

CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

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**CITY OF NOGALES, ARIZONA
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2013**

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	4
STATEMENT OF ACTIVITIES	5
BALANCE SHEET – GOVERNMENTAL FUNDS	6
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	7
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	9
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL	10
HURF FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL	12
STATEMENT OF NET POSITION – PROPRIETARY FUNDS	13
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUNDS	15
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	17
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS	21
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS	22
NOTES TO THE BASIC FINANCIAL STATEMENTS	23
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF FUNDING PROGRESS - PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM AND OTHER POSTEMPLOYMENT BENEFITS	49

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Nogales Housing Authority, a major Enterprise Fund, which represents 100 percent of the assets, net position and revenues of the Nogales Housing Authority Enterprise Fund and represents 10 percent, 13 percent, and 7 percent, respectively, of the assets, net position, and revenues of the Business-Type Activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nogales Housing Authority Enterprise Fund, is based solely on the report of the other auditors. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nogales, Arizona as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison statements for the General and Highway User Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended June 30, 2013, the City restated beginning net position for corrections of errors and for a change in accounting principle. See Note 3.E. for a summary of the restatement. The auditors' opinion was not modified with respect to the restatements.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the schedule of funding progress for the public safety retirement system and other postemployment benefits on page 49 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 and other auditors 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2014, on our consideration of the City of Nogales, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Phoenix, Arizona
April 7, 2014

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Basic Financial Statements

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CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 8,914,909	\$ 5,363,217	\$ 14,278,126
Receivables, Net:			
Accounts	447,753	802,383	1,250,136
Intergovernmental	773,823	32,822	806,645
Taxes	895,862	-	895,862
Special Assessments	11,455	-	11,455
Interest	-	271	271
Interfund Balances	4,577,734	(4,577,734)	-
Prepaid Items	16,245	16,533	32,778
Inventory	72,852	18,548	91,400
Restricted Assets	257,567	5,594,532	5,852,099
Capital Assets:			
Non-Depreciable	2,585,968	4,146,157	6,732,125
Depreciable (Net)	45,917,156	103,107,328	149,024,484
Total Assets	64,471,324	114,504,057	178,975,381
DEFERRED OUTFLOWS OF RESOURCES			
Reacquisition Costs on Refunding	90,388	1,066,009	1,156,397
LIABILITIES			
Accounts Payable	1,036,749	864,434	1,901,183
Accrued Wages and Benefits	597,909	121,180	719,089
Customer Deposits Payable	28,928	675,401	704,329
Unearned Revenue	-	6,033	6,033
Intergovernmental Payable	500	939	1,439
Claims Payable	311,159	-	311,159
Noncurrent Liabilities:			
Due Within One Year	1,065,477	699,458	1,764,935
Due in More Than One Year	24,562,357	22,897,986	47,460,343
Total Liabilities	27,603,079	25,265,431	52,868,510
NET POSITION			
Net Investment in Capital Assets	33,125,066	92,264,370	125,389,436
Restricted for:			
Highways and Streets	348,523	-	348,523
Federal and State Grants	872,337	-	872,337
Culture and Recreation	79,097	-	79,097
Housing	-	34,621	34,621
Unrestricted	2,533,610	(1,994,356)	539,254
Total Net Position	\$ 36,958,633	\$ 90,304,635	\$ 127,263,268

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 6,740,052	\$ 1,276,486	\$ 29,314	\$ -	\$ (5,434,252)		\$ (5,434,252)
Public Safety	11,724,111	986,445	1,493,493	2,257	(9,241,916)		(9,241,916)
Highways and Streets	3,347,246	13,942	2,339,061	-	(994,243)		(994,243)
Culture and Recreation	1,262,435	58,825	265,268	136,808	(801,534)		(801,534)
Interest on Long-Term Debt	770,070	-	-	-	(770,070)		(770,070)
Total Governmental Activities	<u>23,843,914</u>	<u>2,335,698</u>	<u>4,127,136</u>	<u>139,065</u>	<u>(17,242,015)</u>		<u>(17,242,015)</u>
Business-Type Activities:							
Sewer	4,606,731	2,274,859	-	250,208		\$ (2,081,664)	(2,081,664)
Water	3,260,536	2,449,993	-	98,007		(712,536)	(712,536)
Sanitation	2,446,269	2,390,342	-	-		(55,927)	(55,927)
NHA	2,696,301	520,076	1,295,559	288,229		(592,437)	(592,437)
Total Business-Type Activities	<u>13,009,837</u>	<u>7,635,270</u>	<u>1,295,559</u>	<u>636,444</u>		<u>(3,442,564)</u>	<u>(3,442,564)</u>
Total Primary Government	<u>\$ 36,853,751</u>	<u>\$ 9,970,968</u>	<u>\$ 5,422,695</u>	<u>\$ 775,509</u>	<u>(17,242,015)</u>	<u>(3,442,564)</u>	<u>(20,684,579)</u>
General Revenues:							
Taxes:							
Sales Taxes					10,244,519	-	10,244,519
Franchise Taxes					680,444	-	680,444
Impact Fees					-	209,408	209,408
State Revenue Sharing					5,103,544	-	5,103,544
Investment Earnings					701	4,345	5,046
Other					114,181	202,157	316,338
Transfers					439,507	(439,507)	-
Total General Revenues and Transfers					<u>16,582,896</u>	<u>(23,597)</u>	<u>16,559,299</u>
Change in Net Position					(659,119)	(3,466,161)	(4,125,280)
Net Position - Beginning (As Restated)					<u>37,617,752</u>	<u>93,770,796</u>	<u>131,388,548</u>
Net Position - Ending					<u>\$ 36,958,633</u>	<u>\$ 90,304,635</u>	<u>\$ 127,263,268</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 5,315,514	\$ -	\$ 1,184,652	\$ 6,500,166
Restricted Assets	245,949	11,618	-	257,567
Receivables:				
Accounts	420,699	-	-	420,699
Intergovernmental	286,035	229,807	257,981	773,823
Taxes	895,862	-	-	895,862
Special Assessments	-	-	11,455	11,455
Due from Other Funds	5,213,993	-	-	5,213,993
Prepaid Items	16,245	-	-	16,245
Total Assets	\$ 12,394,297	\$ 241,425	\$ 1,454,088	\$ 14,089,810
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 477,818	\$ 347,432	\$ 184,475	\$ 1,009,725
Accrued Wages and Benefits	558,286	21,646	36,798	616,730
Intergovernmental Payable	-	-	500	500
Due to Other Funds	-	190,518	-	190,518
Customer Deposits Payable	28,928	-	-	28,928
Total Liabilities	1,065,032	559,596	221,773	1,846,401
Deferred Inflows of Resources				
Unavailable Revenue	-	-	11,455	11,455
Fund Balances:				
Nonspendable:				
Prepaid Items	16,245	-	-	16,245
Restricted	217,431	11,618	1,220,860	1,449,909
Unassigned	11,095,589	(329,789)	-	10,765,800
Total Fund Balances	11,329,265	(318,171)	1,220,860	12,231,954
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,394,297	\$ 241,425	\$ 1,454,088	\$ 14,089,810

