

CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

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YEAR ENDED JUNE 30, 2011**

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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, 2011, 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 \$26,837,161, \$10,953,954, \$878,123 and \$1,404,427, respectively, or the business-type activities reported in the government-wide and fund financial statements of \$102,800,404, \$91,377,911, \$1,102,899 and \$1,422,428, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, HURF, and Grants 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

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 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.

Accounting principles generally accepted in the United States of America require that the Public Safety Personnel Retirement System Schedule of Funding Progress on page 48 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.



CliftonLarsonAllen LLP

Mesa, Arizona
October 22, 2012

Basic Financial Statements

CITY OF NOGALES, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 6,790,394	\$ 3,010,710	\$ 9,801,104
Receivables, Net:			
Accounts Receivable	289,029	2,560,560	2,849,589
Intergovernmental Receivables	1,400,171	756,703	2,156,874
Taxes Receivable	917,725	-	917,725
Special Assessments Receivable	100,026	-	100,026
Interest Receivable	-	330	330
Interfund Balances	6,006,937	(6,006,937)	-
Prepaid Items	13,733	16,362	30,095
Inventory	46,774	8,372	55,146
Deferred Charges	463,007	610,497	1,073,504
Restricted Assets	1,806,338	9,607,149	11,413,487
Capital Assets:			
Non-Depreciable	13,225,436	50,037,055	63,262,491
Depreciable (Net)	13,611,725	52,763,349	66,375,074
Total Assets	44,671,295	113,364,150	158,035,445
LIABILITIES			
Accounts Payable	397,706	1,213,104	1,610,810
Accrued Wages and Benefits	303,281	102,681	405,962
Customer Deposits Payable	44,387	663,165	707,552
Unearned Revenue	-	4,292	4,292
Intergovernmental Payable	500	939	1,439
Claims Payable	301,362	-	301,362
Noncurrent Liabilities:			
Due Within One Year	1,634,135	759,812	2,393,947
Due in More Than One Year	17,481,771	20,571,054	38,052,825
Total Liabilities	20,163,142	23,315,047	43,478,189
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	10,953,954	91,377,911	102,331,865
Restricted for:			
General Government	40,200	-	40,200
Highways and Streets	380,288	-	380,288
Public Safety	828,229	-	828,229
Capital Outlay	1,570,070	-	1,570,070
Health Insurance	2,227,345	-	2,227,345
Housing	-	1,680,866	1,680,866
Unrestricted	8,508,067	(3,009,674)	5,498,393
Total Net Assets	\$ 24,508,153	\$ 90,049,103	\$ 114,557,256

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

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	4,836,404	\$ 1,470,979	\$ 25,283	\$ 151,465	\$ (3,188,677)		\$ (3,188,677)
Public Safety	11,568,105	834,457	1,754,701	773,165	(8,205,782)		(8,205,782)
Highways and Streets	2,407,767	5,776	2,081,626	455,719	135,354		135,354
Culture and Recreation	1,567,281	66,995	242,124	234,957	(1,023,205)		(1,023,205)
Interest on Long-Term Debt	878,123	-	-	-	(878,123)		(878,123)
Total Governmental Activities	21,257,680	2,378,207	4,103,734	1,615,306	(13,160,433)		(13,160,433)
Business-Type Activities:							
Sewer	2,890,049	1,697,807	-	322,457		\$ (869,785)	(869,785)
Water	2,512,961	2,538,708	-	-		25,747	25,747
Sanitation	2,287,596	2,545,792	-	-		258,196	258,196
NHA	2,648,677	552,698	1,667,974	782,392		354,387	354,387
Total Business-Type Activities	10,339,283	7,335,005	1,667,974	1,104,849		(231,455)	(231,455)
Total Primary Government	\$ 31,596,963	\$ 9,713,212	\$ 5,771,708	\$ 2,720,155	(13,160,433)	(231,455)	(13,391,888)
General Revenues:							
Taxes:							
Sales Taxes					10,085,610	-	10,085,610
Franchise Taxes					679,164	-	679,164
Impact Fees					-	212,351	212,351
State Revenue Sharing					5,122,716	-	5,122,716
Investment Earnings					37,189	6,309	43,498
Other					108,964	119,318	228,282
Total General Revenues					16,033,643	337,978	16,371,621
Change in Net Assets					2,873,210	106,523	2,979,733
Net Assets - Beginning					21,634,943	89,942,580	111,577,523
Net Assets - Ending					\$ 24,508,153	\$ 90,049,103	\$ 114,557,256

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	HURF	Grants	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 1,999,687	\$ -	\$ 259,682	\$ 1,844,040	\$ 4,103,409
Restricted Assets	232,792	3,476	-	1,570,070	1,806,338
Receivables:					
Accounts Receivables	284,416	-	3,834	-	288,250
Intergovernmental Receivable	512,322	151,850	620,004	115,995	1,400,171
Taxes Receivable	917,725	-	-	-	917,725
Special Assessments Receivable	-	-	-	100,026	100,026
Due from Other Funds	6,683,342	-	-	-	6,683,342
Prepaid Items	13,733	-	-	-	13,733
Total Assets	\$ 10,644,017	\$ 155,326	\$ 883,520	\$ 3,630,131	\$ 15,312,994
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 277,391	\$ 27,362	\$ 34,147	\$ 28,129	\$ 367,029
Accrued Wages and Benefits	285,761	20,058	20,644	353	326,816
Intergovernmental Payable	-	-	500	-	500
Due to Other Funds	-	461,890	-	184,373	646,263
Deferred Revenue	-	-	-	100,026	100,026
Customer Deposits Payable	44,387	-	-	-	44,387
Total Liabilities	607,539	509,310	55,291	312,881	1,485,021
Fund Balances					
Nonspendable:					
Prepaid Items	13,733	-	-	-	13,733
Restricted	40,200	-	828,229	1,950,358	2,818,787
Assigned	-	-	-	1,462,812	1,462,812
Unassigned	9,982,545	(353,984)	-	(95,920)	9,532,641
Total Fund Balances	10,036,478	(353,984)	828,229	3,317,250	13,827,973
Total Liabilities and Fund Balances	\$ 10,644,017	\$ 155,326	\$ 883,520	\$ 3,630,131	\$ 15,312,994

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, 2011**

Total Fund Balances for Governmental Funds	\$ 13,827,973
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	45,452,132
Less: Accumulated Depreciation	<u>(18,643,143)</u>
Capital Assets Used in Governmental Activities	26,808,989
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.	
Deferred Issuance Costs	463,007
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	(15,293,776)
Deferred Amount on Refunding	125,649
Deferred Amount on Premium	(337,295)
Capital Leases	(2,076,508)
Compensated Absences	(1,479,401)
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>2,369,489</u>
Total Net Assets of Governmental Activities	<u><u>\$ 24,508,153</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, 2011

	General	HURF	Grants	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Sales Taxes	\$ 10,085,610	\$ -	\$ -	\$ -	\$ 10,085,610
Franchise Taxes	679,164	-	-	-	679,164
Intergovernmental	5,832,150	1,852,086	2,421,932	735,588	10,841,756
Fines and Forfeitures	524,172	-	-	-	524,172
Licenses and Permits	755,251	-	-	-	755,251
Charges for Services	1,098,784	-	-	-	1,098,784
Investment Earnings (Loss)	34,245	167	-	(8)	34,404
Other	106,362	175	2,427	-	108,964
Total Revenues	<u>19,115,738</u>	<u>1,852,428</u>	<u>2,424,359</u>	<u>735,580</u>	<u>24,128,105</u>
EXPENDITURES					
Current:					
General Government	4,580,929	-	151,465	28,046	4,760,440
Public Safety	10,163,240	-	2,149,002	-	12,312,242
Highways and Streets	1,004,854	1,171,383	-	32,615	2,208,852
Culture and Recreation	1,487,217	-	23,000	-	1,510,217
Debt Service:					
Principal Retirement	532,630	423,640	-	-	956,270
Interest on Long-Term Debt	479,774	367,782	-	-	847,556
Capital Outlay	-	-	-	1,707,345	1,707,345
Total Expenditures	<u>18,248,644</u>	<u>1,962,805</u>	<u>2,323,467</u>	<u>1,768,006</u>	<u>24,302,922</u>
Excess (Deficiency) of Revenues Over Expenditures	867,094	(110,377)	100,892	(1,032,426)	(174,817)
OTHER FINANCING SOURCES (USES)					
Transfers In	1,441	-	-	-	1,441
Net Change in Fund Balances	868,535	(110,377)	100,892	(1,032,426)	(173,376)
FUND BALANCES					
Beginning of Year	9,167,943	(243,607)	727,337	4,349,676	14,001,349
End of Year	<u>\$ 10,036,478</u>	<u>\$ (353,984)</u>	<u>\$ 828,229</u>	<u>\$ 3,317,250</u>	<u>\$ 13,827,973</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, 2011

Net Change in Fund Balances of Governmental Funds \$ (173,376)

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	3,401,699
Less: Current Year Depreciation	(1,397,703)
Excess Depreciation over Capital Expenditures	2,003,996

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	545,542
Principal Payments on Capital Leases	410,728
Amortization of Deferred Amount on Bond Premium	18,843
Amortization of Deferred Amount on Refunding	(17,630)
Amortization of Issuance Costs	(31,780)

