues were \$1,405,129 and \$6,619,880, respectively.

During the fiscal year ended June 30, 2010, the City issued \$15,035,000 in refunding bonds at a net discount of \$205,334 and utilized \$11,492,584 of unused bond proceeds from prior issuances to advance refund \$23,420,000 in revenue bonds, equal to the amount of defeased debt as of June 30, 2010. The refunding bonds and the unused prior bond proceeds were used to place \$1,155,000 into a trustee account to be used by the City for capital purposes, place \$860,371 into debt service reserve funds, pay \$401,938 in issuance costs and deposit \$23,904,941 into an escrow account to pay the defeased debt. The refunding resulted in a savings of \$13,147,393 and a net present value loss of \$2,844,800.

The defeased debt is no longer considered outstanding debt of the City and has been removed from the City's long-term liabilities. The defeased debt will be paid by the trustee from funds deposited into escrow, as well as interest earned on the escrow deposit.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	<u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 16,223,992	\$ 2,671,032	\$ (3,055,706)	\$ 15,839,318	\$ 545,542
Deferred Amounts:					
Premium	342,273	31,618	(17,753)	356,138	-
Deferred Amount on Refunding	(56,617)	(100,816)	14,154	(143,279)	-
Total Bonds	16,509,648	2,601,834	(3,059,305)	16,052,177	545,542
Other Liabilities:					
Capital Leases	3,153,695	-	(666,459)	2,487,236	410,728
Compensated Absences	1,482,418	666,470	(774,838)	1,374,050	798,083
Total Other Liabilities	4,636,113	666,470	(1,441,297)	3,861,286	1,208,811
Governmental Activities Long-Term Liabilities	\$ 21,145,761	\$ 3,268,304	\$ (4,500,602)	\$ 19,913,463	\$ 1,754,353
	<u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 30,766,007	\$ 12,363,977	\$ (21,539,301)	\$ 21,590,683	\$ 479,459
Deferred Amounts:					
Premium	344,864	53,682	(18,719)	379,827	-
Discount	-	(290,633)	-	(290,633)	-
Refunding	-	(1,189,012)	-	(1,189,012)	-
Total Bonds Payable	31,110,871	10,938,014	(21,558,020)	20,490,865	479,459
Other Liabilities:					
Capital Leases	1,443,160	-	(284,281)	1,158,879	171,101
Compensated Absences	279,543	135,052	(126,251)	288,344	121,900
Business-Type Activities Long-Term Liabilities	\$ 32,833,574	\$ 11,073,066	\$ (21,968,552)	\$ 21,938,088	\$ 772,460

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2010 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 545,542	\$ 736,981	\$ 479,459	\$ 969,840
2012	572,923	719,187	472,077	957,409
2013	594,763	700,506	485,237	945,015
2014	211,603	680,461	498,397	932,020
2015	216,800	673,652	513,200	916,619
2016 - 2020	1,661,730	3,206,152	2,858,271	4,287,906
2021 - 2025	2,077,282	2,758,393	3,127,719	3,638,493
2026 -2030	2,638,786	2,197,197	3,951,215	2,818,330
2031 - 2035	5,046,504	1,332,464	3,303,496	1,924,643
2036 - 2039	2,273,385	220,449	5,901,612	789,013
Total	<u>\$ 15,839,318</u>	<u>\$ 13,225,442</u>	<u>\$ 21,590,683</u>	<u>\$ 18,179,288</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, 2010. 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, 2010**

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, 2010 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, 2010 and 2009 were as follows:

	Claims Liability at beginning of year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at end of year
2009-10	\$ 399,475	\$ 2,977,484	\$ (2,981,502)	\$ 395,457
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, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Arizona State Retirement System

Plan Descriptions – The City of Nogales, 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 Nogales, Arizona's contribution rates. For the year ended June 30, 2010, active plan members were required by statute to contribute at the actuarially determined rate of 9.40% (9.00% for retirement and 0.40% for long-term disability) of the members' annual covered payroll and the City of Nogales, Arizona was required by statute to contribute at the actuarially determined rate of 9.40% (8.34% for retirement, 0.66% for health insurance premium, and 0.40% for long-term disability) of the members' annual covered payroll. Contributions to the plan by the City for June 30, 2010 and two preceding fiscal years were equal to the required contributions and are presented as follows:

<u>Years Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2010	\$ 563,325	\$ 44,580	\$ 27,018
2009	432,904	56,302	27,324
2008	356,041	46,453	22,122

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010, the City of Nogales, Arizona's annual pension cost of \$620,903 for police and \$567,279 for fire was equal to the City of Nogales, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2009 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, 2010, the plan for police was 72.6% funded and the plan for fire was 65.7% funded. The actuarial accrued liability for benefits was \$14.2 million and \$11.5 million for police and fire, respectively; and the actuarial value of assets was \$10.3 million and \$7.5 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$3.9 million and \$3.9 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.4 million and \$2.4 million, and the ratio of the UAAL to the covered payroll was 113.3% and 160.9%, respectively.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Funded Status and Funding Progress - As of June 30, 2010, the other post employment benefits for police and fire were 0% funded. The actuarial accrued liability for benefits was \$0.7 million and \$0.6 million for police and fire, respectively; and the actuarial value of assets was \$-0- for police and fire; resulting in an unfunded actuarial accrued liability (UAAL) of \$0.7 million and \$0.6 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.4 million and \$2.4 million, and the ratio of the UAAL to the covered payroll was 21.2% and 23.3%, respectively.

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 Nogales, 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, 2010 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
2008	\$ 362,423	100.0 %	\$ -
2009	592,856	100.0	-
2010	620,903	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2008	\$ 54,525	100.0 %	\$ -
2009	68,832	100.0	-
2010	70,808	100.0	-

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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
2008	\$ 384,139	100.0 %	\$ -
2009	548,030	100.0	-
2010	567,279	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2008	\$ 43,400	100.0 %	\$ -
2009	50,284	100.0	-
2010	53,326	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 46.

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.

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, 2010**

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
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%
2010	10,304,896	14,200,952	72.6%	3,896,056	3,438,798	113.3%

Other Post Employment Benefits (Health Insurance Subsidy)

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
2008	\$ -	\$ 688,827	0.0%	\$ 688,827	\$ 2,931,450	23.5%
2009	-	709,358	0.0%	709,358	3,204,242	22.1%
2010	-	729,495	0.0%	729,495	3,438,798	21.2%

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
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%
2010	7,546,494	11,478,927	65.7%	3,932,433	2,444,422	160.9%

Other Post Employment Benefits (Health Insurance Subsidy)

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
2008	\$ -	\$ 582,523	0.0%	\$ 582,523	\$ 2,284,185	25.5%
2009	-	558,898	0.0%	558,898	2,581,568	21.6%
2010	-	570,612	0.0%	570,612	2,444,422	23.3%

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