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances for Governmental Funds	\$ 12,231,954
Amounts reported for governmental activities in the statement of activities are different because:	
Deferred inflows of resources reported in the governmental funds are recognized as revenues in government - wide statements	11,455
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Governmental Capital Assets	84,576,967
Less: Accumulated Depreciation	(36,073,843)
Capital Assets Used in Governmental Activities	48,503,124
Long term liabilities, including bonds payable, capital leases, compensated absences, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Revenue Bonds	(14,126,090)
Reacquisition Cost on Refunding	90,388
Bond Premium	(299,609)
Capital Leases	(1,192,699)
Compensated Absences	(1,610,819)
Other Postemployment Benefits	(8,364,938)
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 position.	
Internal Service Fund Net Position	2,105,319
Less: Amount Attributed to the Business-Type Activities	(389,452)
	1,715,867
Total Net Position of Governmental Activities	\$ 36,958,633

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, 2013

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 10,244,519	\$ -	\$ -	\$ 10,244,519
Franchise Taxes	680,444	-	-	680,444
Intergovernmental	5,663,790	2,315,999	1,389,956	9,369,745
Fines and Forfeitures	368,589	-	-	368,589
Licenses and Permits	744,724	-	-	744,724
Charges for Services	1,222,385	-	-	1,222,385
Investment Earnings	577	124	-	701
Other	113,971	210	-	114,181
Total Revenues	<u>19,038,999</u>	<u>2,316,333</u>	<u>1,389,956</u>	<u>22,745,288</u>
EXPENDITURES				
Current:				
General Government	5,121,041	-	137,318	5,258,359
Public Safety	9,677,892	-	1,290,909	10,968,801
Highways and Streets	897,546	1,302,806	38,028	2,238,380
Culture and Recreation	1,450,818	-	52,830	1,503,648
Debt Service:				
Principal Retirement	597,772	450,016	-	1,047,788
Interest on Long-Term Debt	433,051	338,232	-	771,283
Capital Outlay	-	-	886,252	886,252
Total Expenditures	<u>18,178,120</u>	<u>2,091,054</u>	<u>2,405,337</u>	<u>22,674,511</u>
Excess (Deficiency) of Revenues Over Expenditures	860,879	225,279	(1,015,381)	70,777
OTHER FINANCING SOURCES (USES)				
Transfers In	-	173,601	563,399	737,000
Transfers Out	(297,493)	-	-	(297,493)
Total Other Financing Sources (Uses)	<u>(297,493)</u>	<u>173,601</u>	<u>563,399</u>	<u>439,507</u>
Net Change in Fund Balances	563,386	398,880	(451,982)	510,284
FUND BALANCES				
Beginning of Year	10,765,879	(717,051)	1,672,842	11,721,670
End of Year	<u>\$ 11,329,265</u>	<u>\$ (318,171)</u>	<u>\$ 1,220,860</u>	<u>\$ 12,231,954</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, 2013**

Net Change in Fund Balances of Governmental Funds \$ 510,284

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

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

Expenditures for Capital Assets	2,134,760
Less: Current Year Depreciation	(2,459,576)
Excess Depreciation over Capital Expenditures	(324,816)

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 position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these items are amortized over the term of the long term debt in the statement of activities.

Principal Payments on Long-Term Debt	594,763
Principal Payments on Capital Leases	453,024
Amortization of Bond Premium	18,843
Amortization of Deferred Amount on Refunding	(17,630)

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

Net Increase in Compensated Absences	(63,790)
Net Increase in Other Postemployment Benefits	(1,966,532)

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.

Net Revenues of the Internal Service Fund	165,327
Less: Amount Attributable to the Business-Type Activities	(28,592)
	136,735

Change in Net Position of Governmental Activities \$ (659,119)

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2013**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 10,996,848	\$ 10,924,963	\$ (71,885)
Intergovernmental	6,086,863	5,663,790	(423,073)
Fines and Forfeitures	537,239	368,589	(168,650)
Licenses and Permits	774,894	744,724	(30,170)
Charges for Services	1,225,900	1,222,385	(3,515)
Investment Earnings	-	577	577
Other	51,300	113,971	62,671
Total Revenues	19,673,044	19,038,999	(634,045)
EXPENDITURES			
Current:			
General Government:			
Mayor	83,247	74,373	8,874
Council	122,025	82,837	39,188
Administration	450,319	425,028	25,291
Finance	1,251,936	1,243,019	8,917
Human Resources	213,372	195,356	18,016
MIS	383,435	369,958	13,477
Planning and Zoning	248,043	225,271	22,772
Elections	41,500	87,990	(46,490)
City Attorney	669,574	498,117	171,457
City Court	400,659	382,270	18,389
Cemetery	116,398	111,958	4,440
Nondepartmental	1,689,747	1,424,864	264,883
Total General Government	5,670,255	5,121,041	549,214
Public Safety:			
Police	6,133,470	5,447,182	686,288
Fire	3,820,436	3,879,205	(58,769)
Animal Control	246,600	247,438	(838)
Building Inspections	104,702	75,684	29,018
Emergency Response	200,000	28,383	171,617
Total Public Safety	10,505,208	9,677,892	827,316
Highways and Streets:			
Facilities Maintenance	654,407	621,792	32,615
Engineering	306,460	275,754	30,706
Total Highways and Streets	960,867	897,546	63,321
Culture and Recreation:			
Parks	573,785	531,599	42,186
Recreation	457,413	431,703	25,710
Library	470,157	460,059	10,098
Golf Course	50,000	27,457	22,543
Total Culture and Recreation	1,551,355	1,450,818	100,537
Debt Service			
Principal Retirement	597,772	597,772	-
Interest on Long-Term Debt	387,587	433,051	(45,464)
Total Debt Service	985,359	1,030,823	(45,464)
Total Expenditures	19,673,044	18,178,120	1,494,924

