

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012**

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YEAR ENDED JUNE 30, 2012**

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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, 2012, 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, a major Enterprise Fund, and which comprises 10% of the assets, and 7% of the operating revenues of the Business-Type Activities. 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 detailed cumulative capital assets list. The absence of these capital asset records prevents management from accurately recording, disposing, and depreciating capital assets, including the omission of capitalized interest in accordance with accounting principles generally accepted in the United States of America. Management also did not record a liability or include any required disclosures related to its Other Postemployment Benefits Other Than Pensions required by accounting principles generally accepted in the United States of America. The amount by which these departures would affect the assets, liabilities, fund balance, net assets, and expenses in the governmental activities, the business-type activities, the Water, Sewer and Sanitation funds, and the aggregate remaining fund information is not reasonably determinable.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements of the governmental activities, business-type activities, Sewer, Water and Sanitation funds and the aggregate remaining fund information do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position as of June 30, 2012, or the changes in financial position for the year then ended.

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

In addition, in our opinion, based on our audit and the report of other auditors, the financial statements present fairly, in all material respects, the respective financial position of the General, HURF, and Capital Program governmental funds, and the Nogales Housing Authority enterprise fund of the City of Nogales, Arizona, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented a Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Public Safety Personnel Retirement System Schedule of Funding Progress on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Phoenix, Arizona
May 30, 2013

Basic Financial Statements

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CITY OF NOGALES, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 7,282,395	\$ 5,004,648	\$ 12,287,043
Receivables, Net:			
Accounts Receivable	436,779	713,852	1,150,631
Intergovernmental Receivables	1,410,162	19,932	1,430,094
Taxes Receivable	795,518	-	795,518
Special Assessments Receivable	11,455	-	11,455
Interest Receivable	-	298	298
Interfund Balances	4,591,801	(4,591,801)	-
Prepaid Items	21,744	16,862	38,606
Inventory	59,630	31,190	90,820
Deferred Charges	431,227	581,395	1,012,622
Restricted Assets	735,706	7,398,688	8,134,394
Capital Assets:			
Non-Depreciable	15,622,078	50,961,019	66,583,097
Depreciable (Net)	13,590,241	52,183,746	65,773,987
Total Assets	44,988,736	112,319,829	157,308,565
LIABILITIES			
Accounts Payable	778,641	829,704	1,608,345
Accrued Wages and Benefits	340,660	38,921	379,581
Retainage Payable	109,339	-	109,339
Customer Deposits Payable	33,833	668,273	702,106
Unearned Revenue	-	4,845	4,845
Intergovernmental Payable	500	939	1,439
Claims Payable	373,332	-	373,332
Noncurrent Liabilities:			
Due Within One Year	1,623,670	801,688	2,425,358
Due in More Than One Year	16,536,137	19,901,025	36,437,162
Total Liabilities	19,796,112	22,245,395	42,041,507
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	13,263,400	89,536,833	102,800,233
Restricted for:			
Highways and Streets	363,694	-	363,694
Federal and State Grants	1,006,667	-	1,006,667
Capital Outlay	494,197	-	494,197
Housing	-	2,146,223	2,146,223
Unrestricted	10,064,666	(1,608,622)	8,456,044
Total Net Assets	\$ 25,192,624	\$ 90,074,434	\$ 115,267,058

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

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	\$ 5,902,641	\$ 1,360,800	\$ 41,871	\$ -	\$ (4,499,970)		\$ (4,499,970)
Public Safety	10,721,102	861,062	1,990,456	78,261	(7,791,323)		(7,791,323)
Highways and Streets	2,234,642	9,196	1,488,604	-	(736,842)		(736,842)
Culture and Recreation	1,471,593	71,545	241,738	166,382	(991,928)		(991,928)
Interest on Long-Term Debt	841,526	-	-	-	(841,526)		(841,526)
Total Governmental Activities	21,171,504	2,302,603	3,762,669	244,643	(14,861,589)		(14,861,589)
Business-Type Activities:							
Sewer	2,745,047	1,713,757	-	659,763		\$ (371,527)	(371,527)
Water	2,434,607	2,438,744	-	-		4,137	4,137
Sanitation	2,192,409	2,516,611	-	-		324,202	324,202
NHA	2,640,319	536,676	1,494,957	423,661		(185,025)	(185,025)
Total Business-Type Activities	10,012,382	7,205,788	1,494,957	1,083,424		(228,213)	(228,213)
Total Primary Government	\$ 31,183,886	\$ 9,508,391	\$ 5,257,626	\$ 1,328,067	(14,861,589)	(228,213)	(15,089,802)
General Revenues:							
Taxes:							
Sales Taxes					10,022,982	-	10,022,982
Franchise Taxes					675,904	-	675,904
Impact Fees					-	96,396	96,396
State Revenue Sharing					4,750,352	-	4,750,352
Investment Earnings					3,857	16,317	20,174
Other					92,965	140,831	233,796
Total General Revenues					15,546,060	253,544	15,799,604
Change in Net Assets					684,471	25,331	709,802
Net Assets - Beginning					24,508,153	90,049,103	114,557,256
Net Assets - Ending					\$ 25,192,624	\$ 90,074,434	\$ 115,267,058

