

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014**

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**CITY OF NOGALES, ARIZONA
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YEAR ENDED JUNE 30, 2014**

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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, 2014, 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 24 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.

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

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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3–11 and the schedule of pension benefits, and other postemployment benefits other than pensions on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, 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
January 29, 2015

Required Supplementary Information

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**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

The City of Nogales, Arizona (City) is pleased to offer readers of the City's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2014. The intended purpose of the Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes. This discussion will help determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impact on our debt and operations. When referring to prior year's data in this analysis we will be drawing upon information from last year's audited financial reports.

Financial Highlights

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$123.8 million (net position).
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14.3 million, an increase of \$2.0 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$11.9 million or 64.6 percent of total General Fund expenditures.
- ◆ General Fund revenues were \$58,000 less than budget for fiscal year 2014. Expenditures were \$7.2 million less than budget with the General Fund contingency comprising \$5.7 million of that \$7.2 million budget savings.
- ◆ General Fund revenues exceeded expenditures by \$1.4 million.

Overview of the Financial Statements

The financial section of the Annual Financial Report (AFR) for the City consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and major special revenues funds, and notes to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the City is improving or deteriorating.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused paid time off).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, and culture and recreation. The business-type activities include only the operations of the sewer system, water system, sanitation and the Nogales Housing Authority.

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund financial statements - Also presented are the fund financial statements. The fund financial statements focus on major funds of the City, rather than fund type. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and HURF Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 14 - 17 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Proprietary funds - The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the operations of the water services, sewer services and sanitation services. Additionally, the City's Housing Authority is presented as an enterprise fund. *Internal service funds* are an accounting device used to accumulate and allocate costs among the City's various functions. The City uses internal service funds to account for insurance services, fleet maintenance and supply warehouse inventory. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements, with a portion of the revenues and fund balance being allocated to the *business type activities*.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, which is considered to be a major fund of the City. The internal service fund is presented in the proprietary fund financial statements as a separate column.

The basic proprietary fund financial statements can be found on pages 21 – 28 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary Funds are not reflected in the government-wide financial statements because the *resources* of those funds are not available to support the City's own programs. The fiduciary funds are custodial in nature and do not present results of operations or a measurement focus.

The basic fiduciary fund financial statement can be found on page 29 – 30 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 31 – 57) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the basic financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The City has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pensions and other postemployment benefits other than pensions. The City has disclosed this information in Note 4.C., D., and E. and in the Required Supplementary Information on page 58 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Government-Wide Financial Analysis

Net position may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Position of the City for June 30, 2014 showing that assets and deferred outflows of resources exceeded liabilities by \$123.8 million.

**Condensed Statement of Net Position
June 30, 2014 and 2013**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and Other Assets	\$ 17,887,437	\$ 15,968,200	\$ 7,890,510	\$ 7,250,572	\$ 25,777,947	\$ 23,218,772
Capital Assets						
Non-depreciable	2,804,940	2,585,968	4,197,585	4,146,157	7,002,525	6,732,125
Depreciable (net)	45,727,104	45,917,156	100,376,430	103,107,328	146,103,534	149,024,484
Total Assets	66,419,481	64,471,324	112,464,525	114,504,057	178,884,006	178,975,381
Deferred Outflows of Resources						
Deferred Amount on Refunding	130,883	90,388	1,069,862	1,066,009	1,200,745	1,156,397
Liabilities						
Current Liabilities	1,579,867	1,975,245	1,376,815	1,667,987	2,956,682	3,643,232
Noncurrent Liabilities						
Due Within One Year	1,196,284	1,065,477	888,253	699,458	2,084,537	1,764,935
Due in More Than One Year	27,237,057	24,562,357	24,026,701	22,897,986	51,263,758	47,460,343
Total Liabilities	30,013,208	27,603,079	26,291,769	25,265,431	56,304,977	52,868,510
Net Position						
Net Investment in Capital Assets	33,233,458	33,125,066	89,303,539	92,264,370	122,536,997	125,389,436
Restricted	1,899,455	1,299,957	88,402	34,621	1,987,857	1,334,578
Unrestricted	1,404,243	2,533,610	(2,149,323)	(1,994,356)	(745,080)	539,254
Total Net Position	\$ 36,537,156	\$ 36,958,633	\$ 87,242,618	\$ 90,304,635	\$ 123,779,774	\$ 127,263,268

Net position consists of three components. The largest portion of the City's total net position (99%) reflects its net investment in capital assets (e.g., land, intangible assets, buildings, infrastructure, water system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining portion of total net position represents resources that are subject to external restrictions or unrestricted net position.

At the end of the current fiscal year, the City was able to report positive balances two of the three categories of net position for the government as a whole. The negative unrestricted net position, reported in the business-type activities, was largely due to the recognition of the other postemployment healthcare benefits in the current and prior years, as well as a significant portion of the city's net position being invested in capital assets. The City amortizes the liability for other postemployment healthcare benefits over the employee's service period to the City.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

The following table compares the revenue and expenses for the current and previous fiscal year.