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	(148,173)
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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.	265,060
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Change in Net Assets of Governmental Activities	\$ 2,873,210
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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, 2011**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 10,668,622	\$ 10,668,622	\$ 10,764,774	\$ 96,152
Intergovernmental	5,675,273	5,850,273	5,832,150	(18,123)
Fines and Forfeitures	500,000	500,000	524,172	24,172
Licenses and Permits	680,000	680,000	755,251	75,251
Charges for Services	1,270,240	1,270,240	1,098,784	(171,456)
Investment Earnings	87,511	87,511	34,245	(53,266)
Other	119,900	119,900	106,362	(13,538)
Total Revenues	<u>19,001,546</u>	<u>19,176,546</u>	<u>19,115,738</u>	<u>(60,808)</u>
EXPENDITURES				
Current:				
General Government:				
Mayor	74,864	77,864	78,333	(469)
Council	98,770	98,770	85,237	13,533
Administration	476,480	476,480	411,502	64,978
Finance	686,486	686,486	667,886	18,600
Human Resources	202,995	202,995	195,846	7,149
MIS	403,211	403,211	381,168	22,043
Revenue	472,937	492,437	479,911	12,526
Planning and Zoning	265,689	256,689	214,988	41,701
Elections	39,050	39,050	52,331	(13,281)
City Attorney	675,923	675,923	491,163	184,760
City Court	368,992	387,835	390,542	(2,707)
Cemetery	110,242	110,242	118,432	(8,190)
Nondepartmental	1,056,968	1,053,968	1,013,590	40,378
Contingency	4,161,443	4,000,053	-	4,000,053
Total General Government	<u>9,094,050</u>	<u>8,962,003</u>	<u>4,580,929</u>	<u>4,381,074</u>
Public Safety:				
Police	5,538,390	5,714,003	6,017,877	(303,874)
Fire	3,072,633	3,081,633	3,091,797	(10,164)
Ambulance	583,123	583,123	571,305	11,818
Animal Control	261,384	261,384	231,509	29,875
Building Inspections	102,621	102,621	95,486	7,135
Emergency Response	-	-	155,266	(155,266)
Total Public Safety	<u>9,558,151</u>	<u>9,742,764</u>	<u>10,163,240</u>	<u>(420,476)</u>
Highways and Streets:				
Streets	134,917	134,917	67,215	67,702
Facilities Maintenance	668,312	668,353	647,562	20,791
Engineering	305,707	305,707	290,077	15,630
Total Highways and Streets	<u>1,108,936</u>	<u>1,108,977</u>	<u>1,004,854</u>	<u>104,123</u>
Culture and Recreation:				
Parks	524,500	524,526	545,825	(21,299)
Recreation	449,198	457,585	466,230	(8,645)
Library	481,998	481,998	473,847	8,151
Golf Course	80,000	80,000	1,315	78,685
Total Culture and Recreation	<u>1,535,696</u>	<u>1,544,109</u>	<u>1,487,217</u>	<u>56,892</u>
Debt Service				
Principal Retirement	488,151	487,168	532,630	(45,462)
Interest on Long-Term Debt	477,640	476,236	479,774	(3,538)
Total Debt Service	<u>965,791</u>	<u>963,404</u>	<u>1,012,404</u>	<u>(49,000)</u>
Total Expenditures	<u>22,262,624</u>	<u>22,321,257</u>	<u>18,248,644</u>	<u>4,072,613</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, 2011**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,261,078)	\$ (3,144,711)	\$ 867,094	\$ 4,011,805
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	1,441	1,441
Net Change in Fund Balance	(3,261,078)	(3,144,711)	868,535	4,013,246
FUND BALANCE				
Beginning of Year	-	-	9,167,943	9,167,943
End of Year	<u>\$ (3,261,078)</u>	<u>\$ (3,144,711)</u>	<u>\$ 10,036,478</u>	<u>\$ 13,181,189</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, 2011**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,985,436	\$ 1,985,436	\$ 1,852,086	\$ (133,350)
Investment Earnings	26,205	26,205	167	(26,038)
Other	-	-	175	175
Total Revenues	<u>2,011,641</u>	<u>2,011,641</u>	<u>1,852,428</u>	<u>(159,213)</u>
EXPENDITURES				
Current:				
Highways and Streets	1,368,144	1,368,882	1,171,383	197,499
Debt Service				
Principal Retirement	423,639	423,639	423,640	(1)
Interest on Long-Term Debt	369,858	369,858	367,782	2,076
Total Expenditures	<u>2,161,641</u>	<u>2,162,379</u>	<u>1,962,805</u>	<u>199,574</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(150,738)	(110,377)	40,361
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>(150,000)</u>
Net Change in Fund Balance	-	(738)	(110,377)	(109,639)
FUND BALANCE				
Beginning of Year	-	-	(243,607)	(243,607)
End of Year	<u>\$ -</u>	<u>\$ (738)</u>	<u>\$ (353,984)</u>	<u>\$ (353,246)</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 2,448,325	\$ 2,878,325	\$ 2,421,932	\$ (456,393)
Other	1,000	1,000	2,427	1,427
Total Revenues	<u>2,449,325</u>	<u>2,879,325</u>	<u>2,424,359</u>	<u>(454,966)</u>
EXPENDITURES				
Current:				
General Government	512,445	512,445	151,465	360,980
Public Safety	2,123,294	2,523,294	2,149,002	374,292
Culture and Recreation	296,606	296,606	23,000	273,606
Total Expenditures	<u>2,932,345</u>	<u>3,332,345</u>	<u>2,323,467</u>	<u>1,008,878</u>
Excess (Deficiency) of Revenues Over Expenditures	(483,020)	(453,020)	100,892	553,912
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(17,677)</u>	<u>(17,677)</u>	-	<u>17,677</u>
Net Change in Fund Balance	(500,697)	(470,697)	100,892	571,589
FUND BALANCE				
Beginning of Year	-	-	727,337	727,337
End of Year	<u>\$ (500,697)</u>	<u>\$ (470,697)</u>	<u>\$ 828,229</u>	<u>\$ 1,298,926</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

	Business-Type Funds - Enterprise Funds		
	Sewer	Water	Sanitation
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 960,695	\$ -
Prepaid Assets	-	-	-
Receivables, Net:			
Accounts Receivable	1,981,922	297,798	263,366
Intergovernmental Receivable	318,296	-	-
Interest Receivable	-	-	-
Inventories	-	-	-
Deferred Charges	273,075	333,344	4,078
Restricted Assets	1,704,382	7,793,760	32,090
Total Current Assets	<u>4,277,675</u>	<u>9,385,597</u>	<u>299,534</u>
Noncurrent Assets:			
Advances to Other Funds	49,100	-	-
Capital Assets:			
Non-Depreciable	45,454,245	2,696,526	-
Depreciable (Net)	<u>34,326,949</u>	<u>10,259,996</u>	<u>454,153</u>
Total Noncurrent Assets	<u>79,830,294</u>	<u>12,956,522</u>	<u>454,153</u>
Total Assets	<u>84,107,969</u>	<u>22,342,119</u>	<u>753,687</u>
Liabilities			
Current Liabilities:			
Accounts Payable	827,782	79,721	49,054
Accrued Wages and Benefits	36,427	9,784	13,145
Intergovernmental Payable	-	939	-
Unearned Revenue	-	-	-
Customer Deposits Payable	-	617,935	-
Claims Payable	-	-	-
Due To Other Funds	3,730,297	-	2,276,640
Compensated Absences	16,191	26,353	61,340
Capital Leases Payable	59,483	54,113	66,065
Bonds and Notes Payable	<u>330,161</u>	<u>132,732</u>	<u>9,184</u>
Total Current Liabilities	<u>5,000,341</u>	<u>921,577</u>	<u>2,475,428</u>
Noncurrent Liabilities:			
Advances from Other Funds	-	-	49,100
Compensated Absences	66,248	67,701	21,490
Capital Leases Payable	152,842	562,332	92,943
Bonds and Notes Payable	<u>8,196,842</u>	<u>11,249,347</u>	<u>123,598</u>
Total Noncurrent Liabilities	<u>8,415,932</u>	<u>11,879,380</u>	<u>287,131</u>
Total Liabilities	<u>13,416,273</u>	<u>12,800,957</u>	<u>2,762,559</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	72,746,248	8,751,758	194,453
Restricted	-	-	-
Unrestricted	<u>(2,054,552)</u>	<u>789,404</u>	<u>(2,203,325)</u>
Total Net Assets	<u>\$ 70,691,696</u>	<u>\$ 9,541,162</u>	<u>\$ (2,008,872)</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Funds - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Totals	
\$ 2,050,015	\$ 3,010,710	\$ 2,686,985
16,362	16,362	-
17,474	2,560,560	779
438,407	756,703	-
330	330	-
8,372	8,372	46,774
-	610,497	-
76,917	9,607,149	-
2,607,877	16,570,683	2,734,538
-	49,100	-
1,886,284	50,037,055	-
7,722,251	52,763,349	28,172
9,608,535	102,849,504	28,172
12,216,412	119,420,187	2,762,710
256,547	1,213,104	30,677
43,325	102,681	5,527
-	939	-
4,292	4,292	-
45,230	663,165	-
-	-	272,300
-	6,006,937	30,142
4,190	108,074	21,932
-	179,661	-
-	472,077	-
353,584	8,750,930	360,578
-	49,100	-
37,711	193,150	32,643
-	808,117	-
-	19,569,787	-
37,711	20,620,154	32,643
391,295	29,371,084	393,221
9,685,452	91,377,911	28,172
1,680,866	1,680,866	-
458,799	(3,009,674)	2,341,317
\$ 11,825,117	\$ 90,049,103	\$ 2,369,489