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	HURF	Capital Program	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 4,215,147	\$ -	\$ 37,945	\$ 731,582	\$ 4,984,674
Restricted Assets	239,406	7,570	488,730	-	735,706
Receivables:					
Accounts Receivables	356,313	-	-	-	356,313
Intergovernmental Receivable	395,940	143,666	-	870,556	1,410,162
Taxes Receivable	795,518	-	-	-	795,518
Special Assessments Receivable	-	-	-	11,455	11,455
Due from Other Funds	5,466,259	-	-	-	5,466,259
Prepaid Items	21,744	-	-	-	21,744
Total Assets	<u>\$ 11,490,327</u>	<u>\$ 151,236</u>	<u>\$ 526,675</u>	<u>\$ 1,613,593</u>	<u>\$ 13,781,831</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 353,874	\$ 37,898	\$ 114,855	\$ 205,280	\$ 711,907
Accrued Wages and Benefits	336,741	17,517	-	10,227	364,485
Intergovernmental Payable	-	-	-	500	500
Due to Other Funds	-	812,872	-	15,770	828,642
Retainage Payable	-	-	109,339	-	109,339
Deferred Revenue	-	-	-	11,455	11,455
Customer Deposits Payable	33,833	-	-	-	33,833
Total Liabilities	<u>724,448</u>	<u>868,287</u>	<u>224,194</u>	<u>243,232</u>	<u>2,060,161</u>
Fund Balances					
Nonspendable:					
Prepaid Items	21,744	-	-	-	21,744
Restricted	194,236	7,570	292,391	1,370,361	1,864,558
Assigned	-	-	10,090	-	10,090
Unassigned	10,549,899	(724,621)	-	-	9,825,278
Total Fund Balances	<u>10,765,879</u>	<u>(717,051)</u>	<u>302,481</u>	<u>1,370,361</u>	<u>11,721,670</u>
Total Liabilities and Fund Balances	<u>\$ 11,490,327</u>	<u>\$ 151,236</u>	<u>\$ 526,675</u>	<u>\$ 1,613,593</u>	<u>\$ 13,781,831</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, 2012**

Total Fund Balances for Governmental Funds	\$ 11,721,670
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	11,455
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Governmental Capital Assets	49,392,849
Less: Accumulated Depreciation	<u>(20,201,978)</u>
Capital Assets Used in Governmental Activities	29,190,871
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.	
Deferred Issuance Costs	431,227
Long term liabilities, including bonds payable and retainage payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Revenue Bonds	(14,720,853)
Deferred Amount on Refunding	108,018
Bond Premium	(318,452)
Capital Leases	(1,645,723)
Compensated Absences	(1,547,029)
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.	
	<u>1,961,440</u>
Total Net Assets of Governmental Activities	<u><u>\$ 25,192,624</u></u>

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, 2012

	General	HURF	Capital Program	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Sales Taxes	\$ 10,022,982	\$ -	\$ -	\$ -	\$ 10,022,982
Franchise Taxes	675,904	-	-	-	675,904
Intergovernmental	5,267,323	1,453,099	-	2,037,242	8,757,664
Fines and Forfeitures	406,358	-	-	-	406,358
Licenses and Permits	766,755	-	-	-	766,755
Charges for Services	1,129,490	-	-	-	1,129,490
Special Assessments	-	-	-	338	338
Investment Earnings	946	126	-	-	1,072
Other	92,627	-	-	-	92,627
Total Revenues	<u>18,362,385</u>	<u>1,453,225</u>	<u>-</u>	<u>2,037,580</u>	<u>21,853,190</u>
EXPENDITURES					
Current:					
General Government	4,704,238	-	332	210,673	4,915,243
Public Safety	9,439,902	-	-	1,546,878	10,986,780
Highways and Streets	956,985	1,030,403	-	51,895	2,039,283
Culture and Recreation	1,407,499	-	-	32,220	1,439,719
Debt Service:					
Principal Retirement	572,416	431,293	-	-	1,003,709
Interest on Long-Term Debt	456,362	354,596	-	-	810,958
Capital Outlay	-	-	2,730,069	33,732	2,763,801
Total Expenditures	<u>17,537,402</u>	<u>1,816,292</u>	<u>2,730,401</u>	<u>1,875,398</u>	<u>23,959,493</u>
Excess (Deficiency) of Revenues Over Expenditures	824,983	(363,067)	(2,730,401)	162,182	(2,106,303)
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	95,582	95,582
Transfers Out	(95,582)	-	-	-	(95,582)
Total Other Financing Sources (Uses)	<u>(95,582)</u>	<u>-</u>	<u>-</u>	<u>95,582</u>	<u>-</u>
Net Change in Fund Balances	729,401	(363,067)	(2,730,401)	257,764	(2,106,303)
FUND BALANCES					
Beginning of Year	10,036,478	(353,984)	3,032,882	1,112,597	13,827,973
End of Year	<u>\$ 10,765,879</u>	<u>\$ (717,051)</u>	<u>\$ 302,481</u>	<u>\$ 1,370,361</u>	<u>\$ 11,721,670</u>

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, 2012**

Net Change in Fund Balances of Governmental Funds \$ (2,106,303)

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	3,940,717
Less: Current Year Depreciation	<u>(1,558,835)</u>
Excess Capital Expenditures over Depreciation	2,381,882

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

Special Assessments Recognized	(88,571)
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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	572,923
Principal Payments on Capital Leases	430,785
Amortization of Bond Premium	18,843
Amortization of Deferred Amount on Refunding	(17,631)
Amortization of Issuance Costs	<u>(31,780)</u>

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 Decrease in Compensated Absences	(67,628)
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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.