Changes in Net Position						
Fiscal Years Ended June 30, 2014 and 2013						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 2,424,953	\$ 2,335,698	\$ 8,335,525	\$ 7,635,270	\$ 10,760,478	\$ 9,970,968
Operating Grants and Contributions	5,007,475	4,127,136	1,523,510	1,295,559	6,530,985	5,422,695
Capital Grants and Contributions	260,664	139,065	362,765	636,444	623,429	775,509
General Revenues:						
Sales Taxes	10,334,994	10,244,519	-	-	10,334,994	10,244,519
Franchise Taxes	675,963	680,444	-	-	675,963	680,444
State Shared Revenues	5,540,976	5,103,544	-	-	5,540,976	5,103,544
Impact Fees	-	-	170,764	209,408	170,764	209,408
Investment Earnings	870	701	2,749	4,345	3,619	5,046
Other	192,657	114,181	92,916	202,157	285,573	316,338
Total Revenues	<u>24,438,552</u>	<u>22,745,288</u>	<u>10,488,229</u>	<u>9,983,183</u>	<u>34,926,781</u>	<u>32,728,471</u>
EXPENSES						
General Government	7,131,519	6,740,052	-	-	7,131,519	6,740,052
Public Safety	12,861,878	11,724,111	-	-	12,861,878	11,724,111
Highways and Streets	2,872,706	3,347,246	-	-	2,872,706	3,347,246
Culture and Recreation	1,699,647	1,262,435	-	-	1,699,647	1,262,435
Interest on Long-Term Debt	847,199	770,070	-	-	847,199	770,070
Sewer	-	-	4,524,437	4,606,731	4,524,437	4,606,731
Water	-	-	3,304,256	3,260,536	3,304,256	3,260,536
Sanitation	-	-	2,530,879	2,446,269	2,530,879	2,446,269
NHA	-	-	2,637,754	2,696,301	2,637,754	2,696,301
Total Expenses	<u>25,412,949</u>	<u>23,843,914</u>	<u>12,997,326</u>	<u>13,009,837</u>	<u>38,410,275</u>	<u>36,853,751</u>
CHANGE IN NET ASSETS						
BEFORE TRANSFERS	(974,397)	(1,098,626)	(2,509,097)	(3,026,654)	(3,483,494)	(4,125,280)
Transfers	552,920	439,507	(552,920)	(439,507)	-	-
CHANGE IN NET ASSETS	(421,477)	(659,119)	(3,062,017)	(3,466,161)	(3,483,494)	(4,125,280)
Net Assets - Beginning of Year	36,958,633	37,617,752	90,304,635	93,770,796	127,263,268	131,388,548
NET ASSETS - END OF YEAR	<u>\$ 36,537,156</u>	<u>\$ 36,958,633</u>	<u>\$ 87,242,618</u>	<u>\$ 90,304,635</u>	<u>\$ 123,779,774</u>	<u>\$ 127,263,268</u>

Governmental activities. Total governmental revenues increased over the prior year with a net increase of \$1.7 million (7.4%).

Program revenues increased \$1.1 million over the prior fiscal year. The increase was the net result of a \$880,339 or 21% increase in operating grants and contributions, \$89,255 or 4% increase in fees, fines and charges for services, and a \$121,599 or 87% increase in capital grants and contributions. The increase in operating and capital grants and contributions was due to the City receiving larger public safety grant allocations in the current year. The increase in fees, fines and charges for services was mainly due to new business construction and the federal government's construction of a substantially expanded Port of Entry to facilitate the flow the commercial traffic between Mexico and the United States.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

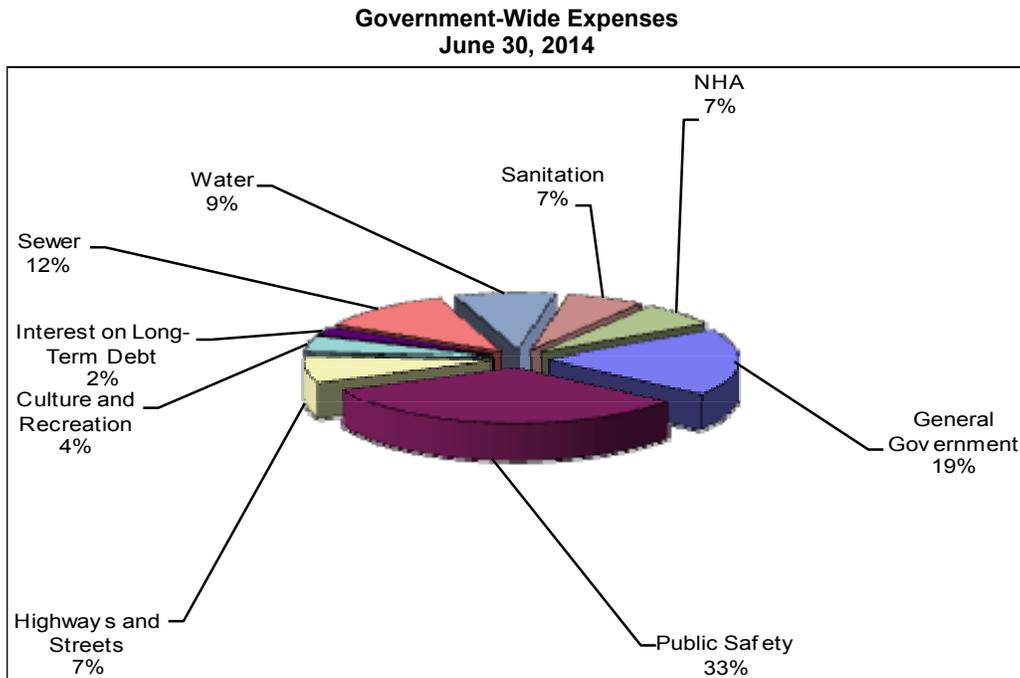
General revenues increased \$0.6 million. The increase was largely due to an improvement in economic activity that resulted in improved city sales taxes and an increase in the City's portion of state-shared revenue (state sales tax and state income tax). The remaining changes in general revenues were not significant.