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Business-Type Funds - Enterprise Funds		
	Sewer	Water	Sanitation
OPERATING REVENUES			
Charges for Services	\$ 1,697,807	\$ 2,538,708	\$ 2,545,792
Rents and Royalties	-	-	-
Contributions	-	-	-
Total Operating Revenues	<u>1,697,807</u>	<u>2,538,708</u>	<u>2,545,792</u>
OPERATING EXPENSES			
Cost of Sales and Services	1,703,927	1,693,472	2,173,883
Claims	-	-	-
Depreciation	671,310	246,270	98,837
Total Operating Expenses	<u>2,375,237</u>	<u>1,939,742</u>	<u>2,272,720</u>
OPERATING INCOME (LOSS)	<u>(677,430)</u>	<u>598,966</u>	<u>273,072</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental Revenue	-	-	-
Development Impact Fees	31,255	181,096	-
Investment Earnings	411	358	7
Interest Expense	(514,804)	(573,219)	(14,876)
Miscellaneous Nonoperating Revenues	-	20,431	-
Total Nonoperating Revenues (Expenses)	<u>(483,138)</u>	<u>(371,334)</u>	<u>(14,869)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,160,568)	227,632	258,203
Capital Contributions	322,457	-	-
Transfers Out	-	-	-
CHANGE IN NET ASSETS	(838,111)	227,632	258,203
NET ASSETS			
Beginning of Year	71,529,807	9,313,530	(2,267,075)
End of Year	<u>\$ 70,691,696</u>	<u>\$ 9,541,162</u>	<u>\$ (2,008,872)</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Funds - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Totals	
\$ -	\$ 6,782,307	\$ 1,140,082
552,698	552,698	-
-	-	2,965,695
<u>552,698</u>	<u>7,335,005</u>	<u>4,105,777</u>
2,242,666	7,813,948	1,543,178
-	-	2,292,159
406,011	1,422,428	6,724
<u>2,648,677</u>	<u>9,236,376</u>	<u>3,842,061</u>
(2,095,979)	(1,901,371)	263,716
705,362	705,362	-
-	212,351	-
5,525	6,301	2,785
-	(1,102,899)	-
98,887	119,318	-
<u>809,774</u>	<u>(59,567)</u>	<u>2,785</u>
(1,286,205)	(1,960,938)	266,501
1,745,004	2,067,461	-
-	-	(1,441)
458,799	106,523	265,060
11,366,318	89,942,580	2,104,429
<u>\$ 11,825,117</u>	<u>\$ 90,049,103</u>	<u>\$ 2,369,489</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Sanitation
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 1,670,792	\$ 2,560,626	\$ 2,515,426
Payments to Suppliers	(620,696)	(1,021,432)	(1,273,883)
Payments to Employees	(482,307)	(762,534)	(949,553)
Payments for Claims	-	-	-
Other Receipts	-	20,431	-
Customer Deposits Payable	-	(10,659)	-
Net Cash Provided (Used) by Operating Activities	<u>567,789</u>	<u>786,432</u>	<u>291,990</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Revenues	-	-	-
Interfund Borrowing	680,206	-	(206,789)
Interfund Transfers	-	-	-
Development Impact Fees	31,255	181,096	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>711,461</u>	<u>181,096</u>	<u>(206,789)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES			
Capital Contributions	127,793	-	-
Purchases of Capital Assets	(662,072)	(180,766)	(28,338)
Principal Paid on Capital Debt	(405,936)	(173,999)	(70,624)
Interest Paid on Capital Debt	(460,352)	(588,510)	(14,652)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,400,567)</u>	<u>(943,275)</u>	<u>(113,614)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	<u>411</u>	<u>358</u>	<u>7</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(120,906)	24,611	(28,406)
Cash and Cash Equivalents, Beginning of Year	<u>1,825,288</u>	<u>8,729,844</u>	<u>60,496</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,704,382</u></u>	<u><u>\$ 8,754,455</u></u>	<u><u>\$ 32,090</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Cash and Cash Equivalents	\$ -	960,695	-
Restricted Assets	<u>1,704,382</u>	<u>7,793,760</u>	<u>32,090</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,704,382</u></u>	<u><u>\$ 8,754,455</u></u>	<u><u>\$ 32,090</u></u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Total	
\$ 561,983	\$ 7,308,827	\$ 4,249,079
(1,664,781)	(4,580,792)	(1,216,581)
(530,496)	(2,724,890)	(363,536)
-	-	(2,415,316)
98,887	119,318	-
(117)	(10,776)	-
<u>(1,534,524)</u>	<u>111,687</u>	<u>253,646</u>
1,774,157	1,774,157	-
-	473,417	6,421
-	-	(1,441)
-	212,351	-
<u>1,774,157</u>	<u>2,459,925</u>	<u>4,980</u>
705,362	833,155	-
(705,362)	(1,576,538)	-
-	(650,559)	-
-	(1,063,514)	-
<u>-</u>	<u>(2,457,456)</u>	<u>-</u>
<u>6,097</u>	<u>6,873</u>	<u>2,785</u>
245,730	121,029	261,411
1,881,202	12,496,830	2,425,574
<u>\$ 2,126,932</u>	<u>\$ 12,617,859</u>	<u>\$ 2,686,985</u>
\$ 2,050,015	\$ 3,010,710	\$ 2,686,985
76,917	9,607,149	-
<u>\$ 2,126,932</u>	<u>\$ 12,617,859</u>	<u>\$ 2,686,985</u>

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	<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)	\$ (677,430)	\$ 598,966	\$ 273,072
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	671,310	246,270	98,837
Nonoperating Receipts	-	20,431	-
Change in Assets/Liabilities:			
Receivables	(27,015)	21,918	(30,366)
Prepaid Items	-	-	-
Inventories	-	-	-
Accounts Payable	608,242	(74,910)	(15,357)
Accrued Wages and Benefits	(16,027)	(19,153)	(28,631)
Compensated Absences	8,709	3,569	(5,565)
Claims Payable	-	-	-
Customer Deposits Payable	-	(10,659)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 567,789</u>	<u>\$ 786,432</u>	<u>\$ 291,990</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.

Business-Type Activities - Enterprise Funds		Governmental Activities Internal Service Funds
NHA	Total	
\$ (2,095,979)	\$ (1,901,371)	\$ 263,716
406,011	1,422,428	6,724
98,887	119,318	-
9,285	(26,178)	143,302
4,663	4,663	-
8,252	8,252	(26,576)
(15,018)	502,957	(15,254)
43,325	(20,486)	(6,862)
6,167	12,880	11,753
-	-	(123,157)
(117)	(10,776)	-
<u>\$ (1,534,524)</u>	<u>\$ 111,687</u>	<u>\$ 253,646</u>

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

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>Pension Trust</u>
Assets	
Cash and Cash Equivalents	<u>\$ 22,764</u>
Net Assets	
Held In Trust	<u>\$ 22,764</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, 2011**

	<u>Pension Trust</u>
ADDITIONS	
Investment Earnings	\$ 888
DEDUCTIONS	
Benefits	<u>5,720</u>
CHANGE IN NET ASSETS	(4,832)
Net Assets, Beginning of Year	<u>27,596</u>
NET ASSETS, END OF YEAR	<u><u>\$ 22,764</u></u>

See accompanying Notes to Basic Financial Statements.

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CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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.

For the year ended June 30, 2011, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

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, 2011 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, 2011

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. 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, 2011

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 *Grants Special Revenue Fund* accounts for the administration and operation City programs funded by restricted funding sources; federal and state grants.

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, 2011

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, 2011

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 \$1,107,142 related to ambulance billings and the business-type activities report an allowance of \$199,164.

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, 2011**

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, 2011

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, 2011**

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.

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, 2011, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Prepays	\$ 13,733	\$ -	\$ -	\$ -	\$ 13,733
Restricted					
Impound Fees	40,200	-	-	-	40,200
Federal and State Grants	-	-	828,229	-	828,229
Local Transportation Assistance	-	-	-	380,288	380,288
Capital Outlay (Unspent Bonds)	-	-	-	1,570,070	1,570,070
Assigned					
Capital Outlay	-	-	-	1,462,812	1,462,812
Unassigned	9,982,545	(353,984)	-	(95,920)	9,532,641
Total Fund Balance	<u>\$ 10,036,478</u>	<u>\$ (353,984)</u>	<u>\$ 828,229</u>	<u>\$ 3,317,250</u>	<u>\$ 13,827,973</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

		<u>Amount of Overexpenditure</u>
General Fund:		
Mayor	\$	469
Elections		13,281
City Court		2,707
Cemetery		8,190
Police		303,874
Fire		10,164
Parks		21,299
Emergency Response		155,266
Recreation		8,645
Principal		45,462
Interest		3,538

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

C. Deficit Fund Equity

A deficit fund balance in the amount of \$353,984, \$95,920 and \$2,008,872 was reported in the HURF, Vista del Cielo Debt Service and Sanitation Funds, respectively. The City does not expect to recover the deficit in the upcoming fiscal year, but plans to reduce costs in future years to reduce the deficit.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2011 consist of the following:

Deposits:	
Cash on Hand	\$ 4,221
Cash in Bank	9,805,318
Certificates of Deposit	868,971
Investments:	
U.S. Government Money Market Securities	3,701,271
U.S. Treasury Bill	<u>6,857,574</u>
Total Deposits and Investments	21,237,355
Restricted Cash and Investments	(11,413,487)
Fiduciary Funds	<u>(22,764)</u>
Total Cash and Cash Equivalents	<u>\$ 9,801,104</u>

Deposits – The carrying value of the City’s deposits at June 30, 2011 was \$9,805,318, including certificates of deposit, and the bank balance was \$10,200,144. Of the bank balance, \$10,200,144 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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, U.S. Treasury Bills and an overnight repurchase agreement at June 30, 2011.