	<u>(408,049)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 684,471</u></u>

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 10,767,750	\$ 10,767,750	\$ 10,698,886	\$ (68,864)
Intergovernmental	5,625,510	5,625,510	5,267,323	(358,187)
Fines and Forfeitures	482,500	482,500	406,358	(76,142)
Licenses and Permits	674,753	674,753	766,755	92,002
Charges for Services	1,346,308	1,346,308	1,129,490	(216,818)
Contributions and Donations	-	-		-
Investment Earnings	32,487	32,487	946	(31,541)
Other	81,160	81,160	92,627	11,467
Total Revenues	<u>19,010,468</u>	<u>19,010,468</u>	<u>18,362,385</u>	<u>(648,083)</u>
EXPENDITURES				
Current:				
General Government:				
Mayor	85,593	85,593	75,984	9,609
Council	102,775	102,775	83,018	19,757
Administration	445,710	445,710	426,812	18,898
Finance	1,229,864	1,229,864	1,165,481	64,383
Human Resources	204,181	204,181	161,710	42,471
MIS	398,488	398,488	363,613	34,875
Planning and Zoning	218,325	164,693	132,628	32,065
Elections	1,500	1,500	19	1,481
City Attorney	662,764	662,764	489,956	172,808
City Court	392,785	404,785	373,224	31,561
Cemetery	113,413	113,413	112,336	1,077
Nondepartmental	2,251,990	2,373,847	1,319,457	1,054,390
Contingency	3,228,036	3,156,674	-	3,156,674
Total General Government	<u>9,335,424</u>	<u>9,344,287</u>	<u>4,704,238</u>	<u>4,640,049</u>
Public Safety:				
Police	6,026,091	5,990,112	5,508,675	481,437
Fire	3,669,964	3,661,990	3,621,173	40,817
Animal Control	254,172	254,172	247,258	6,914
Building Inspections	101,716	77,444	62,796	14,648
Emergency Response	200,000	200,000	-	200,000
Total Public Safety	<u>10,251,943</u>	<u>10,183,718</u>	<u>9,439,902</u>	<u>743,816</u>
Highways and Streets:				
Streets	-	58,007	48,566	9,441
Facilities Maintenance	662,852	662,852	620,468	42,384
Engineering	302,055	302,055	287,951	14,104
Total Highways and Streets	<u>964,907</u>	<u>1,022,914</u>	<u>956,985</u>	<u>65,929</u>
Culture and Recreation:				
Parks	551,883	551,883	519,065	32,818
Recreation	450,575	450,575	428,255	22,320
Library	463,152	463,152	457,297	5,855
Golf Course	50,000	50,000	2,882	47,118
Total Culture and Recreation	<u>1,515,610</u>	<u>1,515,610</u>	<u>1,407,499</u>	<u>108,111</u>
Debt Service:				
Principal Retirement	409,916	572,416	572,416	-
Interest on Long-Term Debt	572,416	409,916	456,362	(46,446)
Total Debt Service	<u>982,332</u>	<u>982,332</u>	<u>1,028,778</u>	<u>(46,446)</u>
Total Expenditures	<u>23,050,216</u>	<u>23,048,861</u>	<u>17,537,402</u>	<u>5,511,459</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, 2012**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Excess (Deficiency) of Revenues Over Expenditures	\$ (4,039,748)	\$ (4,038,393)	\$ 824,983	\$ 4,863,376
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(95,582)	(95,582)
Net Change in Fund Balance	(4,039,748)	(4,038,393)	729,401	4,767,794
FUND BALANCE				
Beginning of Year	4,038,393	4,038,393	10,036,478	5,998,085
End of Year	<u>\$ (1,355)</u>	<u>\$ -</u>	<u>\$ 10,765,879</u>	<u>\$ 10,765,879</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, 2012