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, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ 860,879	\$ 860,879
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(297,493)	(297,493)
Net Change in Fund Balance	-	563,386	563,386
FUND BALANCE			
Beginning of Year	4,038,393	10,765,879	6,727,486
End of Year	<u>\$ 4,038,393</u>	<u>\$ 11,329,265</u>	<u>\$ 7,290,872</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, 2013**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 2,497,918	\$ 2,315,999	\$ (181,919)
Investment Earnings	3,600	124	(3,476)
Other	-	210	210
Total Revenues	<u>2,501,518</u>	<u>2,316,333</u>	<u>(185,185)</u>
EXPENDITURES			
Current:			
Highways and Streets	1,939,507	1,302,806	636,701
Debt Service			
Principal Retirement	450,023	450,016	7
Interest on Long-Term Debt	338,669	338,232	437
Total Expenditures	<u>2,728,199</u>	<u>2,091,054</u>	<u>637,145</u>
Excess (Deficiency) of Revenues Over Expenditures	(226,681)	225,279	451,960
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>226,681</u>	<u>173,601</u>	<u>(53,080)</u>
Net Change in Fund Balance	-	398,880	398,880
FUND BALANCE			
Beginning of Year	-	(717,051)	(717,051)
End of Year	<u>\$ -</u>	<u>\$ (318,171)</u>	<u>\$ (318,171)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 3,184,109	\$ -	\$ 1,953,485
Investments	-	-	-	225,623
Prepaid Assets	-	650	-	15,883
Receivables, Net:				
Accounts	226,501	331,412	235,400	9,070
Intergovernmental	-	-	-	32,822
Interest	-	-	-	271
Inventories	-	-	-	18,548
Restricted Assets	818,561	4,741,350	-	34,621
Total Current Assets	<u>1,045,062</u>	<u>8,257,521</u>	<u>235,400</u>	<u>2,290,323</u>
Noncurrent Assets:				
Advances to Other Funds	49,100	-	-	-
Capital Assets:				
Non-Depreciable	158,202	2,333,219	-	1,654,736
Depreciable (Net)	71,556,017	23,286,564	472,532	7,792,215
Total Noncurrent Assets	<u>71,763,319</u>	<u>25,619,783</u>	<u>472,532</u>	<u>9,446,951</u>
Total Assets	<u>72,808,381</u>	<u>33,877,304</u>	<u>707,932</u>	<u>11,737,274</u>
Deferred Outflows of Resources				
Reacquisition Costs on Refunding	936,310	124,092	5,607	-
Liabilities				
Current Liabilities:				
Accounts Payable	283,826	186,785	51,171	342,652
Accrued Wages and Benefits	17,984	37,509	36,000	29,687
Intergovernmental Payable	-	939	-	-
Unearned Revenue	-	-	-	6,033
Customer Deposits Payable	-	629,455	-	45,946
Claims Payable	-	-	-	-
Due To Other Funds	3,302,345	-	1,664,841	-
Compensated Absences	18,717	36,956	37,254	5,761
Capital Leases Payable	26,114	52,458	23,801	-
Bonds and Notes Payable	347,131	141,380	9,886	-
Total Current Liabilities	<u>3,996,117</u>	<u>1,085,482</u>	<u>1,822,953</u>	<u>430,079</u>
Noncurrent Liabilities:				
Advances from Other Funds	-	-	49,100	-
Compensated Absences	51,029	60,584	48,130	51,851
Capital Leases Payable	64,223	451,471	-	-
Other Postemployment Benefits	735,233	498,980	1,223,409	-
Bonds and Notes Payable	8,533,909	11,069,715	109,452	-
Total Noncurrent Liabilities	<u>9,384,394</u>	<u>12,080,750</u>	<u>1,430,091</u>	<u>51,851</u>
Total Liabilities	<u>13,380,511</u>	<u>13,166,232</u>	<u>3,253,044</u>	<u>481,930</u>
Net Position				
Net Investment in Capital Assets	64,273,120	18,209,299	335,000	9,446,951
Restricted	-	-	-	34,621
Unrestricted	(3,908,940)	2,625,865	(2,874,505)	1,773,772
Total Net Position	<u>\$ 60,364,180</u>	<u>\$ 20,835,164</u>	<u>\$ (2,539,505)</u>	<u>\$ 11,255,344</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
Net position of business-type activities

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Totals</u>	
\$ 5,137,594	\$ 2,414,743
225,623	-
16,533	-
802,383	27,054
32,822	-
271	-
18,548	72,852
5,594,532	-
<u>11,828,306</u>	<u>2,514,649</u>
49,100	-
4,146,157	-
103,107,328	-
<u>107,302,585</u>	<u>-</u>
119,130,891	2,514,649
1,066,009	-
864,434	27,024
121,180	10,241
939	-
6,033	-
675,401	-
-	282,097
4,967,186	56,289
98,688	17,762
102,373	-
498,397	-
<u>7,334,631</u>	<u>393,413</u>
49,100	-
211,594	15,917
515,694	-
2,457,622	-
19,713,076	-
<u>22,947,086</u>	<u>15,917</u>
<u>30,281,717</u>	<u>409,330</u>
92,264,370	-
34,621	-
(2,383,808)	2,105,319
<u>89,915,183</u>	<u>\$ 2,105,319</u>
389,452	
<u>\$ 90,304,635</u>	

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
OPERATING REVENUES				
Charges for Services	\$ 2,274,859	\$ 2,449,993	\$ 2,390,342	\$ -
Rents and Royalties	-	-	-	520,076
Contributions	-	-	-	-
Operating Grants	-	-	-	1,295,559
Other Income	-	-	-	107,368
Total Operating Revenues	<u>2,274,859</u>	<u>2,449,993</u>	<u>2,390,342</u>	<u>1,923,003</u>
OPERATING EXPENSES				
Cost of Sales and Services	2,094,168	1,938,747	2,371,137	2,252,913
Claims	-	-	-	-
Depreciation	2,074,202	785,689	78,146	448,488
Total Operating Expenses	<u>4,168,370</u>	<u>2,724,436</u>	<u>2,449,283</u>	<u>2,701,401</u>
OPERATING INCOME (LOSS)	(1,893,511)	(274,443)	(58,941)	(778,398)
NONOPERATING REVENUES (EXPENSES)				
Development Impact Fees	201,243	8,165	-	-
Investment Earnings	440	296	2	3,607
Interest Expense	(443,103)	(543,843)	(7,993)	-
Miscellaneous Nonoperating Revenues	44,415	46,112	4,262	-
Total Nonoperating Revenues (Expenses)	<u>(197,005)</u>	<u>(489,270)</u>	<u>(3,729)</u>	<u>3,607</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(2,090,516)	(763,713)	(62,670)	(774,791)
Capital Contributions	250,208	98,007	-	288,229
Transfers In	297,493	-	-	-
Transfers Out	(281,700)	(455,300)	-	-
CHANGE IN NET POSITION	(1,824,515)	(1,121,006)	(62,670)	(486,562)
NET POSITION				
Beginning of Year (As Restated)	62,188,695	21,956,170	(2,476,835)	11,741,906
End of Year	<u>\$ 60,364,180</u>	<u>\$ 20,835,164</u>	<u>\$ (2,539,505)</u>	<u>\$ 11,255,344</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
Change in net position of business-type activities

See accompanying Notes to Basic Financial Statements.