2. Restricted Assets

Restricted assets of the City at June 30, 2011 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Sale of Easement of Escrow Funds	\$ 107,615	\$ -	\$ 107,615
Operation and Maintenance	-	129,105	129,105
Repair and Replacement Fund	-	82,598	82,598
Future Debt Service and Construction	1,279,174	8,711,100	9,990,274
Housing Assistance Payments	-	76,917	76,917
Customer Deposits	-	550,664	550,664
Unspent Lease Proceeds	419,549	56,765	476,314
Total	<u>\$ 1,806,338</u>	<u>\$ 9,607,149</u>	<u>\$ 11,413,487</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, 2011

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, 2011 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	1,790,387	471,416	-	2,261,803
Buildings	7,464,451	208,392	-	7,672,843
Improvements Other than Buildings	4,778,888	902,951	-	5,681,839
Vehicles, Machinery and Equipment	15,035,753	1,818,940	-	16,854,693
Total Capital Assets, Being Depreciated	<u>29,069,479</u>	<u>3,401,699</u>	<u>-</u>	<u>32,471,178</u>
Accumulated Depreciation for:				
Infrastructure	(144,368)	(11,561)	-	(155,929)
Buildings	(3,264,673)	(261,417)	-	(3,526,090)
Improvements Other than Buildings	(2,484,015)	(198,906)	-	(2,682,921)
Vehicles, Machinery and Equipment	(11,561,970)	(932,543)	-	(12,494,513)
Total Accumulated Depreciation	<u>(17,455,026)</u>	<u>(1,404,427)</u>	<u>-</u>	<u>(18,859,453)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,614,453</u>	<u>1,997,272</u>	<u>-</u>	<u>13,611,725</u>
Governmental Activities Capital Assets, Net	<u>\$ 24,839,889</u>	<u>\$ 1,997,272</u>	<u>\$ -</u>	<u>\$ 26,837,161</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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	46,967,020	705,362	(397,803)	47,274,579
Total Capital Assets, Not Being Depreciated	49,729,496	705,362	(397,803)	50,037,055
Capital Assets, Being Depreciated:				
Buildings	6,332,510	-	-	6,332,510
Improvements Other than Buildings	48,594,997	820,311	-	49,415,308
Vehicles, Machinery and Equipment	8,781,319	50,865	-	8,832,184
Housing Authority	12,443,510	397,803	-	12,841,313
Total Capital Assets, Being Depreciated	76,152,336	1,268,979	-	77,421,315
Accumulated Depreciation for:				
Buildings	(5,179,707)	(284,235)	-	(5,463,942)
Improvements Other than Buildings	(8,653,722)	(474,871)	-	(9,128,593)
Vehicles, Machinery and Equipment	(4,689,058)	(257,311)	-	(4,946,369)
Housing Authority	(4,713,051)	(406,011)	-	(5,119,062)
Total Accumulated Depreciation	(23,235,538)	(1,422,428)	-	(24,657,966)
Total Capital Assets, Being Depreciated, Net	52,916,798	(153,449)	-	52,763,349
Business-Type Activities Capital Assets, Net	\$ 102,646,294	\$ 551,913	\$ (397,803)	\$ 102,800,404

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 488,648
Public Safety	647,982
Highways and Streets	184,192
Culture and Recreation	83,605
Total Depreciation Expense	\$ 1,404,427

Business-Type Activities:

Sewer	\$ 671,310
Water	246,270
Sanitation	98,837
Nogales Housing Authority	406,011
Total Depreciation Expense	\$ 1,422,428

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, And Transfers

As of June 30, 2011 interfund receivable and payables were as follows:

Due From	Due To General Fund
HURF Fund	\$ 461,890
Nonmajor Governmental Fund	184,373
Sewer Fund	3,730,297
Sanitation Fund	2,276,640
Internal Service Fund	30,142
	\$ 6,683,342

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2011 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 From	Advances To 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, 2011, transfers were as follows:

Transfers In	Transfer Out Internal Service Fund
General Fund	\$ 1,441

The transfer was recorded for the internal service funds portion of the principal and interest lease payments budgeted by the City from the internal service fund for assets lease-purchased to largely support the governmental funds.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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>(957,668)</u>	<u>(164,533)</u>
Total	<u><u>\$ 2,885,345</u></u>	<u><u>\$ 1,480,793</u></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, 2011, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2012	\$ 519,640	\$ 220,527
2013	521,374	222,548
2014	304,234	127,315
2015	195,749	79,529
2016	196,699	80,635
2017 - 2021	662,085	424,683
2022 - 2024	<u>19,032</u>	<u>22,162</u>
Total Minimum Lease Payments	2,418,813	1,177,399
Less: Amount Representing Interest	<u>(342,305)</u>	<u>(189,621)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 2,076,508</u></u>	<u><u>\$ 987,778</u></u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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 %	07/01/11-13	\$ 3,345,000	\$ 765,000
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/12-19	2,455,376	1,260,507
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	10/01/11-47	2,671,023	2,487,139
Total Governmental Activities			<u>\$ 19,252,529</u>	<u>\$ 15,293,776</u>
Business-Type Activities:				
Bonds Payable:				
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/12-19	\$ 2,394,624	\$ 1,229,493
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	06/01/12-31	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	10/01/11-39	12,363,977	11,512,862
Total Business-Type Activities			<u>\$ 23,127,471</u>	<u>\$ 21,111,225</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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 \$27,782,236. Principal and interest paid for the current year and total excise taxes were \$1,282,523 and \$18,610,071, 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 \$38,320,673. Principal and interest paid for the current year and total pledged revenues were \$1,449,298 and \$6,587,699, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2011 are as follows:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 15,839,318	\$ -	\$ (545,542)	\$ 15,293,776	\$ 572,923
Deferred Amounts:					
Premium	356,138	-	(18,843)	337,295	-
Deferred Amount on Refunding	(143,279)	-	17,630	(125,649)	-
Total Bonds	16,052,177	-	(546,755)	15,505,422	572,923
Other Liabilities:					
Capital Leases	2,487,236	-	(410,728)	2,076,508	430,785
Compensated Absences	1,374,050	790,352	(630,426)	1,533,976	630,427
Total Other Liabilities	3,861,286	790,352	(1,041,154)	3,610,484	1,061,212
Governmental Activities Long-Term Liabilities	\$ 19,913,463	\$ 790,352	\$ (1,587,909)	\$ 19,115,906	\$ 1,634,135
	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 21,590,683	\$ -	\$ (479,458)	\$ 21,111,225	\$ 472,077
Deferred Amounts:					
Premium	379,827	-	(18,715)	361,112	-
Discount	(290,633)	-	8,171	(282,462)	-
Refunding	(1,189,012)	-	41,001	(1,148,011)	-
Total Bonds Payable	20,490,865	-	(449,001)	20,041,864	472,077
Other Liabilities:					
Capital Leases	1,158,879	-	(171,101)	987,778	179,661
Compensated Absences	288,344	128,520	(115,640)	301,224	108,074
Business-Type Activities Long-Term Liabilities	\$ 21,938,088	\$ 128,520	\$ (735,742)	\$ 21,330,866	\$ 759,812

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2011 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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	227,060	664,465	532,940	898,606
2016 - 2020	1,811,510	3,131,981	2,893,491	4,173,282
2021 - 2025	2,177,608	2,656,909	3,277,393	3,490,670
2026 -2030	3,078,769	2,067,148	3,836,232	2,626,972
2031 - 2035	5,292,779	1,085,308	3,462,222	1,765,186
2036 - 2039	1,109,961	108,843	5,140,036	503,669
Total	<u>\$ 15,293,776</u>	<u>\$ 12,488,460</u>	<u>\$ 21,111,225</u>	<u>\$ 17,209,448</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, 2011

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, 2011 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, 2011 and 2010 were as follows:

	Claims Liability at beginning of year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at end of year
2010-11	\$ 395,457	\$ 2,292,159	\$ (2,415,316)	\$ 272,300
2009-10	399,475	2,977,484	(2,981,502)	395,457

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, 2011**

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, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85% (9.60% for retirement and 0.25% 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% (9.01% for retirement, 0.59% for health insurance premium, and 0.25% for long-term disability) of the members' annual covered payroll. Contributions to the plan by the City for June 30, 2011 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>
2011	\$ 556,931	\$ 36,469	\$ 15,453
2010	563,325	44,580	27,018
2009	432,904	56,302	27,324

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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 26.00% and 35.06% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost – During the year ended June 30, 2011, the City of Nogales, Arizona's annual pension cost of \$582,210 for police and \$556,568 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, 2011, the plan for police was 70.9% funded and the plan for fire was 64.1% funded. The actuarial accrued liability for benefits was \$15.7 million and \$12.8 million for police and fire, respectively; and the actuarial value of assets was \$11.1 million and \$8.2 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$4.6 million and \$4.6 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.3 million and \$2.3 million, and the ratio of the UAAL to the covered payroll was 136.6% and 203.5%, respectively.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, the other post employment benefits for police and fire were 0% funded. The actuarial accrued liability for benefits was \$0.8 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 \$0.8 million and \$0.7 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.3 million and \$2.3 million, and the ratio of the UAAL to the covered payroll was 25.1% and 31.2%, 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 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, 2011 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
2009	\$ 592,856	100.0 %	\$ -
2010	620,903	100.0	-
2011	582,210	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2009	\$ 68,832	100.0 %	\$ -
2010	70,808	100.0	-
2011	68,131	100.0	-

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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
2009	\$ 548,030	100.0 %	\$ -
2010	567,279	100.0	-
2011	556,568	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2009	\$ 50,284	100.0 %	\$ -
2010	53,326	100.0	-
2011	53,187	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 48.

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.

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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, 2011**

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
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%
2011	11,114,190	15,678,436	70.9%	4,564,246	3,340,365	136.6%

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
2009	\$ -	\$ 709,358	0.0%	\$ 709,358	\$ 3,204,242	22.1%
2010	-	724,495	0.0%	724,495	3,438,798	21.1%
2011	-	838,095	0.0%	838,095	3,340,365	25.1%

Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
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%
2011	8,173,400	12,760,340	64.1%	4,586,940	2,254,294	203.5%

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
2009	\$ -	\$ 558,898	0.0%	\$ 558,898	\$ 2,581,568	21.6%
2010	-	570,612	0.0%	570,612	2,444,422	23.3%
2011	-	702,628	0.0%	702,628	2,254,294	31.2%

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CITY OF NOGALES, ARIZONA
SINGLE AUDIT ACT REPORTS
FISCAL YEAR ENDED JUNE 30, 2011

**CITY OF NOGALES, ARIZONA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Nogales, Arizona

We have audited the 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 22, 2012. Our report was modified to include references to other auditors and to qualify our opinion on the City's capital assets and the related net assets and expenses of the governmental, business-type activities and proprietary fund financial statements; the amount by which the departure would affect the assets, net assets and expenses of the governmental activities, business-type activities and proprietary fund financial statements is not determinable. 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. Other auditors audited the financial statements of the Nogales Housing Authority Enterprise Fund, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Nogales, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Nogales, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Nogales, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Honorable Mayor and City Council
City of Nogales, Arizona

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-1 to 2011-6 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nogales, Arizona 's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-2 and 2011-3.