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 1,738,355	\$ 1,453,099	\$ (285,256)
Investment Earnings	17,299	126	(17,173)
Total Revenues	<u>1,755,654</u>	<u>1,453,225</u>	<u>(302,429)</u>
EXPENDITURES			
Current:			
Highways and Streets	1,227,461	1,030,403	197,058
Debt Service			
Principal Retirement	431,422	431,293	129
Interest on Long-Term Debt	354,421	354,596	(175)
Total Expenditures	<u>2,013,304</u>	<u>1,816,292</u>	<u>197,012</u>
Excess (Deficiency) of Revenues Over Expenditures	(257,650)	(363,067)	(105,417)
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>257,650</u>	<u>-</u>	<u>(257,650)</u>
Net Change in Fund Balance	-	(363,067)	(363,067)
FUND BALANCE			
Beginning of Year	-	(353,984)	(353,984)
End of Year	<u>\$ -</u>	<u>\$ (717,051)</u>	<u>\$ (717,051)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-Type Funds - Enterprise Funds		
	Sewer	Water	Sanitation
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 2,546,529	\$ -
Prepaid Assets	-	-	-
Receivables, Net:			
Accounts Receivable	158,889	294,647	247,765
Intergovernmental Receivable	4,296	-	-
Interest Receivable	-	-	-
Inventories	-	-	-
Deferred Charges	261,890	315,817	3,688
Restricted Assets	963,559	6,388,157	1
Total Current Assets	<u>1,388,634</u>	<u>9,545,150</u>	<u>251,454</u>
Noncurrent Assets:			
Advances to Other Funds	49,100	-	-
Capital Assets:			
Non-Depreciable	46,652,439	2,696,526	-
Depreciable (Net)	33,686,316	10,110,169	403,632
Total Noncurrent Assets	<u>80,387,855</u>	<u>12,806,695</u>	<u>403,632</u>
Total Assets	<u>81,776,489</u>	<u>22,351,845</u>	<u>655,086</u>
Liabilities			
Current Liabilities:			
Accounts Payable	248,986	218,289	35,190
Accrued Wages and Benefits	11,346	12,113	15,462
Intergovernmental Payable	-	939	-
Unearned Revenue	-	-	-
Customer Deposits Payable	-	621,112	-
Claims Payable	-	-	-
Due To Other Funds	2,650,020	-	1,941,781
Compensated Absences	36,118	42,914	41,753
Capital Leases Payable	62,505	58,403	69,142
Bonds and Notes Payable	338,646	137,056	9,535
Total Current Liabilities	<u>3,347,621</u>	<u>1,090,826</u>	<u>2,112,863</u>
Noncurrent Liabilities:			
Advances from Other Funds	-	-	49,100
Compensated Absences	30,381	47,203	39,824
Capital Leases Payable	90,337	503,929	23,801
Bonds and Notes Payable	7,901,463	11,099,647	113,897
Total Noncurrent Liabilities	<u>8,022,181</u>	<u>11,650,779</u>	<u>226,622</u>
Total Liabilities	<u>11,369,802</u>	<u>12,741,605</u>	<u>2,339,485</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	72,909,363	6,844,529	187,258
Restricted	-	-	-
Unrestricted	(2,502,676)	2,765,711	(1,871,657)
Total Net Assets	<u>\$ 70,406,687</u>	<u>\$ 9,610,240</u>	<u>\$ (1,684,399)</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Funds - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Totals	
\$ 2,069,703	\$ 4,616,232	\$ 2,297,721
16,862	16,862	-
12,551	713,852	80,466
404,052	408,348	-
298	298	-
31,190	31,190	59,630
-	581,395	-
46,971	7,398,688	-
<u>2,581,627</u>	<u>13,766,865</u>	<u>2,437,817</u>
-	49,100	-
1,612,054	50,961,019	-
7,983,629	52,183,746	21,448
<u>9,595,683</u>	<u>103,193,865</u>	<u>21,448</u>
12,177,310	116,960,730	2,459,265
327,239	829,704	66,734
-	38,921	5,237
-	939	-
4,845	4,845	-
47,161	668,273	-
-	-	344,270
-	4,591,801	45,816
5,616	126,401	34,067
-	190,050	-
-	485,237	-
<u>384,861</u>	<u>6,936,171</u>	<u>496,124</u>
-	49,100	-
50,543	167,951	1,701
-	618,067	-
-	19,115,007	-
<u>50,543</u>	<u>19,950,125</u>	<u>1,701</u>
<u>435,404</u>	<u>26,886,296</u>	<u>497,825</u>
9,595,683	89,536,833	21,448
2,146,223	2,146,223	-
-	(1,608,622)	1,939,992
<u>\$ 11,741,906</u>	<u>\$ 90,074,434</u>	<u>\$ 1,961,440</u>

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Business-Type Funds - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Sanitation</u>
OPERATING REVENUES			
Charges for Services	\$ 1,713,757	\$ 2,438,744	\$ 2,516,611
Rents and Royalties	-	-	-
Contributions	-	-	-
Total Operating Revenues	<u>1,713,757</u>	<u>2,438,744</u>	<u>2,516,611</u>
OPERATING EXPENSES			
Cost of Sales and Services	1,595,159	1,620,807	2,081,846
Claims	-	-	-
Depreciation	671,310	246,270	98,837
Total Operating Expenses	<u>2,266,469</u>	<u>1,867,077</u>	<u>2,180,683</u>
OPERATING INCOME (LOSS)	(552,712)	571,667	335,928
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental Revenue	-	-	-
Development Impact Fees	73,307	23,089	-
Investment Earnings	11,353	217	2
Interest Expense	(478,578)	(567,530)	(11,726)
Miscellaneous Nonoperating Revenues	1,858	41,635	269
Total Nonoperating Revenues (Expenses)	<u>(392,060)</u>	<u>(502,589)</u>	<u>(11,455)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(944,772)	69,078	324,473
Capital Contributions	<u>659,763</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(285,009)	69,078	324,473
NET ASSETS			
Beginning of Year	70,691,696	9,541,162	(2,008,872)
End of Year	<u>\$ 70,406,687</u>	<u>\$ 9,610,240</u>	<u>\$ (1,684,399)</u>

See accompanying Notes to Basic Financial Statements.