Overall, expenses increased \$1.6 million from the prior year. The increase was mainly due to employees receiving a pay increase, the first since 2007, as well as an increase in public safety expenses (\$1.1 million) due to larger public safety grant awards and increased retirement contribution rates for police and fire sworn personnel.

Business-type activities. Charges for services increased over the prior fiscal year by \$0.7 million. The increase was due to increased water and wastewater service rates that were implemented during fiscal year 2013-14. Operating grants increased \$0.2 million over the prior fiscal year. The increase was due to the City's Housing Authority receiving additional grant funds in the current year.

The decrease in expenses was not significant.

The following graph illustrates the City's government-wide expenses previously discussed in a comparative analysis of government-wide revenues, expenses and changes in net position.



Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Capital Projects Fund, and Debt Service Fund.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$14.3 million, an increase of \$2.0 million in comparison with the prior year. Approximately 84% of this total amount (\$12.0 million) constitutes General Fund fund balance, which is reported as either nonspendable, restricted, assigned or unassigned fund balance. At the end of fiscal year 2013-14, fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2012-13
General Fund	\$ 11,982,627	\$ 653,362
HURF Fund	510,618	828,789
Nonmajor Governmental Funds	1,781,444	560,584

The General Fund is the chief operating fund of the City. As a measure of the General Fund's liquidity, it may be useful to compare both the General Fund fund balance and total fund balance to total fund expenditures. The unassigned General Fund fund balance represents 64.6% of total General Fund expenditures. The total unassigned fund balance represents 49.5% of total governmental fund expenditures.

The General Fund fund balance increase of \$0.6 million was the result of increased revenues and lower than anticipated expenses. The increased revenue was derived from city sales tax, state-shared revenues and fees for services associated with building permits and plan reviews. This increase in revenues was primarily the result of an increase in economic activity that results in increased distributions to local governments.

The HURF Fund fund balance increase of \$0.8 million was the result of an increase in state shared revenue in the current year in conjunction with decreased spending on street projects in the current year

The \$0.6 million increase in Nonmajor governmental fund balance in the current year was due to unused lease proceeds (\$278,278) recorded in the Capital Projects Fund and \$412,781 of funds transferred in excess of principal and interest due on outstanding bonds for debt service. The excess funds are held in a debt service reserve. Those increases were offset by the use of prior year carryforward funds in the Grants Fund (\$230,001).

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 18 – 20. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The City did not amend the budget during the fiscal year.

The budget was prepared based on assumptions regarding the continuing decline of the national and regional economy. Although the economy seems to show small signs of stabilizing, the City still follows a conservative approach to budgeting. When the City went into this decline a few years ago, there were very few reserves available as a cushion. Over the past few years, the amount of reserves has shown some improvement, but is still at a level far below the requirements of the City.

General Fund revenues of \$19.8 million were \$58,000 less than budget for fiscal year 2014. Expenditures were \$7.2 million less than budget with the General Fund contingency comprising \$5.7 million of that \$7.2 million budget savings. The expenditure savings were derived from an unspent contingency allocation and vacancy savings.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2014 totaled \$48.5 million (net of accumulated depreciation), an increase from the prior year of less than 1%. Business-type activities capital assets amounted to \$104.6 million (net of accumulated depreciation), a net decrease from the prior year of \$2.7 million. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.4. in the Notes to the Basic Financial Statements for further information regarding capital assets.

Major capital asset events during the current fiscal year included the following:

Governmental Activities – The most significant change in capital assets in the Governmental Activities was \$2.5 million in current year depreciation expense and \$0.5 million in additions to construction in progress. The City also purchased \$0.9 million in police and general government equipment.

Business-Type Activities – The most significant change in capital assets in the Business Type Activities was \$3.4 million in current year depreciation expense and \$0.3 million in sanitation equipment purchases.

The following table provides a breakdown of the capital assets of the City at June 30, 2014 and 2013.

Capital Assets (net)
June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,279,134	\$ 2,279,134	\$ 3,250,853	\$ 3,242,853	\$ 5,529,987	\$ 5,521,987
Construction in Progress	525,806	306,834	946,732	903,304	1,472,538	1,210,138
Infrastructure	35,786,964	36,535,310	88,106,128	90,589,750	123,893,092	127,125,060
Buildings	4,242,104	4,450,136	3,265,699	3,442,070	7,507,803	7,892,206
Improvements other than Buildings	2,074,087	1,983,974	349,784	365,384	2,423,871	2,349,358
Vehicles, Machinery and Equipment	3,623,949	2,947,736	990,075	917,909	4,614,024	3,865,645
Housing Authority	-	-	7,664,744	7,792,215	7,664,744	7,792,215
Total Capital Assets	\$ 48,532,044	\$ 48,503,124	\$ 104,574,015	\$ 107,253,485	\$ 153,106,059	\$ 155,756,609