We also noted certain other matters that we reported to management of the City of Nogales, Arizona in a separate letter dated October 22, 2012.

The City of Nogales, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management of the City, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Mesa, Arizona
October 22, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
City of Nogales, Arizona

Compliance

We have audited the City of Nogales, Arizona (City)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City of Nogales, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Nogales, Arizona's management. Our responsibility is to express an opinion on the City of Nogales, Arizona's compliance based on our audit.

The City's basic financial statements include the operations of the Nogales Housing Authority, which received \$2,450,366 in federal awards which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2011. Our audit, described below did not include the operations of the Nogales Housing Authority because the component units engaged for its own separate audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Nogales, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Nogales, Arizona's compliance with those requirements.

As described in items 2011-9 and 2011-11 in the accompanying schedule of findings and questioned costs, the City did not maintain adequate records to determine the City was in compliance with procurement, suspension and debarment that are applicable to its ARRA Highway Planning and Construction Grant (CFDA Number 20.205) and did not account for capital assets (equipment and real property management compliance requirement) acquired with the ARRA Border Security Enhancement Grant (CFDA Number 84.397) and Homeland Security Grant Program (CFDA Number 97.067),

respectively. Compliance with such requirements is necessary, in our opinion, for the City of Nogales, Arizona to comply with the requirements applicable to those programs. In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the City of Nogales, Arizona did not comply, in all material respects, with the requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Grant (CFDA Number 20.205), ARRA Border Security Enhancement Grant (CFDA Number 84.397), and Homeland Security Grant Program (CFDA Number 97.067). Also, in our opinion, the City of Nogales, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-7, 2011-8, and 2011-12.

Internal Control Over Compliance

Management of the City of Nogales, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Nogales, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-7, 2011-8, and 2011-10 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-12 to be a significant deficiency.

Honorable Mayor and City Council
City of Nogales, Arizona

The City of Nogales, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nogales, Arizona as of and for the year ended June 30, 2011, and have issued our report thereon dated October 22, 2012. Our report was modified to include references to other auditors and to qualify our opinion on the City's capital assets and the related net assets and expenses of the governmental, business-type activities and proprietary fund financial statements; the amount by which the departure would affect the assets, net assets and expenses of the governmental activities, business-type activities and proprietary fund financial statements is not determinable. Other auditors audited the financial statements of the Nogales Housing Authority Enterprise Fund, as described in our report on the City's financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management of the City, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Mesa, Arizona
October 22, 2012

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Qualified*
 Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified not considered to be material weakness? yes X none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified not considered to be material weakness? X yes none reported

Type of auditors’ report issued on compliance for major programs: *Unqualified for all programs, except for the Highway Planning and Construction (CFDA No. 20.205), the ARRA Border Security Grant Program (CFDA No. 84.397), and the Homeland Security Grant Program (CFDA No. 97.067), which were qualified.*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction
66.202	Water Infrastructure – International Outfall Interceptor
84.397	ARRA Border Security Enhancement Grant
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-1 Year-End Adjustments and Preparation of the Financial Statements

Condition: The year-end financial statements and related disclosures were not prepared by management and corrections were required to adjust the City's general ledger prior to drafting the year-end financial statements.

Criteria: Generally accepted accounting principles (GAAP) and internal control procedures.

Effect: Noncompliance with GAAP and internal control weakness. Numerous material audit adjustments were necessary to correct account balances, including reversing prior year accruals, accruing current year revenue, record capital asset additions, depreciation, record amortization of long-term debt and related costs, record activity of the trustee, accrue expenditures/expenses and, correct financial statement posting errors during the year.

Cause: The Finance Department does not have the personnel to prepare the year-end financial statements and related disclosures for external reporting. In addition, the year-end closing procedures were not adequately designed to ensure account balances were properly reconciled and year-end adjustments were recorded.

Recommendation: In order to comply with GAAP and strengthen internal controls, the City should assign an individual with suitable skill and knowledge that is responsible for closing out the year-end financial statements, reconciling year-end account balances, investigating unusual financial statement balances, recorded off balance sheet accounts and who is responsible for reviewing the auditor prepared document.

Response: The City concurs with this recommendation; however, the City does not have the personnel to prepare the financial statements and related disclosures for external reporting. The City will continue to contract with its external auditors to prepare the financial statements and related disclosures, but will continue to develop procedures to adequately reconcile monthly financial statements and preparing the year end closing entries.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-2 Preparation of the Financial Statements

Condition: The City was six months late in submitting the audited financial statements to the Auditor General and Federal Audit Clearing House.

Criteria: Accounting principles generally accepted in the United States of America (GAAP), OMB Circular A-133, internal control procedures, Arizona Revised Statutes and bond covenants.

Effect: Noncompliance with GAAP, OMB Circular A-133, Arizona Revised Statutes, bond covenants and internal control weakness.

Cause: The City has been behind in completing its annual audits and therefore has been behind in performing monthly reconciliations and annual close-out procedures. The audit was delayed as a result of the City requiring additional time to reconcile account balances and close-out the year-end.

Recommendation: In order to comply with GAAP, OMB Circular A-133, Arizona Revised Statutes, the bond covenants and strengthen internal controls, the City should ensure monthly reconciliations are completed and any variances are investigated and resolved. In addition, upon completion of the June 30, 2011 audit, the City should begin reconciling fiscal year ended June 30, 2012 balances in order to prepare for the 2012 audit.

Response: The City concurs with this recommendation and has taken steps to get caught up and expects to schedule the June 30, 2012 audit in January and February 2013 in order to issue the audit within 9 months of the end of the fiscal year.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-3 Accounting for Capital Assets

Condition: A complete comprehensive capital assets listing was not maintained by the City in order for the City to accurately depreciate individual assets during the year. In addition, disposed assets had not been deleted from the listing in the current or previous five years and the City was not accounting for federally funded capital asset purchases.

Criteria: Accounting principles generally accepted in the United States of America (GAAP) and OMB Circular A-133.

Effect: Noncompliance with GAAP, OMB Circular A-133 and capital assets, net assets invested in capital assets, net of related debt, interest expense and depreciation expense were misstated by an undeterminable amount. Interest expenses are misstated due to an undeterminable amount of interest that should have been capitalized on debt financing in the current year and cumulatively from prior years.

Cause: The City is currently in the process of conducting a complete physical inventory. In 2009, the City had hired an outside organization to complete a physical inventory; however, the City did not reconcile the inventory conducted by the third party to its records. Due to the time that has lapsed since that inventory, the City has made the determination to conduct its own physical inventory and compile a comprehensive capital assets list internally.

Recommendation: In order to comply with GAAP, OMB Circular A-133 and strengthen internal controls, the City should complete the physical inventory of capital assets. Upon completion of its inventory, the City should determine depreciable lives and calculate depreciation at the beginning of the year, end of the year and current year depreciation expense. Capital assets activity should be recorded in the general ledger and the City should design procedures to maintain the capital assets in future years.

Response: The City concurs with this recommendation and is currently in the process of performing a physical inventory. The City has established a schedule that would allow them to complete the comprehensive capital assets listing by January 2013 for inclusion in the June 30, 2012 audited financial statements.

Contact Person: Teresa Ramirez, Finance Director

CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-4 Accounts Payable

Condition: Purchase orders were not prepared and approved prior to ordering goods and/or services. In addition, it was noted that several “construction progress payments requests” were not reviewed and approved by an appropriate City official to ensure amounts billed for construction services adequately represent the percentage of completion.

Criteria: Internal control procedures.

Effect: Internal control weakness as a material misstatement or misuse of City funds could occur and go undetected.

Cause: The City’s purchasing procedures were not being followed uniformly within the City.

Recommendation: In order to strengthen internal controls, the City should ensure employees are adequately trained to ensure City policies and procedures, as they relate to accounts payable, are properly followed. In addition, the City should include within its policies, consequences for not following the designed procedures when ordering goods and/or services.

Response: The City concurs with this recommendation and will review its current policy to determine whether the policy should be updated. In addition, the City will ensure staff are properly trained and informed as to the purchasing policies and procedures.

Contact Person: Teresa Ramirez, Finance Director

2011-5 Payroll

Condition: Adequate internal controls were not designed and implemented over payroll processing.

Criteria: Internal control procedures.

Effect: The lack of internal controls over payroll processing provides an opportunity for misstatements due to error or fraud to go undetected and uncorrected.

Cause: Payroll processing lacks adequate oversight. It was noted that the payroll clerk had the authority to alter timesheets without approval, the payroll clerk could change payroll transactions within the payroll system without approval, and employee pay did not match timecards or employee action notifications.

Recommendation: In order to strengthen internal controls, the City should ensure payroll is adequately supervised and payroll clerks do not have the authority to alter timesheets or change payroll transactions without proper approval.

Response: The City concurs with this recommendation and will review its current procedures to ensure payroll processing is supervised and does not allow payroll clerks to make unauthorized changes to time sheets or payroll transactions.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-6 Inventory

Condition: Inventory balances recorded on the general ledger were not properly reconciled to year-end physical inventories.

Criteria: Internal control procedures.

Effect: The lack of internal controls over inventory could result in a material misstatement due to error or fraud.

Cause: Fuel inventory prices fluctuate through-out the year and the City is not recording the consumption of fuel during the year at the appropriate price per gallon.

Recommendation: In order to strengthen internal controls, the City should reconcile its periodic inventory to the general ledger and investigate and resolve any variances between the general ledger and the periodic inventory.

Response: The City concurs with this recommendation and will review its current procedures to ensure inventory is properly reconciled to the general ledger to prevent a similar instance in the future.