<u>Business-Type Funds - Enterprise Funds</u>		<u>Governmental Activities Internal Service Funds</u>
<u>NHA</u>	<u>Totals</u>	
\$ -	\$ 6,669,112	\$ 1,084,794
536,676	536,676	-
-	-	2,965,695
<u>536,676</u>	<u>7,205,788</u>	<u>4,050,489</u>
2,203,806	7,501,618	1,566,759
-	-	2,888,469
436,513	1,452,930	6,724
<u>2,640,319</u>	<u>8,954,548</u>	<u>4,461,952</u>
(2,103,643)	(1,748,760)	(411,463)
1,494,957	1,494,957	-
-	96,396	-
4,745	16,317	3,414
-	(1,057,834)	-
97,069	140,831	-
<u>1,596,771</u>	<u>690,667</u>	<u>3,414</u>
(506,872)	(1,058,093)	(408,049)
<u>423,661</u>	<u>1,083,424</u>	<u>-</u>
(83,211)	25,331	(408,049)
11,825,117	90,049,103	2,369,489
<u>\$ 11,741,906</u>	<u>\$ 90,074,434</u>	<u>\$ 1,961,440</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Sanitation</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 1,714,790	\$ 2,441,895	\$ 2,532,212
Payments to Suppliers	(1,739,263)	(752,683)	(1,254,813)
Payments to Employees	(475,713)	(731,164)	(839,833)
Payments for Claims	-	-	-
Other Receipts	1,858	41,635	269
Customer Deposits Payable	-	3,177	-
Net Cash Provided (Used) by Operating Activities	<u>(498,328)</u>	<u>1,002,860</u>	<u>437,835</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Revenues	1,822,000	-	-
Interfund Borrowing	(1,080,277)	-	(334,859)
Development Impact Fees	73,307	23,089	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>815,030</u>	<u>23,089</u>	<u>(334,859)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES			
Capital Contributions	973,763	-	-
Purchases of Capital Assets	(1,228,871)	(96,443)	(48,316)
Principal Paid on Capital Debt	(389,644)	(186,845)	(75,249)
Interest Paid on Capital Debt	(424,126)	(562,647)	(11,502)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,068,878)</u>	<u>(845,935)</u>	<u>(135,067)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	<u>11,353</u>	<u>217</u>	<u>2</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(740,823)	180,231	(32,089)
Cash and Cash Equivalents, Beginning of Year	<u>1,704,382</u>	<u>8,754,455</u>	<u>32,090</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 963,559</u>	<u>\$ 8,934,686</u>	<u>\$ 1</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Cash and Cash Equivalents	\$ -	\$ 2,546,529	\$ -
Restricted Assets	963,559	6,388,157	1
Total Cash and Cash Equivalents	<u>\$ 963,559</u>	<u>\$ 8,934,686</u>	<u>\$ 1</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Total	
\$ 542,152	\$ 7,231,049	\$ 3,970,802
(1,553,581)	(5,300,340)	(1,175,131)
(631,918)	(2,678,628)	(387,524)
-	-	(2,816,499)
97,069	140,831	-
1,931	5,108	-
<u>(1,544,347)</u>	<u>(601,980)</u>	<u>(408,352)</u>
1,529,312	3,351,312	-
-	(1,415,136)	15,674
-	96,396	-
<u>1,529,312</u>	<u>2,032,572</u>	<u>15,674</u>
423,661	1,397,424	-
(423,661)	(1,797,291)	-
-	(651,738)	-
-	(998,275)	-
-	<u>(2,049,880)</u>	-
<u>4,777</u>	<u>16,349</u>	<u>3,414</u>
(10,258)	(602,939)	(389,264)
<u>2,126,932</u>	<u>12,617,859</u>	<u>2,686,985</u>
<u>\$ 2,116,674</u>	<u>\$ 12,014,920</u>	<u>\$ 2,297,721</u>
\$ 2,069,703	\$ 4,616,232	\$ 2,297,721
46,971	7,398,688	-
<u>\$ 2,116,674</u>	<u>\$ 12,014,920</u>	<u>\$ 2,297,721</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012**

	<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)	\$ (552,712)	\$ 571,667	\$ 335,928
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	671,310	246,270	98,837
Nonoperating Receipts	1,858	41,635	269
Change in Assets/Liabilities:			
Receivables	1,033	3,151	15,601
Prepaid Items	-	-	-
Inventories	-	-	-
Accounts Payable	(578,796)	138,568	(13,864)
Accrued Wages and Benefits	(25,081)	2,329	2,317
Unearned Revenue	-	-	-
Compensated Absences	(15,940)	(3,937)	(1,253)
Claims Payable	-	-	-
Customer Deposits Payable	-	3,177	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (498,328)</u>	<u>\$ 1,002,860</u>	<u>\$ 437,835</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

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

Amortization of Issuance Costs	\$ 11,185	\$ 17,527	\$ 390
Amortization of Premium (Discount)	7,256	(17,417)	(383)
Amortization of Deferred Amount on Issuance	36,011	4,773	217

See accompanying Notes to Basic Financial Statements.