Long-Term Debt

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$53.3 million. \$33.9 million of the outstanding debt is secured by pledges of specific revenue sources in the City, with the remainder being backed by the full faith and credit of the City.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2014 and 2013. Further detail on the City's outstanding debt may be found in Notes 3.C. and 3.D. on pages 46 – 49.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Outstanding Debt
June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue bonds	\$ 14,191,914	\$ 14,425,699	\$ 19,661,483	\$ 20,211,475	\$ 33,853,397	\$ 34,637,174
Capital leases	1,928,614	1,192,699	1,879,035	618,067	3,807,649	1,810,766
Compensated absences	1,761,810	1,644,498	325,481	310,280	2,087,291	1,954,778
Other Postemployment Benefits	10,551,003	8,364,938	3,048,955	2,457,622	13,599,958	10,822,560
Total Outstanding Debt	<u>\$ 28,433,341</u>	<u>\$ 25,627,834</u>	<u>\$ 24,914,954</u>	<u>\$ 23,597,444</u>	<u>\$ 53,348,295</u>	<u>\$ 49,225,278</u>

Economic Factors and Next Year's Budgets and Rates

The City, as well as all other Arizona cities, remains dependent on state shared revenues and local sales taxes for a majority of its general government resources. These revenue sources are sensitive to economic downturns and legislative appropriations. For Nogales, there is the complicating issue of cross-border visitors who shop in the United States. Port of Entry wait times can significantly impact the volume of shoppers from Mexico who travel to Nogales for retail sales. While the local economy seems to be stabilizing slightly, the City continues to spend conservatively and cautiously.

The Fiscal Year 2014-2015 budget preparation was influenced by the following factors:

- Modest growth in retail sales projected at the local and state level.
- Modest growth in projected HURF revenues due to improved gas efficiency of vehicles and the growing use of hybrid vehicles.
- Continued efforts to attract new and sustainable businesses to the area.
- Improved cross-border transportation due to the significantly expanded and improved Mariposa Port of Entry.

Financial Contact

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

City of Nogales
Financial Department
777 North Grand Avenue
Nogales, AZ 85621

Or visit our website at:

<http://www.Nogalesaz.gov>

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Basic Financial Statements

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**CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 9,351,660	\$ 5,335,185	\$ 14,686,845
Receivables, Net:			
Accounts	587,581	773,874	1,361,455
Intergovernmental	1,707,637	26,382	1,734,019
Taxes	891,512	-	891,512
Special Assessments	11,455	-	11,455
Interest	-	80	80
Interfund Balances	4,444,108	(4,444,108)	-
Prepaid Items	16,245	20,141	36,386
Inventory	39,937	9,619	49,556
Restricted Assets	837,302	6,169,337	7,006,639
Capital Assets:			
Non-Depreciable	2,804,940	4,197,585	7,002,525
Depreciable (Net)	45,727,104	100,376,430	146,103,534
Total Assets	66,419,481	112,464,525	178,884,006
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	130,883	1,069,862	1,200,745
LIABILITIES			
Accounts Payable	770,151	545,672	1,315,823
Accrued Wages and Benefits	481,670	119,592	601,262
Customer Deposits Payable	37,954	706,002	743,956
Unearned Revenue	-	4,610	4,610
Intergovernmental Payable	-	939	939
Claims Payable	290,092	-	290,092
Noncurrent Liabilities:			
Due Within One Year	1,196,284	888,253	2,084,537
Due in More Than One Year	27,237,057	24,026,701	51,263,758
Total Liabilities	30,013,208	26,291,769	56,304,977
NET POSITION			
Net Investment in Capital Assets	33,233,458	89,303,539	122,536,997
Restricted for:			
Highways and Streets	858,954	-	858,954
Federal and State Grants	642,336	-	642,336
Culture and Recreation	108,432	-	108,432
Capital Outlay	278,278	-	278,278
Debt Service	11,455	-	11,455
Housing	-	88,402	88,402
Unrestricted	1,404,243	(2,149,323)	(745,080)
Total Net Position	\$ 36,537,156	\$ 87,242,618	\$ 123,779,774