Contact Person: Teresa Ramirez, Finance Director

CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Transportation
Highway Planning and Construction
CFDA Number: 20.205
Passed Through Arizona Department of Transportation
Pass Through Number: JPA 05-015
Funding Year: 8/3/05-6/30/11

Environmental Protection Agency
Water Infrastructure – International Outfall Interceptor
CFDA Number: 66.202
Direct Grant
Pass Through Number: N/A
Funding Years: Fiscal Year 2007 through 2011

U.S. Department of Education
ARRA Border Security Enhancement Grant
CFDA Number: 84.397
Passed Through Arizona Governor's Office of
Economic Recovery
Pass Through Numbers: OER-11-IGA-GS-06 and
OER-11-IGA-GS-157
Funding Year: 7/16/10-9/30/11

U.S. Department of Homeland Security
Homeland Security Grant Program
CFDA Number: 97.067
Passed Through the State of Arizona
Pass Through Number: 333403-11, 444407-01, 444407-
04, 555426-01, 555426-02, 555426-03, 555426-04,
777408-01, 777425-01, and 777425-02
Funding Years: 10/1/07-8/31/11; 10/1/08-9/30/10; 10/1/10-
3/31/11; 10/1/09-3/31/11; 10/1/09-9/30/10; 10/1/09-
3/31/11; 10/1/09-9/30/10; 10/1/10-9/30/11; 10/1/10-
3/31/12; and 10/1/10-12/31/11

2011-7

Condition/Context: The year-end financial statements, related disclosures and the schedule of federal expenditures were not prepared by management and corrections were required to adjust the City's general ledger and schedule of federal expenditures prior to drafting the year-end financial statements.

Criteria: Generally accepted accounting principles (GAAP), OMB Circular A-133 and internal control procedures.

Effect: Noncompliance with GAAP, OMB Circular A-133 and internal control weakness. Numerous material audit adjustments were necessary to correct account balances, including reversing prior year accruals, accruing current year revenue, correcting the grants reported on the schedule of federal expenditures and correct financial statement posting errors during the year.

Questioned Costs: None.

Cause: The Finance Department does not have the personnel to prepare the year-end financial statements, schedule of federal expenditures and related disclosures for external reporting. In addition, the year-end closing procedures were not adequately designed to ensure account balances were properly reconciled and year-end adjustments were recorded.

Recommendation: In order to comply with GAAP, OMB Circular A-133 and strengthen internal controls, the City should assign an individual with suitable skill and knowledge that is responsible for closing out the year-end financial statements, reconciling year-end account balances, preparing the schedule of federal expenditures, investigating unusual financial statement balances and who is responsible for reviewing the auditor prepared documents.

Corrective Action: The City concurs with this recommendation; however, the City does not have the personnel to prepare the schedule of federal expenditures and related disclosures for external reporting. The City will implement internal controls during the 2012 fiscal year to ensure accurate preparation of the schedule of federal expenditures and related disclosures, but will continue to contract with its auditors to prepare the annual financial statements and related disclosures.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. Department of Transportation
Highway Planning and Construction
CFDA Number: 20.205
Passed Through Arizona Department of
Transportation
Pass Through Number: JPA 05-015
Funding Year: 8/3/05-6/30/11

Environmental Protection Agency
Water Infrastructure – International Outfall Interceptor
CFDA Number: 66.202
Direct Grant
Pass Through Number: N/A
Funding Years: Fiscal Year 2007 through 2011

U.S. Department of Education
ARRA Border Security Enhancement Grant
CFDA Number: 84.397
Passed Through Arizona Governor's Office of
Economic Recovery
Pass Through Numbers: OER-11-IGA-GS-06 and
OER-11-IGA-GS-157
Funding Year: 7/16/10-9/30/11

U.S. Department of Homeland Security
Homeland Security Grant Program
CFDA Number: 97.067
Passed Through the State of Arizona
Pass Through Number: 333403-11, 444407-01, 444407-
04, 555426-01, 555426-02, 555426-03, 555426-04,
777408-01, 777425-01, and 777425-02
Funding Years: 10/1/07-8/31/11; 10/1/08-9/30/10;
10/1/10-3/31/11; 10/1/09-3/31/11; 10/1/09-9/30/10;
10/1/09-3/31/11; 10/1/09-9/30/10; 10/1/10-9/30/11;
10/1/10-3/31/12; and 10/1/10-12/31/11

2011-8

Condition/Context: The City did not complete all the year-end closing procedures necessary to properly reconcile the statement of net assets, statement of activities, balance sheet and statement of revenues, expenditures and changes in fund balance accounts to allow sufficient time to complete the audit by March 31, 2011.

Criteria: OMB Circular A-133 and Arizona Revised Statutes.

Effect: Noncompliance with OMB Circular A-133, Arizona Revised Statutes and internal control weakness. Numerous material audit adjustments were necessary to correct account balances, including reversing prior year accruals, accruing current year revenue, record capital asset additions, depreciation, record amortization of long-term debt and related costs and correct financial statement posting errors during the year.

Questioned Costs: None.

Cause: The City has been behind in completing its annual audits and therefore has been behind in performing monthly reconciliations and annual close-out procedures.

Recommendation: In order to comply with GAAP, OMB Circular A-133, Arizona Revised Statutes, the bond covenants and strengthen internal controls, the City should ensure monthly reconciliations are completed and any variances are investigated and resolved. In addition, upon completion of the June 30, 2011 audit, the City should begin reconciling fiscal year ended June 30, 2012 balances in order to prepare for the 2012 audit.

Corrective Action: The City concurs with this recommendation and has taken steps to get caught up and expects to schedule the June 30, 2012 audit in January and February 2013 in order to issue the audit within 9 months of the end of the fiscal year.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. Department of Transportation
Highway Planning and Construction
CFDA Number: 20.205
Passed Through Arizona Department of Transportation
Pass Through Number: JPA 05-015
Funding Year: 8/3/05-6/30/11**

2011-9

Condition: Adequate controls were not in place to ensure vendors were not suspended or debarred at the time of contracting the vendor or to monitor the status of the vendor during the contract period.

Context: Two of two vendors tested.

Criteria: Adequate internal controls should be designed to ensure compliance with OMB Circular A-133 – Procurement, Suspension and Debarment.

Effect: The lack of internal controls resulted in procurement documents for two of two vendors utilized under this grant not being maintained to determine compliance with procurement, suspension and debarment. As a result, we were unable to render an opinion on compliance and therefore issued a qualified opinion for this compliance requirement.

Questioned Costs: \$455,719.

Cause: The grant was awarded in 2005 and reimbursable costs were not incurred until the fiscal year 2007. The City indicates that adequate procurement procedures were performed and vendors had certified they were not suspended or debarred; however, due to the extended period in which this grant covered, the City was unable to locate proof that the vendors were not suspended or debarred during that time period.

Recommendation: We recommend the City develop policies and procedures that would require sealed bids, proposals, and certification that the vendors were not suspended or debarred for a period of five years after completion of the project and grant contract. In addition, for grants that extend over several years, the City should update the vendor's status as it relates to suspension or debarment to ensure the vendor did not become suspended or debarred during that time period.

Corrective Action: The City concurs with this recommendation. The full grant award was expended during the current fiscal year and therefore the City will not incur a similar finding related to this grant. However, the City will consider the recommendation for future projects of a similar nature.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. Department of Transportation
Highway Planning and Construction
CFDA Number: 20.205
Passed Through Arizona Department of Transportation
Pass Through Number: JPA 05-015
Funding Year: 8/3/05-6/30/11**

2011-10

Condition/Context: For two of the four cash management reports tested, indication that the cash management report was reviewed and approved was not maintained.

Criteria: Internal control procedures.

Effect: The lack of an adequate review process could result in a material misstatement due to an inaccurate request for reimbursement.

Questioned Costs: None.

Cause: Reimbursement requests did not document the individual responsible for reviewing the request for accuracy and completeness.

Recommendation: We recommend the City develop policies and procedures that would require both the preparer and the reviewer to sign and date the request for reimbursement to provide evidence that the designed policies and procedures are being performed.

Corrective Action: The City concurs with this recommendation and will ensure all reimbursement requests are properly signed and dated by the preparer and reviewer. The fiscal year ended June 30, 2012 has passed; therefore, a similar finding may occur in the 2012 fiscal year. The City will, however, ensure all 2013 reimbursement requests are properly documented to indicate the preparer and reviewer prior to submission.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. Department of Education

ARRA Border Security Enhancement Grant

CFDA Number: 84.397

Passed Through Arizona Governor's Office of Economic Recovery

Pass Through Numbers: OER-11-IGA-GS-06 and OER-11-IGA-GS-157

Funding Year: 7/16/10-9/30/11

U.S. Department of Homeland Security

Homeland Security Grant Program

CFDA Number: 97.067

Passed Through the State of Arizona

Pass Through Number: 333403-11, 444407-01, 444407-04, 555426-01, 555426-02, 555426-03, 555426-04, 777408-01, 777425-01, and 777425-02

Funding Years: 10/1/07-8/31/11; 10/1/08-9/30/10; 10/1/10-3/31/11; 10/1/09-3/31/11; 10/1/09-9/30/10; 10/1/09-3/31/11; 10/1/09-9/30/10; 10/1/10-9/30/11; 10/1/10-3/31/12; and 10/1/10-12/31/11

2011-11

Condition/Context: A complete comprehensive capital assets listing was not maintained by the City in order for the City to accurately depreciate individual assets during the year. In addition, disposed assets had not been deleted from the listing in the current or previous five years and the City was not accounting for federally funded capital asset purchases.

Criteria: OMB Circular A-133 – Equipment and Real Property Management.

Effect: Noncompliance with OMB Circular A-133 and depreciation expense and costs were misstated by an undeterminable amount. As a result, we were unable to render an opinion on the compliance requirement for equipment and real property management.

Questioned Costs: Undeterminable.

Cause: The City is currently in the process of conducting a complete physical inventory. In 2009, the City had hired an outside organization to complete a physical inventory; however, the City did not reconcile the inventory conducted by the third party to its records. Due to the time that has lapsed since that inventory, the City has made the determination to conduct its own physical inventory and compile a comprehensive capital assets list internally.