<u>Business-Type Activities - Enterprise Funds</u>		<u>Governmental Activities Internal Service Funds</u>
<u>NHA</u>	<u>Total</u>	
\$ (2,103,643)	\$ (1,748,760)	\$ (411,463)
436,513	1,452,930	6,724
97,069	140,831	-
4,923	24,708	(79,687)
(500)	(500)	-
(22,818)	(22,818)	(12,856)
70,692	(383,400)	36,057
(43,325)	(63,760)	(290)
553	553	-
14,258	(6,872)	(18,807)
-	-	71,970
1,931	5,108	-
<u>\$ (1,544,347)</u>	<u>\$ (601,980)</u>	<u>\$ (408,352)</u>

\$ -	\$ 29,102	\$ -
-	(10,544)	-
-	41,001	-

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>Pension Trust</u>
Assets	
Cash and Cash Equivalents	<u>\$ 15,563</u>
Net Assets	
Held In Trust	<u>\$ 15,563</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, 2012**

	Pension Trust
ADDITIONS	
Investment Earnings	\$ 554
DEDUCTIONS	
Benefits	7,755
CHANGE IN NET ASSETS	(7,201)
Net Assets, Beginning of Year	22,764
NET ASSETS, END OF YEAR	\$ 15,563

See accompanying Notes to Basic Financial Statements.

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CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 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. The MDA is reported as a blended component unit Debt Service Fund in the governmental funds. The City does not issue separate financial statements for the MDA.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, proprietary fund, and fiduciary fund 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. Special assessment 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, 2012

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 Special Revenue Fund* accounts for the operations of the street maintenance department. Financing is provided by the City's share of state gasoline taxes, which is a restricted revenue source. State law requires these gasoline taxes be used to maintain streets.

The *Capital Program Capital Projects Fund* accounts for the financing of major capital projects of the governmental funds.

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, 2012

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, 2012

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 \$442,912 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$188,853.

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, 2012

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, 2012

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 Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaid items, or are legally or contractually required to be maintained intact.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Fund Balance Classifications (Continued)

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

Committed fund balances are self-imposed limitations approved by the City's Council, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances through formal council action. Fund balance commitments must be made or removed prior to fiscal year end.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has not authorized an employee to make assignments of resources for specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

It is the City's policy to use restricted fund balance first, then committed, assigned, and lastly unassigned amounts.

At June 30, 2012, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Capital Program Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Prepays	\$ 21,744	\$ -	\$ -	\$ -	\$ 21,744
Restricted					
Impound Fees	62,445	-	-	-	62,445
Federal and State Grants	-	-	-	1,006,667	1,006,667
Local Transportation Assistance	-	-	-	363,694	363,694
Capital Outlay (Unspent Bonds)	131,791	7,570	488,730	-	628,091
Assigned					
Capital Outlay	-	-	10,090	-	10,090
Unassigned	10,549,899	(724,621)	-	-	9,825,278
Total Fund Balance	<u>\$ 10,765,879</u>	<u>\$ (717,051)</u>	<u>\$ 498,820</u>	<u>\$ 1,370,361</u>	<u>\$ 11,918,009</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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.

B. Deficit Fund Equity

A deficit fund balance in the amount of \$717,051 and \$1,684,399 was reported in the HURF 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, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2012 consist of the following:

Deposits:	
Cash on Hand	\$ 4,221
Cash in Bank	11,808,358
Certificates of Deposit	864,539
Investments:	
U.S. Government Money Market Securities	4,811,566
U.S. Treasury Bill	<u>2,937,349</u>
Total Deposits and Investments	20,426,033
Restricted Cash and Investments	(8,134,394)
Fiduciary Funds	<u>(15,563)</u>
Total Cash and Cash Equivalents	<u>\$ 12,276,076</u>

Deposits – The carrying value of the City’s deposits at June 30, 2012 was \$12,672,897, including certificates of deposit, and the bank balance was \$13,338,040. Of the bank balance, \$13,338,040 was covered by federal depository insurance or collateral held under the continuing deposit security agreement.

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.

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 City’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 and U.S. Treasury Bills at June 30, 2012.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2012 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Sale of Easement of Escrow Funds	\$ 107,615	\$ -	\$ 107,615
Operation and Maintenance	-	132,977	132,977
Repair and Replacement Fund	-	85,076	85,076
Future Debt Service and Construction	628,091	6,552,103	7,180,194
Housing Assistance Payments	-	46,971	46,971
Customer Deposits	-	551,288	551,288
Unspent Lease Proceeds	-	30,273	30,273
Total	<u>\$ 735,706</u>	<u>\$ 7,398,688</u>	<u>\$ 8,134,394</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 reported in the governmental funds were as follows:

	<u>Unavailable</u>
Nonmajor Governmental Funds Special Assessments Receivable	<u>\$ 11,455</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 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	2,396,642	-	11,343,915
Total Capital Assets, Not Being Depreciated	13,225,436	2,396,642	-	15,622,078
Capital Assets, Being Depreciated:				
Infrastructure	2,261,803	-	-	2,261,803
Buildings	7,672,843	-	-	7,672,843
Improvements Other than Buildings	5,681,839	36,051	-	5,717,890
Vehicles, Machinery and Equipment	16,854,693	1,508,024	-	18,362,717
Total Capital Assets, Being Depreciated	32,471,178	1,544,075	-	34,015,253
Accumulated Depreciation for:				
Infrastructure	(155,929)	(12,888)	-	(168,817)
Buildings	(3,526,090)	(291,450)	-	(3,817,540)
Improvements Other than Buildings	(2,682,921)	(221,758)	-	(2,904,679)
Vehicles, Machinery and Equipment	(12,494,513)	(1,039,463)	-	(13,533,976)
Total Accumulated Depreciation	(18,859,453)	(1,565,559)	-	(20,425,012)
Total Capital Assets, Being Depreciated, Net	13,611,725	(21,484)	-	13,590,241
Governmental Activities Capital Assets, Net	\$ 26,837,161	\$ 2,375,158	\$ -	\$ 29,212,319

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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	47,274,579	923,964	-	48,198,543
Total Capital Assets, Not Being Depreciated	50,037,055	923,964	-	50,961,019
Capital Assets, Being Depreciated:				
Buildings	6,332,510	-	-	6,332,510
Improvements Other than Buildings	49,415,308	-	-	49,415,308
Vehicles, Machinery and Equipment	8,832,184	175,436	-	9,007,620
Housing Authority	12,841,313	697,891	-	13,539,204
Total Capital Assets, Being Depreciated	77,421,315	873,327	-	78,294,642
Accumulated Depreciation for:				
Buildings	(5,463,942)	(299,833)	-	(5,763,775)
Improvements Other than Buildings	(9,128,593)	(500,929)	-	(9,629,522)
Vehicles, Machinery and Equipment	(4,946,369)	(215,655)	-	(5,162,024)
Housing Authority	(5,119,062)	(436,513)	-	(5,555,575)
Total Accumulated Depreciation	(24,657,966)	(1,452,930)	-	(26,110,896)
Total Capital Assets, Being Depreciated, Net	52,763,349	(579,603)	-	52,183,746
Business-Type Activities Capital Assets, Net	\$ 102,800,404	\$ 344,361	\$ -	\$ 103,144,765

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 518,977
Public Safety	755,499
Highways and Streets	201,199
Culture and Recreation	89,884
Total Depreciation Expense	\$ 1,565,559

Business-Type Activities:

Sewer	\$ 671,310
Water	246,270
Sanitation	98,837
Nogales Housing Authority	436,513
Total Depreciation Expense	\$ 1,452,930

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, And Transfers

As of June 30, 2012 interfund receivable and payables were as follows:

	Due To
Due From	General Fund
HURF Fund	\$ 812,872
Nonmajor Governmental Fund	15,770
Sewer Fund	2,650,020
Sanitation Fund	1,941,781
Internal Service Fund	45,816
	\$ 5,466,259

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2012 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.

As of June 30, 2012, transfers were as follows:

	Transfer Out
Transfers In	General Fund
Nonmajor Governmental Funds	\$ 95,582

The transfer was recorded to eliminate the deficit in the Nonmajor Debt Service Fund for special assessment receivables that were deemed uncollectible and were subsequently written off.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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>(1,341,969)</u>	<u>(329,066)</u>
Total	<u>\$ 2,501,044</u>	<u>\$ 1,316,260</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, 2012, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2013	\$ 521,374	\$ 222,548
2014	304,234	127,315
2015	195,749	79,529
2016	196,699	80,635
2017	198,666	82,926
2018 - 2022	<u>482,451</u>	<u>363,919</u>
Total Minimum Lease Payments	1,899,173	956,872
Less: Amount Representing Interest	<u>(253,450)</u>	<u>(148,755)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,645,723</u>	<u>\$ 808,117</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 %	7/1/2013	\$ 3,345,000	\$ 390,000
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/13-19	2,455,376	1,138,996
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	07/01/19-30	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	10/01/12-39	2,671,023	2,410,727
Total Governmental Activities			<u>\$ 19,252,529</u>	<u>\$ 14,720,853</u>
Business-Type Activities:				
Bonds Payable:				
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/13-19	\$ 2,394,624	\$ 1,111,005
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	06/01/19-30	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	10/01/12-39	12,363,977	11,159,273
Total Business-Type Activities			<u>\$ 23,127,471</u>	<u>\$ 20,639,148</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 \$26,490,127. Principal and interest paid for the current year and total excise taxes were \$1,292,110 and \$17,783,511, 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 \$36,891,187. Principal and interest paid for the current year and total pledged revenues were \$1,429,486 and \$6,724,446, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2012 are as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 15,293,776	\$ -	\$ (572,923)	\$ 14,720,853	\$ 594,763
Deferred Amounts:					
Premium	337,295	-	(18,843)	318,452	-
Deferred Amount on Refunding	(125,649)	-	17,631	(108,018)	-
Total Bonds	15,505,422	-	(574,135)	14,931,287	594,763
Other Liabilities:					
Capital Leases	2,076,508	-	(430,785)	1,645,723	453,024
Compensated Absences	1,533,976	661,313	(612,492)	1,582,797	575,883
Total Other Liabilities	3,610,484	661,313	(1,043,277)	3,228,520	1,028,907
Governmental Activities Long-Term Liabilities	<u>\$ 19,115,906</u>	<u>\$ 661,313</u>	<u>\$ (1,617,412)</u>	<u>\$ 18,159,807</u>	<u>\$ 1,623,670</u>
	July 1, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 21,111,225	\$ -	\$ (472,077)	\$ 20,639,148	\$ 485,237
Deferred Amounts:					
Premium	361,112	-	(18,715)	342,397	-
Discount	(282,462)	-	8,171	(274,291)	-
Refunding	(1,148,011)	-	41,001	(1,107,010)	-
Total Bonds Payable	20,041,864	-	(441,620)	19,600,244	485,237
Other Liabilities:					
Capital Leases	987,778	-	(179,661)	808,117	190,050
Compensated Absences	301,224	122,375	(129,247)	294,352	126,401
Business-Type Activities Long-Term Liabilities	<u>\$ 21,330,866</u>	<u>\$ 122,375</u>	<u>\$ (750,528)</u>	<u>\$ 20,702,713</u>	<u>\$ 801,688</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2012 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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	227,060	664,465	532,940	898,606
2017	234,789	654,818	550,212	879,853
2018 - 2022	1,970,878	3,049,060	2,939,122	4,050,610
2023 - 2027	2,285,903	2,550,402	3,434,097	3,335,258
2028 -2032	3,534,067	1,919,182	3,710,934	2,442,573
2033 - 2037	4,693,982	821,483	4,496,018	1,595,842
2038 - 2039	751,008	55,245	3,478,991	255,643
Total	<u>\$ 14,720,853</u>	<u>\$ 11,769,274</u>	<u>\$ 20,639,148</u>	<u>\$ 16,252,039</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 \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 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, 2012. 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, 2012