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities:							
General Government	\$ 7,131,519	\$ 1,461,814	\$ 29,422	\$ -	\$ (5,640,283)		\$ (5,640,283)
Public Safety	12,861,878	891,106	2,134,805	3,206	(9,832,761)		(9,832,761)
Highways and Streets	2,872,706	14,690	2,597,054	-	(260,962)		(260,962)
Culture and Recreation	1,699,647	57,343	246,194	257,458	(1,138,652)		(1,138,652)
Interest on Long-Term Debt	847,199	-	-	-	(847,199)		(847,199)
Total Governmental Activities	<u>25,412,949</u>	<u>2,424,953</u>	<u>5,007,475</u>	<u>260,664</u>	<u>(17,719,857)</u>		<u>(17,719,857)</u>
Business-Type Activities:							
Sewer	4,524,437	2,726,179	-	337		\$ (1,797,921)	(1,797,921)
Water	3,304,256	2,670,334	-	-		(633,922)	(633,922)
Sanitation	2,530,879	2,396,553	-	-		(134,326)	(134,326)
NHA	2,637,754	542,459	1,523,510	362,428		(209,357)	(209,357)
Total Business-Type Activities	<u>12,997,326</u>	<u>8,335,525</u>	<u>1,523,510</u>	<u>362,765</u>		<u>(2,775,526)</u>	<u>(2,775,526)</u>
Total Primary Government	<u>\$ 38,410,275</u>	<u>\$ 10,760,478</u>	<u>\$ 6,530,985</u>	<u>\$ 623,429</u>	(17,719,857)	(2,775,526)	(20,495,383)
General Revenues:							
Taxes:							
Sales Taxes					10,334,994	-	10,334,994
Franchise Taxes					675,963	-	675,963
Impact Fees					-	170,764	170,764
State Revenue Sharing					5,540,976	-	5,540,976
Investment Earnings					870	2,749	3,619
Other					192,657	92,916	285,573
Transfers					552,920	(552,920)	-
Total General Revenues and Transfers					<u>17,298,380</u>	<u>(286,491)</u>	<u>17,011,889</u>
Change in Net Position					(421,477)	(3,062,017)	(3,483,494)
Net Position - Beginning					<u>36,958,633</u>	<u>90,304,635</u>	<u>127,263,268</u>
Net Position - Ending					<u>\$ 36,537,156</u>	<u>\$ 87,242,618</u>	<u>\$ 123,779,774</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 5,782,342	\$ 406,001	\$ 425,181	\$ 6,613,524
Restricted Assets	145,569	-	691,059	836,628
Receivables:				
Accounts	507,115	-	-	507,115
Intergovernmental	368,877	225,342	1,113,418	1,707,637
Taxes	891,512	-	-	891,512
Special Assessments	-	-	11,455	11,455
Due from Other Funds	5,032,371	-	-	5,032,371
Prepaid Items	16,245	-	-	16,245
	<u>\$ 12,744,031</u>	<u>\$ 631,343</u>	<u>\$ 2,241,113</u>	<u>\$ 15,616,487</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 272,208	\$ 98,234	\$ 331,114	\$ 701,556
Accrued Wages and Benefits	451,242	22,491	28,661	502,394
Due to Other Funds	-	-	88,439	88,439
Customer Deposits Payable	37,954	-	-	37,954
Total Liabilities	<u>761,404</u>	<u>120,725</u>	<u>448,214</u>	<u>1,330,343</u>
Deferred Inflows of Resources				
Unavailable Revenue	-	-	11,455	11,455
Fund Balances:				
Nonspendable:				
Prepaid Items	16,245	-	-	16,245
Restricted	108,432	510,618	1,681,731	2,300,781
Assigned	-	-	99,713	99,713
Unassigned	11,857,950	-	-	11,857,950
Total Fund Balances	<u>11,982,627</u>	<u>510,618</u>	<u>1,781,444</u>	<u>14,274,689</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 12,744,031</u>	<u>\$ 631,343</u>	<u>\$ 2,241,113</u>	<u>\$ 15,616,487</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances for Governmental Funds	\$ 14,274,689
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	86,808,272
Less: Accumulated Depreciation	(38,276,228)
Capital Assets Used in Governmental Activities	48,532,044
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	(14,009,806)
Deferred Amount on Refunding	130,883
Bond Premium	(182,108)
Capital Leases	(1,918,948)
Compensated Absences	(1,734,361)
Other Postemployment Benefits	(10,551,003)
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	2,416,833
Less: Amount Attributed to the Business-Type Activities	(432,522)
	1,984,311
Total Net Position of Governmental Activities	\$ 36,537,156

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, 2014

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 10,334,994	\$ -	\$ -	\$ 10,334,994
Franchise Taxes	675,963	-	-	675,963
Intergovernmental	6,149,872	2,588,209	2,071,034	10,809,115
Fines and Forfeitures	355,145	-	-	355,145
Licenses and Permits	947,438	-	-	947,438
Charges for Services	1,122,370	-	-	1,122,370
Investment Earnings	886	-	(16)	870
Other	168,353	-	24,304	192,657
Total Revenues	<u>19,755,021</u>	<u>2,588,209</u>	<u>2,095,322</u>	<u>24,438,552</u>
EXPENDITURES				
Current:				
General Government	5,188,474	-	305,775	5,494,249
Public Safety	10,329,548	-	1,962,677	12,292,225
Highways and Streets	821,890	1,362,647	47,423	2,231,960
Culture and Recreation	1,665,548	-	24,288	1,689,836
Debt Service:				
Principal Retirement	296,818	63,598	211,603	572,019
Interest on Long-Term Debt	44,125	15,557	680,461	740,143
Issuance Costs	-	-	108,436	108,436
Capital Outlay	-	-	845,236	845,236
Total Expenditures	<u>18,346,403</u>	<u>1,441,802</u>	<u>4,185,899</u>	<u>23,974,104</u>
Excess (Deficiency) of Revenues Over Expenditures	1,408,618	1,146,407	(2,090,577)	464,448
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	1,625,794	1,625,794
Transfers Out	(755,256)	(317,618)	-	(1,072,874)
Issuance of Long-Term Debt	-	-	5,615,902	5,615,902
Premium on the Issuance of Long-Term Debt	-	-	77,650	77,650
Proceeds from Capital Lease	-	-	1,086,664	1,086,664
Payment to Refunding Escrow Agent	-	-	(5,754,849)	(5,754,849)
Total Other Financing Sources (Uses)	<u>(755,256)</u>	<u>(317,618)</u>	<u>2,651,161</u>	<u>1,578,287</u>
Net Change in Fund Balances	653,362	828,789	560,584	2,042,735
FUND BALANCES				
Beginning of Year	11,329,265	(318,171)	1,220,860	12,231,954
End of Year	<u>\$ 11,982,627</u>	<u>\$ 510,618</u>	<u>\$ 1,781,444</u>	<u>\$ 14,274,689</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, 2014**

Net Change in Fund Balances of Governmental Funds \$ 2,042,735

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	2,492,396
Less: Current Year Depreciation	(2,463,476)
Excess Depreciation over Capital Expenditures	28,920

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.