Recommendation: In order to comply with GAAP, OMB Circular A-133 and strengthen internal controls, the City should complete the physical inventory of capital assets. Upon completion of its inventory, the City should determine depreciable lives and calculate depreciation at the beginning of the year, end of the year and current year depreciation expense. Capital assets activity should be recorded in the general ledger and the City should design procedures to maintain the capital assets in future years.

Corrective Action: The City concurs with this recommendation and is currently in the process of performing a physical inventory. The City has established a schedule that would allow them to complete the comprehensive capital assets listing by January 2013 for inclusion in the June 30, 2012 audited financial statements.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. Department of Homeland Security
Homeland Security Grant Program
CFDA Number: 97.067**

Passed Through the State of Arizona

**Pass Through Number: 333403-11, 444407-01, 444407-04, 555426-01, 555426-02, 555426-03,
555426-04, 777408-01, 777425-01, and 777425-02**

**Funding Years: 10/1/07-8/31/11; 10/1/08-9/30/10; 10/1/10-3/31/11; 10/1/09-3/31/11; 10/1/09-9/30/10;
10/1/09-3/31/11; 10/1/09-9/30/10; 10/1/10-9/30/11; 10/1/10-3/31/12; and 10/1/10-12/31/11**

2011-12

Condition: Requests for reimbursement were not filed within 90 days of incurring expenditures.

Context: Two of sixteen reimbursement requests tested.

Criteria: Grant agreement.

Effect: Noncompliance with the grant agreement and internal control weakness as the lack of timely filing could result in a material misstatement in amounts requested for reimbursement or may result in reduced funding due to costs that are not requested for reimbursement within the grant period.

Questioned Costs: None.

Cause: City policies and procedures were not being performed uniformly for the grants.

Recommendation: We recommend the City design an internal control procedure that would require the grant manager to document each requirement within the grant agreement to ensure all grant requirements are being met and to ensure timeliness of the preparation and approval of the reimbursement request.

Corrective Action: The City concurs with this recommendation and will review its current policies and procedures and will make adjustments for the 2013 fiscal year to ensure reimbursement requests are completed within the time period designated in the grant agreement.

Contact Person: Teresa Ramirez, Finance Director

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Environmental Protection Agency
Surveys, Studies, Investigations and Special Grants
CFDA Number: 66.436
Pass-Through the North American Development Bank (NADB)
Pass-Through Number: BEIF-AZ-07/01**

**Department of Homeland Security
Homeland Security Grant Program
CFDA Number: 97.067
Passed through the State of Arizona
Pass Through Numbers: 333403-09; 444407-01; 444407-02; 555426-01; 555426-02; and 555426-04
Funding Years: 2010**

2010-12, 2009-10, 08-13

Condition: The year-end financial statements, related disclosures and the schedule of federal expenditures were not prepared by management and corrections were required to adjust the City's general ledger and schedule of federal expenditures prior to drafting the year-end financial statements.

Status: Not corrected. A similar finding was noted as item 2011-7. Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

2010-13, 2009-11, 08-12

Condition: The City did not complete all the year-end closing procedures necessary to properly reconcile the statement of net assets, statement of activities, balance sheet and statement of revenues, expenditures and changes in fund balance accounts to allow sufficient time to complete the audit by March 31, 2011.

Status: Not corrected. A similar finding was noted as item 2011-8. Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

2010-14, 2009-12, 08-16

Condition: A complete comprehensive capital assets listing was not maintained by the City in order for the City to accurately depreciate individual assets during the year. In addition, disposed assets had not been deleted from the listing in the current or previous five years and the City was not accounting for federally funded capital asset purchases.

Status: Not corrected. A similar finding was noted as item 2011-11. Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

**Environmental Protection Agency
Surveys, Studies, Investigations and Special Grants
CFDA Number: 66.436
Pass-Through the North American Development Bank (NADB)
Pass-Through Number: BEIF-AZ-07/01**

**Department of Homeland Security
Homeland Security Grant Program
CFDA Number: 97.067
Passed through the State of Arizona
Pass Through Numbers: 333403-09; 444407-01; 444407-02; 555426-01; 555426-02; and 555426-04
Funding Years: 2010**

2010-15, 2009-15, 08-19

Condition: Adequate controls were not in place to ensure vendors were not suspended or debarred at the time of contracting the vendor or to monitor the status of the vendor during the contract period.

Status: Corrected. Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported. However, a similar finding was noted as item 2011-9 for the Highway Planning and Construction Grant.

**Surveys, Studies, Investigations and Special Grants
Environmental Protection Agency
Pass-Through the North American Development Bank (NADB)
Pass-Through Number: BEIF-AZ-07/01
CFDA Number: 66.436**

2010-16

Condition: Adequate internal controls were not designed to ensure grant revenues and expenditures were recorded in proper period.

Status: Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

2010-17, 2009-14, 08-21

Condition: The City did not conduct or maintain documentation to support the results of a debt capacity study to determine the City assumed the full amount of debt capacity, nor did the City establish a debt service reserve for outstanding debt until fiscal year 2009.

Status: Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

2010-18, 2009-13, 08-20

Condition: Proper reporting procedures were not always followed, as audited financial statements were not submitted within 180 calendar days following the fiscal year end.

Status: Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

**Surveys, Studies, Investigations and Special Grants
Environmental Protection Agency
Pass-Through the North American Development Bank (NADB)
Pass-Through Number: BEIF-AZ-07/01
CFDA Number: 66.436**

2010-19

Condition: The quarterly financial reports reported the accounts receivable balance of the Water, Sewer and Sanitation Fund; however, the grant is only applicable to the Sewer Fund; therefore only the Sewer Fund should have been included on the quarterly financial reports. In addition, the quarterly reports were not submitted within 45 days following the end of the reporting period.

Status: Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

2010-20

Condition/Context: The Homeland Security Grant Funds were not separately identified within the City's general ledger.

Status: Fiscal year 2010 was the final year for the Surveys, Studies, Investigations and Special Grants; therefore, a similar finding for this grant is not reported.

CITY OF NOGALES, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Commerce			
State of Arizona Department of Homeland Security			
Public Safety Interoperable Communication Grant	11.555	333403-11	\$ 96,574
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing			
Community Development Block Grant	14.228	135-10	228,748
Community Development Block Grant	14.228	107-11	5,566
Total U.S. Department of Housing and Urban Development			<u>234,314</u>
U.S. Department of Justice			
Organized Crime Drug Enforcement Task Force	16.Unkown	Direct	25,192
Immigration and Customs Enforcement	16.Unkown	Direct	7,069
Passed through City of Tucson			
Edward Byrne Memorial Formula Grant Program	16.579	HT20-10-1912	45,807
Edward Byrne Memorial Formula Grant Program	16.579	HT20-10-2713	6,767
Edward Byrne Memorial Formula Grant Program	16.579	HT21-11-1912	71,144
Passed through Santa Cruz County			
Community Capacity Development Office	16.595	None	8,113
Total U.S. Department of Justice			<u>164,092</u>
U.S. Department of Transportation			
Passed through the Arizona Department of Transportation			
Highway Planning and Construction	20.205	JPA-05-015	455,719
FTA - Elderly Individuals and Individuals with Disabilities - 5310	20.513	JPA-11-031	21,824
FTA - Job Access Reverse Commute - 5316	20.516	JPA-11-031	3,145
FTA - New Freedom Capital Operating Expenses - 5317	20.521	JPA-11-031	2,573
Passed through the Governors Offices of Highway Safety			
DUI Task Force Enforcement	20.6	2010-410-006	8,410
Selective Traffic Enforcement	20.6	2011-PT-032	12,445
DUI Task Force Enforcement	20.6	2011-AL-038	9,523
Occupant Protection Equipment	20.601	2011-OP-019	3,997
Total U.S. Department of Transportation			<u>517,636</u>
U.S. Department of Environmental Protection			
Water Infrastructure - International Outfall Interceptor	66.202	Direct Grant	322,457
U.S. Department of Energy			
Passed through the Arizona Department of Commerce			
ARRA Energy Efficiency & Conservation Block Grant	81.128	R016-10-37	125,731

(Continued)

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF NOGALES, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2011

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Education			
Passed through the Arizona Governor's Office of Economic Recovery			
ARRA Border Security Enhancement Grant	84.397	OER-11-IGA-GS-06	698,306
ARRA Border Security Enhancement Grant	84.397	OER-11-IGA-GS-157	<u>74,590</u>
Total U.S. Department of Education			<u>772,896</u>
U.S. Department of Homeland Security			
Passed through the State of Arizona:			
Homeland Security Grant Program	97.067	444407-01	228,425
Homeland Security Grant Program	97.067	444407-04	34,696
Homeland Security Grant Program	97.067	555426-01	230,103
Homeland Security Grant Program	97.067	555426-02	39,856
Homeland Security Grant Program	97.067	555426-03	124,477
Homeland Security Grant Program	97.067	555426-04	91,099
Homeland Security Grant Program	97.067	777408-01	108,079
Homeland Security Grant Program	97.067	777425-01	218,577
Homeland Security Grant Program	97.067	777425-02	65,198
Total U.S. Department of Homeland Security			<u>1,140,510</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 3,374,210</u></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF NOGALES, ARIZONA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Nogales, Arizona (City). The City's reporting entity is defined in Note 1 to the City's basic financial statements for the year ended June 30, 2011. All federal awards received directly from federal agencies are included in the schedule, with the exception of \$634,631 for Low Rent Public Housing, \$1,026,185 for Housing Choice Vouchers, \$601,080 for Public Housing Capital Fund Program and \$188,470 for Public Housing Capital Fund Stimulus Recovery Act Funds; these programs were audited by other auditors and are included in a separate single audit reporting package issued by other auditors.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting,



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INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Mayor and City Council
City of Nogales, Arizona

We have examined the City of Nogales, Arizona's (City) compliance as to whether highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes title 28, chapter 18, article 2 and any other dedicated state transportation revenues received by the City are being used solely for the authorized transportation purposes during the fiscal year ended June 30, 2011. Management is responsible for the City of Nogales, Arizona's compliance with those requirements. Our responsibility is to express an opinion on the City of Nogales, Arizona's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City of Nogales, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Nogales, Arizona's compliance with specified requirements.