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, 2012 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 30, 2012 and 2011 were as follows:

	Claims Liability at beginning of year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at end of year
2011-12	\$ 272,300	\$ 2,888,469	\$ (2,816,499)	\$ 344,270
2010-11	395,457	2,292,159	(2,415,316)	272,300

B. Contingencies

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel, the City has some exposure to loss; however, the City is vigorously defending these claims and any loss or dollar value of the loss is not determinable.

C. 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.

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Firefighters Relief and Pension Fund (Continued)

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.

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, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74% (10.50% for retirement and 0.24% 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 10.74% (9.87% for retirement, 0.63% for health insurance premium, and 0.24% for long-term disability) of the members' annual covered payroll. Contributions to the plan by the City for June 30, 2012 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>
2012	\$ 592,141	\$ 37,796	\$ 14,399
2011	556,931	36,469	15,453
2010	563,325	44,580	27,018

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 OTHER INFORMATION (CONTINUED)

C. 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 18.77% and 21.94% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost – During the year ended June 30, 2012, the City of Nogales, Arizona's annual pension cost of \$647,608 for police and \$543,596 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, 2010 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 5.5% (not including inflation) 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, 2012, the plan for police was 70.2% funded and the plan for fire was 62.0% funded. The actuarial accrued liability for benefits was \$16.7 million and \$14.0 million for police and fire, respectively; and the actuarial value of assets was \$11.7 million and \$8.7 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$5.0 million and \$5.3 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.1 million and \$2.3 million, and the ratio of the UAAL to the covered payroll was 161.9% and 234.2%, respectively.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Funded Status and Funding Progress - As of June 30, 2012, the other post employment benefits for police and fire were 0% funded. The actuarial accrued liability for benefits was \$0.9 million and \$0.7 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 \$0.9 million and \$0.7 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.1 million and \$2.3 million, and the ratio of the UAAL to the covered payroll was 28.0% and 30.2%, 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 seven-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, 2012 was 24 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
2010	\$ 620,903	100.0 %	\$ -
2011	582,210	100.0	-
2012	647,608	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2010	\$ 70,808	100.0 %	\$ -
2011	68,131	100.0	-
2012	66,254	100.0	-

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. 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
2010	\$ 567,279	100.0 %	\$ -
2011	556,568	100.0	-
2012	543,596	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2010	\$ 53,326	100.0 %	\$ -
2011	53,187	100.0	-
2012	50,786	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, 2012**

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
2010	\$ 10,304,896	\$ 14,200,952	72.6%	\$ 3,896,056	\$ 3,438,798	113.3%
2011	11,114,190	15,678,436	70.9%	4,564,246	3,340,365	136.6%
2012	11,692,386	16,655,539	70.2%	4,963,153	3,066,028	161.9%

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
2010	\$ -	\$ 724,495	0.0%	\$ 724,495	\$ 3,438,798	21.1%
2011	-	838,095	0.0%	838,095	3,340,365	25.1%
2012	-	858,086	0.0%	858,086	3,066,028	28.0%

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
2010	\$ 7,546,494	\$ 11,478,927	65.7%	\$ 3,932,433	\$ 2,444,422	160.9%
2011	8,173,400	12,760,340	64.1%	4,586,940	2,254,294	203.5%
2012	8,669,869	13,983,972	62.0%	5,314,103	2,269,167	234.2%

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
2010	\$ -	\$ 570,612	0.0%	\$ 570,612	\$ 2,444,422	23.3%
2011	-	702,628	0.0%	702,628	2,254,294	31.2%
2012	-	685,262	0.0%	685,262	2,269,167	30.2%

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