Business-Type Funds - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Totals</u>	
\$ 7,115,194	\$ 1,424,302
520,076	-
-	2,965,695
1,295,559	-
107,368	-
<u>9,038,197</u>	<u>4,389,997</u>
8,656,965	1,553,009
-	2,675,366
<u>3,386,525</u>	-
<u>12,043,490</u>	<u>4,228,375</u>
(3,005,293)	161,622
209,408	-
4,345	3,705
(994,939)	-
94,789	-
<u>(686,397)</u>	<u>3,705</u>
(3,691,690)	165,327
636,444	-
297,493	-
<u>(737,000)</u>	-
(3,494,753)	165,327
	1,939,992
	<u>\$ 2,105,319</u>
28,592	
<u>\$ (3,466,161)</u>	

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 2,207,247	\$ 2,413,228	\$ 2,402,707	\$ 510,639
Operating Grants	-	-	-	1,289,962
Payments to Suppliers	(1,397,825)	(924,572)	(1,483,375)	(1,555,654)
Payments to Employees	(478,771)	(896,204)	(559,821)	(629,167)
Payments for Claims	-	-	-	-
Other Receipts	44,415	46,112	4,262	107,341
Customer Deposits Payable	-	8,343	-	-
Net Cash Provided (Used) by Operating Activities	<u>375,066</u>	<u>646,907</u>	<u>363,773</u>	<u>(276,879)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund Borrowing	652,325	-	(276,940)	-
Interfund Transfers	15,793	(455,300)	-	-
Development Impact Fees	201,243	8,165	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>869,361</u>	<u>(447,135)</u>	<u>(276,940)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES				
Capital Contributions	254,504	98,007	-	281,640
Purchases of Capital Assets	(843,382)	(555,356)	-	(299,756)
Principal Paid on Capital Debt	(401,151)	(195,459)	(78,677)	-
Interest Paid on Capital Debt	(399,836)	(556,487)	(8,159)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,389,865)</u>	<u>(1,209,295)</u>	<u>(86,836)</u>	<u>(18,116)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings	440	296	2	2,673
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(144,998)</u>	<u>(1,009,227)</u>	<u>(1)</u>	<u>(292,322)</u>
Cash and Cash Equivalents, Beginning of Year	<u>963,559</u>	<u>8,934,686</u>	<u>1</u>	<u>2,280,428</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 818,561</u>	<u>\$ 7,925,459</u>	<u>\$ -</u>	<u>\$ 1,988,106</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents	\$ -	\$ 3,184,109	\$ -	\$ 1,953,485
Restricted Assets	818,561	4,741,350	-	34,621
Total Cash and Cash Equivalents	<u>\$ 818,561</u>	<u>\$ 7,925,459</u>	<u>\$ -</u>	<u>\$ 1,988,106</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Total</u>	
\$ 7,533,821	\$ 4,443,409
1,289,962	-
(5,361,426)	(1,298,064)
(2,563,963)	(304,962)
-	(2,737,539)
202,130	-
8,343	-
<u>1,108,867</u>	<u>102,844</u>
375,385	10,473
(439,507)	-
<u>209,408</u>	<u>-</u>
145,286	10,473
634,151	-
(1,698,494)	-
(675,287)	-
<u>(964,482)</u>	<u>-</u>
(2,704,112)	-
<u>3,411</u>	<u>3,705</u>
(1,446,548)	117,022
<u>12,178,674</u>	<u>2,297,721</u>
<u>\$ 10,732,126</u>	<u>\$ 2,414,743</u>
\$ 5,137,594	\$ 2,414,743
5,594,532	-
<u>\$ 10,732,126</u>	<u>\$ 2,414,743</u>

CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (1,893,511)	\$ (274,443)	\$ (58,941)	\$ (778,398)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	2,074,202	785,689	78,146	448,488
Nonoperating Receipts	44,415	46,112	4,262	12,918
Change in Assets/Liabilities:				
Receivables	(67,612)	(36,765)	12,365	(20,034)
Prepaid Items	-	(650)	-	979
Inventories	-	-	-	12,642
Accounts Payable	34,840	(31,504)	15,981	(7,608)
Accrued Wages and Benefits	6,638	25,396	20,538	54,161
Unearned Revenue	-	-	-	1,188
Other Postemployment Benefits	172,847	117,306	287,615	-
Compensated Absences	3,247	7,423	3,807	-
Claims Payable	-	-	-	-
Customer Deposits Payable	-	8,343	-	(1,215)
Net Cash Provided (Used) by Operating Activities	<u>\$ 375,066</u>	<u>\$ 646,907</u>	<u>\$ 363,773</u>	<u>\$ (276,879)</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

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

Amortization of Premium (Discount)	\$ 7,256	\$ (17,417)	\$ (381)	\$ -
Amortization of Reacquisition Costs on Refunding	36,011	4,773	217	-

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Total</u>	<u>Service Funds</u>

\$ (3,005,293)	\$ 161,622
----------------	------------

3,386,525	-
107,707	-
(112,046)	53,412
329	-
12,642	(13,222)
11,709	(39,710)
106,733	5,004
1,188	-
577,768	-
14,477	(2,089)
-	(62,173)
7,128	-
<u>\$ 1,108,867</u>	<u>\$ 102,844</u>

\$ (10,542)	\$ -
41,001	-

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>Pension Trust</u>
Assets	
Cash and Cash Equivalents	<u>\$ 15,769</u>
Net Position	
Held In Trust	<u>\$ 15,769</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013**

	<u>Pension Trust</u>
ADDITIONS	
Investment Earnings	\$ 206
Net Position, Beginning of Year	<u>15,563</u>
NET POSITION, END OF YEAR	<u><u>\$ 15,769</u></u>

See accompanying Notes to Basic Financial Statements.