In our opinion, the City of Nogales, Arizona complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2011.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads 'CliftonLarsonAllen LLP'.

CliftonLarsonAllen LLP

Mesa, Arizona
October 22, 2012



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

We have audited the 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) for the year ended June 30, 2011, and have issued our report thereon dated October 22, 2012. Our report was modified to include references to other auditors. Other auditors audited the financial statements of the Nogales Housing Authority Enterprise Fund, as described in our report on the City's financial statements. In addition, we were unable to render an opinion on the City's governmental activities, business-type activities and proprietary fund financial statements net assets, depreciation expense and capital assets due to the lack of adequate capital asset records maintained by the City. The effects of the lack of capital assets on the financial statements could not be determined. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated April 13, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
2. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

3. We are also responsible for communicating the results of our report on the City's compliance with the Annual Expenditure Limitation and the use of Highway User Revenue Funds.

Planned scope and timing of the audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 27, 2012.

Significant audit findings

Qualitative aspects of accounting practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1, the City implemented the provisions of Governmental Accounting Standards Board Statement Number 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* during 2011.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation expense reported in the statement of net assets on the governmental activities and business-type activities statement of activities and the proprietary fund statement of changes in net assets is based on the City's prior year depreciation expense because a cumulative capital asset list was not maintained. There was no basis for this expense in determining that they are reasonable in relation to the financial statements taken as a whole and therefore we do not express an opinion on the statement of activities or the statement of changes in net assets.

Management's estimate of the allowance for doubtful accounts is based on historical utility revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the public safety pension benefits is based on assumptions made by a third-party actuary. We evaluated the key factors and assumptions made by the actuary in comparison to other City's actuarial assumptions in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the fair value of investments is based on stated market rates. We evaluated the key factors and assumptions made in determining the fair value of investments in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the lack of capital asset records noted in our opinion. As a result, we qualified our opinion on the statement of net assets and changes in net assets of the governmental activities and business-type activities and proprietary fund financial statements.

Difficulties encountered in performing the audit

The completion of our audit was delayed because the City had not closed out the fiscal year end timely, delaying the start of the audit. In addition, fieldwork was scheduled and rescheduled on several occasions by management due to management not being prepared for the audit. Our final visit was scheduled for July 2012, based on management's request; however, numerous items remained outstanding.

Corrected and uncorrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The adjustments listed on the twelve pages following page four were material misstatements detected as a result of audit procedures that were corrected by management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2012.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other audit findings or issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. During 2011, we presented management with our formal audit plan and we discussed the following matters: The City planned to present capital asset information with the intention to receive an unqualified opinion. During the course of the audit, it was determined by management that they would be unable to complete the capital assets for inclusion in the 2011 financial statements. We notified management that we would be issuing a qualified opinion on the statement of net assets and the changes in net assets of the governmental activities, business-type activities and proprietary fund financial statements. The result of those discussions was not a condition to our retention.

Other information in documents containing audited financial statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information (schedule of expenditures of federal awards issued under a separate cover title Single Audit Act Report) in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 22, 2012.

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * * * *

This information is intended solely for the use of the City Council and management of the City of Nogales, Arizona and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Mesa, Arizona
October 22, 2012

CITY OF NOGALES, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2011

**CITY OF NOGALES, ARIZONA
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YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITORS' REPORT

The Auditor General of the State of Arizona and
The Honorable Mayor and the City Council
City of Nogales, Arizona

We have audited the accompanying Annual Expenditure Limitation Report of the City of Nogales, Arizona, for the year ended June 30, 2011. This report is the responsibility of the City of Nogales, Arizona's management. Our responsibility is to express an opinion on this report based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Annual Expenditure Limitation Report was prepared for the purpose of complying with the uniform expenditure reporting system as discussed in Note 1, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

The City's management did not maintain a cumulative capital assets list and we were, therefore, unable to audit the City's capital assets; net assets invested in capital assets, net of related debt; and depreciation expense for the governmental activities reported in the government-wide financial statements or the business-type activities reported in the government-wide and fund financial statements.

In our opinion, 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 Annual Expenditure Limitation Report of the City of Nogales, Arizona, for the year ended June 30, 2011, referred to above presents fairly, in all material respects, the information required by the uniform expenditure reporting system on the basis of accounting described in Note 1.

This report is intended solely for the information and use of management, and for filing with the Auditor General of the State of Arizona, and is not intended to be and should not be used by anyone other than these specified parties.

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Mesa, Arizona
October 22, 2012



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**CITY OF NOGALES, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART I
YEAR ENDED JUNE 30, 2011**

1. Economic Estimates Commission expenditure limitation	\$ -	
2. Voter approved alternative expenditure limitation (Approved November 2, 2010)	<u>49,584,348</u>	
3. Enter applicable amount from Line 1 or Line 2		<u>\$ 49,584,348</u>
4. Amount subject to the expenditure limitation (total amount from Part II, Line C)	39,287,923	
5. Board-authorized expenditures necessitated by a disaster not declared by the Governor [Article IX, §20(2)(a), Arizona Constitution]	-	
6. Board-authorized expenditures necessitated by a disaster not declared by the Governor [Article IX, §20(2)(b), Arizona Constitution]	-	
7. Prior-year voter approved expenditures to exceed the expenditure limitation for the reporting fiscal year [Article IX, §20(2)(c), Arizona Constitution]	-	
8. Subtotal	<u>39,287,923</u>	
9. Board-authorized excess expenditures for the previous fiscal year necessitated by a disaster not declared by the Governor and not approved by the voters [Article IX, §20(2)(b), Arizona Constitution]	-	
10. Total adjusted amount subject to the expenditure limitation	<u>39,287,923</u>	
11. Amount under (in excess of) the expenditure limitation (If excess expenditures are reported, provide an explanation.)		<u>\$ 10,296,425</u>

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of Chief Fiscal Officer: 

Name and Title: Teresa Ramirez, Finance Director

Telephone Number: 520-287-6571

Date: October 22, 2012

**CITY OF NOGALES, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART II
YEAR ENDED JUNE 30, 2011**

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Amounts reported on the Reconciliation Line D	\$ 24,302,922	\$ 11,143,944	\$ 3,835,337	\$ 5,720	\$ 39,287,923
B. Less exclusions claimed:					
1 Bond proceeds	-	-	-	-	-
Debt service requirements on bonded indebtedness	-	-	-	-	-
Debt service requirements on other long-term obligations	-	-	-	-	-
2 Dividends, interest and gains on sale of investment securities	-	-	-	-	-
3 Trustee or custodian	-	-	-	-	-
4 Grants and aid from the federal government	-	-	-	-	-
5 Grants, aid, contributions or gifts from private agency, organization or individual	-	-	-	-	-
6 Amounts received from the state	-	-	-	-	-
7 Quasi-external interfund transactions (town sewer fees a/c 10- 41-217, 10-55-217)	-	-	-	-	-
8 Amounts accumulated for purchase of land, purchase or construction of buildings or improvements	-	-	-	-	-
9 Highway user revenues in excess FY 1979-80	-	-	-	-	-
10 Contracts with other political subdivisions	-	-	-	-	-
11 Refunds, reimbursements and other recoveries	-	-	-	-	-
12 Voter approved exclusions not identified above	-	-	-	-	-
13 Prior years carryforward	-	-	-	-	-
14 Total exclusions claimed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
C. Amounts subject to the expenditure limitation	<u>\$ 24,302,922</u>	<u>\$ 11,143,944</u>	<u>\$ 3,835,337</u>	<u>\$ 5,720</u>	<u>\$ 39,287,923</u>

See accompanying notes to report.

CITY OF NOGALES, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - RECONCILIATION
YEAR ENDED JUNE 30, 2011

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Total Expenditures within the fund-based financial statements	\$ 24,302,922	\$ 10,339,275	\$ 3,842,061	\$ 5,720	\$ 38,489,978
B. Subtract:					
1 Items not requiring use of working capital					
Depreciation	-	1,422,428	6,724	-	1,429,152
Loss on disposal of capital assets	-	-	-	-	-
Bad debt expense	-	-	-	-	-
Claims incurred but not reported	-	-	-	-	-
Landfill Closure	-	-	-	-	-
2 Expenditures of separate legal entities established under ARS	-	-	-	-	-
3 Present value of net minimum capital leases	-	-	-	-	-
4 Charges for services paid to Internal Service Funds	-	-	-	-	-
5 Involuntary court judgments	-	-	-	-	-
6 Total subtractions	<u>-</u>	<u>1,422,428</u>	<u>6,724</u>	<u>-</u>	<u>1,429,152</u>
C. Additions:					
1 Principal payments on long-term debt	-	650,559	-	-	650,559
2 Acquisition of capital assets	-	1,576,538	-	-	1,576,538
3 Claims paid in the current year but reported as expenses	-	-	-	-	-
4 Landfill closure as expended in previous years	-	-	-	-	-
5 Total additions	<u>-</u>	<u>2,227,097</u>	<u>-</u>	<u>-</u>	<u>2,227,097</u>
D. Amounts reported on Part II Line A	<u>\$ 24,302,922</u>	<u>\$ 11,143,944</u>	<u>\$ 3,835,337</u>	<u>\$ 5,720</u>	<u>\$ 39,287,923</u>

See accompanying notes to report.

**CITY OF NOGALES, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Annual Expenditure Limitation Report (AELR) is presented on the basis of accounting prescribed by the *Uniform Expenditure Reporting System* (UERS), as required by Arizona Revised Statutes §41-1279.07, and in accordance with the voter-approved alternative expenditure limitation adopted November 2, 2010, as authorized by the Arizona Constitution, Article IX, §20(9).