Issuance of Long-Term Debt	(5,615,902)
Premium on the Issuance of Long-Term Debt	(77,650)
Principal Payments on Long-Term Debt	211,603
Payment to Escrow Agent	5,754,849
Principal Payments on Capital Leases	360,415
Proceeds of Capital Lease	(1,086,664)
Amortization of Bond Premium	4,856
Amortization of Deferred Amount on Refunding	(3,476)

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	(123,542)
Net Increase in Other Postemployment Benefits	(2,186,065)

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	311,514
Less: Amount Attributable to the Business-Type Activities	(43,070)
	268,444

Change in Net Position of Governmental Activities \$ (421,477)

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2014**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 10,933,833	\$ 11,010,957	\$ 77,124
Intergovernmental	6,362,303	6,149,872	(212,431)
Fines and Forfeitures	489,338	355,145	(134,193)
Licenses and Permits	904,235	947,438	43,203
Charges for Services	1,089,182	1,122,370	33,188
Contributions and Donations	10,000	-	(10,000)
Investment Earnings	3,500	886	(2,614)
Other	20,500	168,353	147,853
Total Revenues	19,812,891	19,755,021	(57,870)
EXPENDITURES			
Current:			
General Government:			
Mayor	91,035	87,475	3,560
Council	139,608	121,321	18,287
Administration	453,068	388,626	64,442
Finance	1,254,019	1,180,073	73,946
Human Resources	226,685	201,344	25,341
MIS	407,761	425,687	(17,926)
Planning and Zoning	251,533	197,499	54,034
City Attorney	636,314	515,144	121,170
City Court	408,945	399,642	9,303
Cemetery	120,684	122,583	(1,899)
Nondepartmental	7,404,426	1,549,080	5,855,346
Total General Government	11,394,078	5,188,474	6,205,604
Public Safety:			
Police	5,993,478	5,762,373	231,105
Fire	4,051,532	4,202,774	(151,242)
Animal Control	246,600	272,145	(25,545)
Building Inspections	110,143	92,256	17,887
Emergency Response	200,000	-	200,000
Total Public Safety	10,601,753	10,329,548	272,205
Highways and Streets:			
Facilities Maintenance	587,453	553,808	33,645
Engineering	318,718	268,082	50,636
Total Highways and Streets	906,171	821,890	84,281
Culture and Recreation:			
Parks	591,585	716,268	(124,683)
Recreation	496,935	488,109	8,826
Library	485,409	459,683	25,726
Golf Course	52,000	1,488	50,512
Total Culture and Recreation	1,625,929	1,665,548	(39,619)
Debt Service			
Principal Retirement	572,018	296,818	275,200
Interest on Long-Term Debt	411,522	44,125	367,397
Total Debt Service	983,540	340,943	642,597
Total Expenditures	25,511,471	18,346,403	7,165,068