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CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

During the year ended June 30, 2013, the City adopted GASB Statements No. 60, 61, 62, 63, and 65. GASB Statement No. 60, *Accounting and Financial Reporting of Service Concession Arrangements*, provides guidance on reporting service concession arrangements. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*, relates to the reporting of component units. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, relates to the codification of prior GASB statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

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, 2013 fiscal year-end.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Nogales Municipal Development Authority (MDA) – The MDA is a nonprofit corporation formed by the City to obtain financing for various City capital needs. The Directors of the MDA are appointed by the City Council. The MDA has the authority to issue bonded debt to finance City capital projects, providing a financial benefit to the City because the debt issued by the MDA is not subject to the City's debt limit. The City also incurs a financial burden as the City is responsible for the paying the outstanding bonded debt. The MDA is reported as a blended component unit Debt Service Fund in the governmental funds. The City does not issue separate financial statements for the MDA.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified accrual basis of accounting. Revenues are recognized as soon as they are 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.

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 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

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.

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 Treasurer's Local Government Investment Pool. Investments are stated at fair value.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

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 \$369,885 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$273,977.

3. Short-Term Interfund Receivables/Payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. 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.

5. Restricted Assets

Certain assets of the governmental activities, business-type activities and enterprise funds 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 governmental activities, business-type activities and enterprise funds are set aside for repayment to customers.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

6. 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 reported in the basic financial statements. Infrastructure acquired prior to July 1, 2002 are reported at historical cost or estimated historical cost and depreciated over the estimated useful lives of the assets.

The City has active construction contracts funded through debt obligations. Interest is capitalized in the proprietary funds on constructed assets based on the estimated percentage of completion.

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

7. Deferred Outflows of Resources

The deferred outflows of resources reported in the government-wide financial and proprietary fund financial statements, represent the reacquisition costs related to the refunding of bonded debt. The reacquisition costs are amortized and expensed over the lesser of the maturity of the refunded bonds or the refunding bonds.

8. 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, 2013

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

9. 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 position. Bond premiums and discounts are 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 an expense when incurred.

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.

10. Deferred Inflows of Resources

The deferred inflows of resources reported in the governmental fund financial statements represent resources that are not available to the City as of June 30, 2013 or within 60 days of fiscal year end. The deferred inflows of resources represent a reconciling item between the governmental fund financial statements and the government-wide financial statements.

11. Net Position

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

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

12. 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 balances.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

12. 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.

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

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

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

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

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

At June 30, 2013, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Prepays	\$ 16,245	\$ -	\$ -	\$ 16,245
Restricted				
Impound Fees	79,097	-	-	79,097
Federal and State Grants	-	-	872,337	872,337
Community Development	-	-	-	-
Local Transportation Assistance	-	-	348,523	348,523
Capital Outlay (Unspent Bonds)	138,334	11,618	-	149,952
Assigned				
Capital Outlay	-	-	-	-
Unassigned	11,095,589	(329,789)	-	10,765,800
Total Fund Balance	<u>\$ 11,329,265</u>	<u>\$ (318,171)</u>	<u>\$ 1,220,860</u>	<u>\$ 12,231,954</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

No supplementary budgetary appropriations were necessary during the year.

B. Deficit Fund Equity

A deficit fund balance in the amount of \$318,171 and \$2,539,505 was reported in the HURF and Sanitation Funds, respectively. The City does not expect to recover the deficit in the upcoming fiscal year, but plans to reduce costs in future years to reduce the deficit.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2013 consist of the following:

Deposits:	
Cash on Hand	\$ 4,221
Cash in Bank	13,775,239
Certificates of Deposit	876,432
Investments:	
U.S. Government Money Market Securities	2,667,664
U.S. Treasury Bill	<u>2,822,438</u>
Total Deposits and Investments	20,145,994
Restricted Cash and Investments	(5,852,099)
Fiduciary Funds	<u>(15,769)</u>
Total Cash and Cash Equivalents	<u><u>\$ 14,278,126</u></u>

Deposits – The carrying value of the City’s deposits at June 30, 2013 was \$14,651,671, including certificates of deposit, and the bank balance was \$15,398,743. Of the bank balance, \$15,154,310 was covered by federal depository insurance or collateral held under the continuing deposit security agreement. The remaining balance of \$244,433 was uninsured and uncollateralized.

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

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

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

Credit risk – The City limits its investments to U.S. Government Securities. The City has invested funds in U.S. Government Money Market Funds and U.S. Treasury Bills and, therefore, has no credit risk.

Concentration of Credit Risk – The City’s investment policy does not address concentration of credit risk. However, the City only invests in funds authorized by Arizona State law and only has investments in U.S. Government Money Market and U.S. Treasury Bills at June 30, 2013.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2013 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Sale of Easement of Escrow Funds	\$ 107,615	\$ -	\$ 107,615
Operation and Maintenance	-	136,965	136,965
Repair and Replacement Fund	-	87,628	87,628
Future Debt Service and Construction	149,952	4,771,394	4,921,346
Housing Assistance Payments	-	34,621	34,621
Customer Deposits	-	560,902	560,902
Unspent Lease Proceeds	-	3,022	3,022
Total	<u>\$ 257,567</u>	<u>\$ 5,594,532</u>	<u>\$ 5,852,099</u>

3. Receivables

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue 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 inflows of resources reported in the governmental funds were as follows:

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital assets activity for the primary government's governmental activities and business-type activities for the year ended June 30, 2013 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,276,434	\$ 2,700	\$ -	\$ 2,279,134
Construction in Progress	915,735	934,956	(1,543,857)	306,834
Total Capital Assets, Not Being Depreciated	<u>3,192,169</u>	<u>937,656</u>	<u>(1,543,857)</u>	<u>2,585,968</u>
Capital Assets, Being Depreciated:				
Infrastructure	55,570,756	1,718,510	-	57,289,266
Buildings	9,730,483	-	-	9,730,483
Improvements Other than Buildings	2,989,073	372,607	-	3,361,680
Vehicles, Machinery and Equipment	10,983,976	649,844	(24,250)	11,609,570
Total Capital Assets, Being Depreciated	<u>79,274,288</u>	<u>2,740,961</u>	<u>(24,250)</u>	<u>81,990,999</u>
Accumulated Depreciation for:				
Infrastructure	(19,521,252)	(1,232,704)	-	(20,753,956)
Buildings	(5,072,315)	(208,032)	-	(5,280,347)
Improvements Other than Buildings	(1,310,376)	(67,330)	-	(1,377,706)
Vehicles, Machinery and Equipment	(7,734,574)	(951,510)	24,250	(8,661,834)
Total Accumulated Depreciation	<u>(33,638,517)</u>	<u>(2,459,576)</u>	<u>24,250</u>	<u>(36,073,843)</u>
Total Capital Assets, Being Depreciated, Net	<u>45,635,771</u>	<u>281,385</u>	<u>-</u>	<u>45,917,156</u>
Governmental Activities Capital Assets, Net	<u>\$ 48,827,940</u>	<u>\$ 1,219,041</u>	<u>\$ (1,543,857)</u>	<u>\$ 48,503,124</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,242,853	\$ -	\$ -	\$ 3,242,853
Construction in Progress	2,681,048	1,634,989	(3,412,733)	903,304
Total Capital Assets, Not Being Depreciated	5,923,901	1,634,989	(3,412,733)	4,146,157
Capital Assets, Being Depreciated:				
Infrastructure	110,740,213	3,167,186	-	113,907,399
Buildings	8,130,934	-	-	8,130,934
Improvements Other than Buildings	702,019	-	-	702,019
Vehicles, Machinery and Equipment	7,622,440	51,978	-	7,674,418
Housing Authority	13,539,204	257,074	-	13,796,278
Total Capital Assets, Being Depreciated	140,734,810	3,476,238	-	144,211,048
Accumulated Depreciation for:				
Infrastructure	(20,826,259)	(2,491,390)	-	(23,317,649)
Buildings	(4,512,372)	(176,492)	-	(4,688,864)
Improvements Other than Buildings	(321,035)	(15,600)	-	(336,635)
Vehicles, Machinery and Equipment	(6,501,954)	(254,555)	-	(6,756,509)
Housing Authority	(5,555,575)	(448,488)	-	(6,004,063)
Total Accumulated Depreciation	(37,717,195)	(3,386,525)	-	(41,103,720)
Total Capital Assets, Being Depreciated, Net	103,017,615	89,713	-	103,107,328
Business-Type Activities Capital Assets, Net	\$ 108,941,516	\$ 1,724,702	\$ (3,412,733)	\$ 107,253,485

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 328,193
Public Safety	678,793
Highways and Streets	1,325,658
Culture and Recreation	126,932
Total Depreciation Expense	\$ 2,459,576

Business-Type Activities:

Sewer	\$ 2,074,202
Water	785,689
Sanitation	78,146
Nogales Housing Authority	448,488
Total Depreciation Expense	\$ 3,386,525

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, And Transfers

As of June 30, 2013 interfund receivable and payables were as follows:

	Due To
Due From	General Fund
HURF Fund	\$ 190,518
Sewer Fund	3,302,345
Sanitation Fund	1,664,841
Internal Service Fund	56,289
	\$ 5,213,993

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2013 for the Internal Service Fund to cover the deficit. Funds are not expected to be received within the next year for the HURF, Sewer or the Sanitation Fund to cover the deficit.

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

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

As of June 30, 2013, transfers were as follows:

	Transfers Out			
	General Fund	Sewer Fund	Water Fund	Total
Transfers In				
HURF Fund	\$ -	\$ -	\$ 173,601	\$ 173,601
Nonmajor Governmental Funds	-	281,700	281,699	563,399
Sewer Fund	297,493	-	-	297,493
Total	\$ 297,493	\$ 281,700	\$ 455,300	\$ 1,034,493

The transfer from the General Fund to the Sewer Fund and the transfer from the Water Fund to the HURF Fund were recorded to fund expenditures that exceeded revenues in each of those funds. The transfer from the Sewer and Water Funds to the Nonmajor Governmental Funds was recorded to fund capital projects in which the cost of those projects exceeded the available construction bonds.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases

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

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Assets:		
Machinery and Equipment	\$ 3,843,013	\$ 1,645,326
Less: Accumulated Depreciation	<u>(1,726,270)</u>	<u>(493,599)</u>
Total	<u><u>\$ 2,116,743</u></u>	<u><u>\$ 1,151,727</u></u>

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2013, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2014	\$ 304,234	\$ 127,315
2015	195,749	79,529
2016	196,699	80,635
2017	198,666	82,926
2018	199,510	83,908
2019 - 2023	<u>282,941</u>	<u>280,011</u>
Total Minimum Lease Payments	1,377,799	734,324
Less: Amount Representing Interest	<u>(185,100)</u>	<u>(116,257)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 1,192,699</u></u>	<u><u>\$ 618,067</u></u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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:				
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/14-19	\$ 2,455,376	\$ 1,012,421
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	07/01/19-30	4,639,800	4,639,800
Municipal Facilities Revenue Bonds, Series 2006	1.50-5.25	07/01/19-36	6,141,330	6,141,330
Series 2009 Bonds	3.75-5.42	10/01/13-39	2,689,490	2,332,539
Total Governmental Activities			<u>\$ 19,270,996</u>	<u>\$ 14,126,090</u>
Business-Type Activities:				
Bonds Payable:				
Municipal Facilities Revenue Bonds, Series 2004 A	2.00-5.00	06/01/14-19	\$ 2,394,624	\$ 987,579
Municipal Facilities Revenue Bonds, Series 2005	1.50-5.25	06/01/19-30	5,810,200	5,810,200
Municipal Facilities Revenue Bonds, Series 2006	1.50-5.25	07/01/19-36	2,558,670	2,558,670
Municipal Facilities Revenue and Refunding Bonds, Series 2009	3.75-5.42	10/01/13-39	12,445,511	10,797,462
Total Business-Type Activities			<u>\$ 23,209,005</u>	<u>\$ 20,153,911</u>

The City has pledged excise tax revenues of the General Fund to repay \$19.3 million in governmental municipal facilities revenue obligation bonds presented on the table 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 \$25,194,858. Principal and interest paid for the current year and total excise taxes were \$1,295,369 and \$18,399,656, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

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 on the table on the previous page. 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 20.0% of revenues. The total principal and interest remaining to be paid on the bonds is \$35,479,787. Principal and interest paid for the current year and total pledged revenues were \$1,430,252 and \$7,362,922, respectively.