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, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,698,580)	\$ 1,408,618	\$ 7,107,198
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(755,256)	(755,256)
Net Change in Fund Balance	(5,698,580)	653,362	6,351,942
FUND BALANCE			
Beginning of Year	5,698,580	11,329,265	5,630,685
End of Year	<u>\$ -</u>	<u>\$ 11,982,627</u>	<u>\$ 11,982,627</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, 2014**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 2,527,637	\$ 2,588,209	\$ 60,572
Investment Earnings	3,600	-	(3,600)
Total Revenues	<u>2,531,237</u>	<u>2,588,209</u>	<u>56,972</u>
EXPENDITURES			
Current:			
Highways and Streets	2,646,622	1,362,647	1,283,975
Debt Service			
Principal Retirement	63,598	63,598	-
Interest on Long-Term Debt	396,017	15,557	380,460
Total Expenditures	<u>3,106,237</u>	<u>1,441,802</u>	<u>1,664,435</u>
Excess (Deficiency) of Revenues Over Expenditures	(575,000)	1,146,407	1,721,407
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(317,618)	(317,618)
Net Change in Fund Balance	(575,000)	828,789	1,403,789
FUND BALANCE			
Beginning of Year	575,000	(318,171)	(893,171)
End of Year	<u>\$ -</u>	<u>\$ 510,618</u>	<u>\$ 510,618</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 3,216,893	\$ 7,073	\$ 1,885,596
Investments	-	-	-	225,623
Prepaid Assets	-	650	-	19,491
Receivables, Net:				
Accounts	224,037	323,636	218,774	7,427
Intergovernmental	11,155	-	-	15,227
Interest	-	-	-	80
Inventories	-	-	-	9,619
Restricted Assets	2,071,728	3,575,786	433,421	88,402
Total Current Assets	<u>2,306,920</u>	<u>7,116,965</u>	<u>659,268</u>	<u>2,251,465</u>
Noncurrent Assets:				
Advances to Other Funds	49,100	-	-	-
Capital Assets:				
Non-Depreciable	158,202	2,330,175	-	1,709,208
Depreciable (Net)	69,509,951	22,526,478	675,257	7,664,744
Total Noncurrent Assets	<u>69,717,253</u>	<u>24,856,653</u>	<u>675,257</u>	<u>9,373,952</u>
Total Assets	<u>72,024,173</u>	<u>31,973,618</u>	<u>1,334,525</u>	<u>11,625,417</u>
Deferred Outflows of Resources				
Deferred Amount on Refunding	905,925	157,574	6,363	-
Liabilities				
Current Liabilities:				
Accounts Payable	30,909	112,374	43,376	359,013
Accrued Wages and Benefits	16,238	20,600	28,315	54,439
Intergovernmental Payable	-	939	-	-
Unearned Revenue	-	-	-	4,610
Customer Deposits Payable	-	658,716	-	47,286
Claims Payable	-	-	-	-
Due To Other Funds	3,340,951	-	1,535,679	-
Compensated Absences	22,301	74,589	50,381	4,284
Capital Leases Payable	65,077	151,559	137,693	-
Bonds and Notes Payable	309,643	70,866	1,860	-
Total Current Liabilities	<u>3,785,119</u>	<u>1,089,643</u>	<u>1,797,304</u>	<u>469,632</u>
Noncurrent Liabilities:				
Advances from Other Funds	-	-	49,100	-
Compensated Absences	53,690	28,765	52,917	38,554
Capital Leases Payable	267,055	758,463	499,188	-
Other Postemployment Benefits	927,446	611,162	1,510,347	-
Bonds and Notes Payable	8,273,218	10,891,590	114,306	-
Total Noncurrent Liabilities	<u>9,521,409</u>	<u>12,289,980</u>	<u>2,225,858</u>	<u>38,554</u>
Total Liabilities	<u>13,306,528</u>	<u>13,379,623</u>	<u>4,023,162</u>	<u>508,186</u>
Net Position				
Net Investment in Capital Assets	64,371,520	15,196,073	361,994	9,373,952
Restricted	-	-	-	88,402
Unrestricted	(4,747,950)	3,555,496	(3,044,268)	1,654,877
Total Net Position	<u>\$ 59,623,570</u>	<u>\$ 18,751,569</u>	<u>\$ (2,682,274)</u>	<u>\$ 11,117,231</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>		
\$ 5,109,562	\$ 2,738,136	
225,623	-	
20,141	-	
773,874	80,466	
26,382	-	
80	-	
9,619	39,937	
6,169,337	674	
<u>12,334,618</u>	<u>2,859,213</u>	
49,100	-	
4,197,585	-	
100,376,430	-	
<u>104,623,115</u>	<u>-</u>	
116,957,733	2,859,213	
1,069,862	-	
545,672	68,595	
119,592	8,338	
939	-	
4,610	-	
706,002	-	
-	261,030	
4,876,630	67,302	
151,555	21,483	
354,329	-	
382,369	-	
<u>7,141,698</u>	<u>426,748</u>	
49,100	-	
173,926	5,966	
1,524,706	9,666	
3,048,955	-	
19,279,114	-	
<u>24,075,801</u>	<u>15,632</u>	
<u>31,217,499</u>	<u>442,380</u>	
89,303,539	(9,666)	
88,402	-	
(2,581,845)	2,426,499	
<u>86,810,096</u>	<u>\$ 2,416,833</u>	
432,522		
<u>\$ 87,242,618</u>		

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
OPERATING REVENUES				
Charges for Services	\$ 2,726,179	\$ 2,670,334	\$ 2,396,553	\$ -
Rents and Royalties	-	-	-	542,459
Contributions	-	-	-	-
Operating Grants	-	-	-	1,523,510
Other Income	-	-	-	78,366
Total Operating Revenues	<u>2,726,179</u>	<u>2,670,334</u>	<u>2,396,553</u>	<u>2,144,335</u>
OPERATING EXPENSES				
Cost of Sales and Services	2,000,801	1,892,349	2,454,217	2,211,346
Claims	-	-	-	-
Depreciation	2,070,358	781,677	78,146	436,278
Total Operating Expenses	<u>4,071,159</u>	<u>2,674,026</u>	<u>2,532,363</u>	<u>2,647,624</u>
OPERATING INCOME (LOSS)	(1,344,980)	(3,692)	(135,810)	(503,289)
NONOPERATING REVENUES (EXPENSES)				
Development Impact Fees	121,065	49,699	-	-
Investment Earnings	-	-	-	2,748
Interest Expense	(459,365)	(643,353)	(12,506)	-
Miscellaneous Nonoperating Revenues	40	14,511	-	-
Total Nonoperating Revenues (Expenses)	<u>(338,260)</u>	<u>(579,143)</u>	<u>(12,506)</u>	<u>2,748</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,683,240)	(582,835)	(148,316)	(500,541)
Capital Contributions	337	-	-	362,428
Transfers In	942,293	-	5,547	-
Transfers Out	-	(1,500,760)	-	-
CHANGE IN NET POSITION	(740,610)	(2,083,595)	(142,769)	(138,113)
NET POSITION				
Beginning of Year	60,364,180	20,835,164	(2,539,505)	11,255,344
End of Year	<u>\$ 59,623,570</u>	<u>\$ 18,751,569</u>	<u>\$ (2,682,274)</u>	<u>\$ 11,117,231</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>	
\$ 7,793,066	\$ 1,718,987
542,459	-
-	2,965,695
1,523,510	-
78,366	-
<u>9,937,401</u>	<u>4,684,682</u>
8,558,713	2,321,891
-	2,051,277
<u>3,366,459</u>	-
<u>11,925,172</u>	<u>4,373,168</u>
(1,987,771)	311,514
170,764	-
2,748	-
(1,115,224)	-
14,551	-
<u>(927,161)</u>	<u>-</u>
(2,914,932)	311,514
362,765	-
947,840	-
<u>(1,500,760)</u>	<u>-</u>
(3,105,087)	311,514
	<u>2,105,319</u>
	<u>\$ 2,416,833</u>
43,070	
<u>\$ (3,062,017)</u>	