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	July 1, 2012 (Restated)	Increases	Decreases	July 1, 2013	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 14,720,853	\$ -	\$ (594,763)	\$ 14,126,090	\$ 211,603
Deferred Amounts:					
Premium	318,452	-	(18,843)	299,609	-
Total Bonds	<u>15,039,305</u>	<u>-</u>	<u>(613,606)</u>	<u>14,425,699</u>	<u>211,603</u>
Other Liabilities:					
Capital Leases	1,645,723	-	(453,024)	1,192,699	254,520
Compensated Absences	1,582,797	718,321	(656,620)	1,644,498	599,354
Other Postemployment Benefits	6,398,406	1,966,532	-	8,364,938	-
Total Other Liabilities	<u>9,626,926</u>	<u>2,684,853</u>	<u>(1,109,644)</u>	<u>11,202,135</u>	<u>853,874</u>
Governmental Activities Long-Term Liabilities	<u>\$ 24,666,231</u>	<u>\$ 2,684,853</u>	<u>\$ (1,723,250)</u>	<u>\$ 25,627,834</u>	<u>\$ 1,065,477</u>
	July 1, 2012 (Restated)	Increases	Decreases	July 1, 2013	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 20,639,148	\$ -	\$ (485,237)	\$ 20,153,911	\$ 498,397
Deferred Amounts:					
Premium	314,702	-	(19,676)	295,026	-
Discount	(246,596)	-	9,134	(237,462)	-
Total Bonds Payable	<u>20,707,254</u>	<u>-</u>	<u>(495,779)</u>	<u>20,211,475</u>	<u>498,397</u>
Other Liabilities:					
Capital Leases	808,117	-	(190,050)	618,067	102,373
Compensated Absences	294,352	129,403	(113,475)	310,280	98,688
Other Postemployment Benefits	1,879,854	577,768	-	2,457,622	-
Business-Type Activities Long-Term Liabilities	<u>\$ 23,689,577</u>	<u>\$ 707,171</u>	<u>\$ (799,304)</u>	<u>\$ 23,597,444</u>	<u>\$ 699,458</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2013 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 211,603	\$ 680,461	\$ 498,397	\$ 932,020
2015	216,800	673,652	513,200	916,619
2016	227,060	664,465	532,940	898,606
2017	234,789	654,818	550,212	879,606
2018	245,049	644,838	569,952	879,583
2019 - 2023	2,139,524	2,956,872	2,995,477	3,919,204
2024 - 2028	2,398,639	2,438,459	3,596,362	3,171,880
2029 -2033	4,013,937	1,748,215	3,581,064	2,263,822
2034 - 2038	4,063,518	588,292	5,576,482	1,378,020
2039	375,171	18,696	1,739,825	86,516
Total	<u>\$ 14,126,090</u>	<u>\$ 11,068,768</u>	<u>\$ 20,153,911</u>	<u>\$ 15,325,876</u>

E. Prior Period Adjustments

During the fiscal year, net position was restated in the governmental activities, business-type activities, Sewer, Water, Sanitation and Internal Service Funds for corrections of errors and the implementation of GASB Statement No. 65. The City had previously not maintained a complete comprehensive capital assets listing, did not record the liability related to its other postemployment benefits and did not allocate the beginning net position or activity of the Internal Service Fund elimination to the business-type activities. During the fiscal year ended June 30, 2013, the City completed a complete physical inventory of its capital assets, as well as had an actuarial completed of its other postemployment benefits and properly allocated the internal service funds to the business-type activities as part of the internal service fund elimination. Additionally, due to the implementation of GASB Statement Number 65, issuance costs that were previously reported as an asset (deferred charges) were removed and beginning net position was restated.

The effects of those restatements are as follows:

	Net Position at July 1, 2012 (As Previously Stated)	Capital Assets	Other Post- employment Benefits	Deferred Charges	Internal Service Fund Elimination	Net Position at July 1, 2012 (As Restated)
Governmental Activities	\$ 25,192,624	\$ 19,615,621	\$ (6,398,406)	\$ (431,227)	\$ (360,860)	\$ 37,617,752
Business-Type Activities	90,074,434	5,796,751	(1,879,854)	(581,395)	360,860	93,770,796
Sewer Fund	70,406,687	(7,393,716)	(562,386)	(261,890)	-	62,188,695
Water Fund	9,610,240	13,043,421	(381,674)	(315,817)	-	21,956,170
Sanitation Fund	(1,684,399)	147,046	(935,794)	(3,688)	-	(2,476,835)
NHA Fund	11,741,906	-	-	-	-	11,741,906
Internal Service Funds	\$ 1,961,440	\$ (21,448)	\$ -	\$ -	\$ -	\$ 1,939,992

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 OTHER INFORMATION

A. Risk Management

The City of Nogales, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by a private carrier (Travelers), of which the City is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The City established the City of Nogales Employee Benefit Trust (an internal service fund reported as the Health Insurance Fund) which accounts for and finances the City's uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. Under this program, the City is self-insured for up to \$75,000 for each insured's health care claim, not to exceed a maximum individual annual stop loss of \$2,000,000 and is self-insured for annual aggregate losses up to \$2,623 per covered employee plus \$4,196 per covered dependent unit per year. The City purchases commercial insurance for claims in excess of coverage provided by the Plan and for all other risks of loss. Settled claims did not exceed the aggregate stop loss for the year ended June 30, 2012. In addition, settlements did not exceed insurance coverage for each of the past three fiscal years.

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, 2013 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, 2013 and 2012 were as follows:

	Claims Liability at beginning of year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at end of year
2012-13	\$ 344,270	\$ 2,675,366	\$ (2,737,539)	\$ 282,097
2011-12	272,300	2,888,469	(2,816,499)	344,270

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Subsequent Events

Subsequent to June 30, 2013, the City authorized the issuance of \$15,000,000 in refunding bonds to advance refund debt with higher interest rates and to obtain a savings of \$800,000 to \$1,000,000.

The City also entered into a capital lease agreement in the amount of \$2,606,464 for various equipment purchases. The lease requires 60 monthly principal and interest payments of \$45,201 beginning January 2014 at a rate of approximately 1.60%.

D. Retirement Plans

Firefighters Relief and Pension Fund

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

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

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

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

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

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Arizona State Retirement System

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

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

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City of Nogales, Arizona's contribution rates. For the year ended June 30, 2013, active plan members were required by statute to contribute at the actuarially determined rate of 11.14% (10.90% for retirement and 0.24% for long-term disability) of the members' annual covered payroll and the City of Nogales, Arizona was required by statute to contribute at the actuarially determined rate of 11.14% (10.25% for retirement, 0.65% for health insurance premium, and 0.24% for long-term disability) of the members' annual covered payroll. Contributions to the plan by the City for June 30, 2013 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>
2013	\$ 632,899	\$ 40,135	\$ 14,819
2012	592,141	37,796	14,399
2011	556,931	36,469	15,453

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

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 contribution rate for fiscal year 2013 was 20.87% and 24.64% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost – During the year ended June 30, 2013, the City of Nogales, Arizona's annual pension cost of \$700,460 for police and \$559,206 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, 2011 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.5% (not including inflation) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2013, the plan for police was 68.1% funded and the plan for fire was 60.9% funded. The actuarial accrued liability for benefits was \$18.6 million and \$14.9 million for police and fire, respectively; and the actuarial value of assets was \$12.7 million and \$9.1 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$5.9 million and \$5.8 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.1 million and \$2.4 million, and the ratio of the UAAL to the covered payroll was 192.0% and 247.9%, respectively.

As of June 30, 2013, the other post employment benefits for police and fire were 0% funded. The actuarial accrued liability for benefits was \$0.9 million and \$0.7 million for police and fire, respectively; and the actuarial value of assets was \$-0- for police and fire; resulting in an unfunded actuarial accrued liability (UAAL) of \$0.9 million and \$0.7 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.1 million and \$2.4 million, and the ratio of the UAAL to the covered payroll was 29.3% and 30.5%, respectively.

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

The actuarial value of the City of Nogales, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The City of Nogales, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 was 24 years.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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

Annual pensions costs to the plan for 2013 and the previous two years were as follows:

Three-Year Trend Information			
Police			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2011	\$ 582,210	100.0 %	\$ -
2012	647,608	100.0	-
2013	700,460	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2011	\$ 68,832	100.0 %	\$ -
2012	70,808	100.0	-
2013	68,131	100.0	-
Three-Year Trend Information			
Fire			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2011	\$ 556,568	100.0	\$ -
2012	543,596	100.0	-
2013	559,206	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2011	\$ 50,284	100.0	\$ -
2012	53,326	100.0	-
2013	53,187	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 49.

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.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Other Postemployment Benefits

The cost of postemployment healthcare benefits, from an accrual accounting perspective, similar to the cost of pension benefits, should be associated with the period in which the cost occurs, rather than in the future year when it will be paid. The City implemented the provisions of GASB Statement No. 45 during the fiscal year ended June 30, 2013 and is recognizing the cost of postemployment healthcare in the year the employee services are received, the accumulated liability from prior years, and is providing information useful in assessing potential demands on the City's future cash flows. The remaining amortization period as of June 30, 2013 is 25 years.

Plan Description

The City provides postretirement insurance (health and dental) benefits, for certain retirees and their dependents, in accordance with the Post Employment Benefit Plan. The plan is a single-employer defined benefit plan administered by the City. Employees hired prior to July 1, 2004, with a minimum of 15 years of full-time service to the City, and have retired prior to June 30, 2013, will receive medical insurance provided by the City at no cost to the retiree until the retiree reaches age 65. Employees employed by the City after July 1, 2004, who retire and have attained age 50 and completed a minimum of 20 years of full-time service to the City, will receive a medical insurance subsidy provided by the City until the retiree is eligible for Medicare. The employee must be participating in one of the City's health plans to be eligible.

Retirees Receiving Benefits	85
Active Employees	<u>282</u>
Total	<u><u>367</u></u>

Benefits Provided

The City provides postretirement insurance (medical and dental) benefits (OPEB), in accordance with the City's Post Employment Benefit Plan, to eligible employees. Currently, 85 retirees meet those eligibility requirements.

Funding Policy

For each eligible retiree, the City pays for postemployment benefits on a pay-as-you-go basis. Generally, resources from the General Fund are used to pay these benefits. Although the City is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The amortization method is open ended. The City's annual OPEB cost for the current year and the related information for the plan is as follows at June 30, 2013:

Annual Required Contribution	\$ 3,123,647
Interest on Net OPEB Obligation	372,522
Adjustments to Annual Required Contributions	(353,051)
Annual OPEB cost	<u>3,143,118</u>
Contributions Made	<u>598,818</u>
Increase in Net OPEB Obligation	2,544,300
Net OPEB Obligation - Beginning of Year	<u>8,278,260</u>
Net OPEB Obligation - End of Year	<u><u>\$ 10,822,560</u></u>

Schedule of Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the City held \$0 in assets and had an actuarial determined accrued liability of \$37.6 million. The plan is underfunded by \$37.1 million and annual covered payroll was 339.6 percent.

The City has underfunded the OPEB obligation and reports the underfunded amount as a liability in the government-wide financial statements. The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior years are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contributions	Percent Contributed	Net OPEB Obligation
2011	\$ 2,707,578	\$ 561,636	20%	\$ 5,960,343
2012	2,918,867	600,950	21%	8,278,260
2013	3,143,118	598,818	19%	10,822,560

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions for the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used for the current valuation are as follows:

Actuarial Valuation Date	July 1, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	30-year level dollar, closed period
Remaining Amortization Period	25 Years as of June 30, 2013
Asset Valuation Method	No Assets Held in an Irrevocable Trust

Actuarial Assumptions:

Investment Rate of Return	4.50%
Healthcare Trend Rate	6.70% Increase
Inflation Rate	4.00%

Required Supplementary Information

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**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM AND
OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2013**

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
2011	\$ 11,114,190	\$ 15,678,436	70.9%	\$ 4,564,246	\$ 3,340,365	136.6%
2012	11,692,386	16,655,539	70.2%	4,963,153	3,066,028	161.9%
2013	12,665,083	18,599,677	68.1%	5,934,594	3,090,619	192.0%

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
2011	\$ -	\$ 838,095	0.0%	\$ 838,095	\$ 3,340,365	25.1%
2012	-	858,086	0.0%	858,086	3,066,028	28.0%
2013	-	906,184	0.0%	906,184	3,090,619	29.3%

**Public Safety Personnel Retirement System
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
2011	\$ 8,173,400	\$ 12,760,340	64.1%	\$ 4,586,940	\$ 2,254,294	203.5%
2012	8,669,869	13,983,972	62.0%	5,314,103	2,269,167	234.2%
2013	9,088,407	14,914,823	60.9%	5,826,416	2,350,157	247.9%

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2011	\$ -	\$ 702,628	0.0%	\$ 702,628	\$ 2,254,294	31.2%
2012	-	685,262	0.0%	685,262	2,269,167	30.2%
2013	-	715,534	0.0%	715,534	2,350,157	30.5%

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
2013	\$ -	\$ 37,571,156	0.0%	\$ 37,571,156	\$ 11,061,776	339.6%
2012	-	35,154,650	0.0%	35,154,650	10,998,457	319.6%
2011	-	32,869,769	0.0%	32,869,769	10,868,762	302.4%

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