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 2,728,643	\$ 2,678,110	\$ 2,413,179	\$ 542,679
Operating Grants	-	-	-	1,541,105
Payments to Suppliers	(1,616,122)	(836,211)	(1,163,888)	(1,575,869)
Payments to Employees	(440,884)	(1,029,462)	(1,000,957)	(603,817)
Payments for Claims	-	-	-	-
Other Receipts	40	14,511	-	78,366
Customer Deposits Payable	-	29,261	-	1,340
Net Cash Provided (Used) by Operating Activities	671,677	856,209	248,334	(16,196)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund Borrowing	38,606	-	(129,162)	-
Interfund Transfers	942,293	(1,500,760)	5,547	-
Development Impact Fees	121,065	49,699	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	1,101,964	(1,451,061)	(123,615)	-
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES				
Purchases of Capital Assets	(35,110)	(18,547)	(280,871)	(851)
Issuance of Refunding Bonds	362,674	6,329,299	62,125	-
Premium on Issuance of Refunding Bonds	5,015	87,512	859	-
Issuance of Capital Leases	296,600	507,500	705,000	-
Issuance Costs	(7,003)	(122,211)	(1,200)	-
Payment to Escrow Agent	(403,601)	(7,043,530)	(69,136)	-
Principal Paid on Capital Debt	(354,460)	(169,716)	(93,720)	-
Interest Paid on Capital Debt	(384,589)	(108,235)	(7,282)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(520,474)	(537,928)	315,775	(851)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings	-	-	-	2,939
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,253,167	(1,132,780)	440,494	(14,108)
Cash and Cash Equivalents, Beginning of Year	818,561	7,925,459	-	1,988,106
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,071,728</u>	<u>\$ 6,792,679</u>	<u>\$ 440,494</u>	<u>\$ 1,973,998</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Total</u>	<u>Service Funds</u>
\$ 8,362,611	\$ 4,631,270
1,541,105	-
(5,192,090)	(1,937,035)
(3,075,120)	(318,503)
-	(2,072,344)
92,917	-
30,601	-
<u>1,760,024</u>	<u>303,388</u>
(90,556)	11,013
(552,920)	-
<u>170,764</u>	<u>-</u>
(472,712)	11,013
(335,379)	-
6,754,098	-
93,386	-
1,509,100	9,666
(130,414)	-
(7,516,267)	-
(617,896)	-
(500,106)	-
<u>(743,478)</u>	<u>9,666</u>
2,939	-
<u>546,773</u>	<u>324,067</u>
<u>10,732,126</u>	<u>2,414,743</u>
<u>\$ 11,278,899</u>	<u>\$ 2,738,810</u>

CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	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)	\$ (1,344,980)	\$ (3,692)	\$ (135,810)	\$ (503,289)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	2,070,358	781,677	78,146	436,278
Nonoperating Receipts	40	14,511	-	-
Change in Assets/Liabilities:				
Receivables	2,464	7,776	16,626	1,643
Intergovernmental Receivables	-	-	-	17,595
Prepaid Items	-	-	-	(3,608)
Inventories	-	-	-	8,929
Accounts Payable	(252,917)	(74,411)	(7,795)	16,361
Accrued Wages and Benefits	(1,746)	(16,909)	(7,685)	24,752
Unearned Revenue	-	-	-	(1,423)
Other Postemployment Benefits	192,213	112,182	286,938	-
Compensated Absences	6,245	5,814	17,914	(14,774)
Claims Payable	-	-	-	-
Customer Deposits Payable	-	29,261	-	1,340
Net Cash Provided (Used) by Operating Activities	<u>\$ 671,677</u>	<u>\$ 856,209</u>	<u>\$ 248,334</u>	<u>\$ (16,196)</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)	\$ 9,133	\$ (2,468)	\$ (62)	\$ -
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>

\$ (1,987,771)	\$ 311,514
----------------	------------

3,366,459	-
14,551	-
28,509	(53,412)
17,595	-
(3,608)	-
8,929	32,915
(318,762)	41,571
(1,588)	(1,903)
(1,423)	-
591,333	-
15,199	(6,230)
-	(21,067)
30,601	-
<u>\$ 1,760,024</u>	<u>\$ 303,388</u>

\$ 6,603	\$ -
41,001	-

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	<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, 2014**

	<u>Pension Trust</u>
ADDITIONS	
Investment Earnings	\$ -
Net Position, Beginning of Year	<u>15,769</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, 2014

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Included within the reporting entity:

Nogales Housing Authority (NHA) – The NHA is a public benefit corporation formed to provide subsidized public housing in accordance with federal legislation. The City Council acts as the Governing Board of the NHA. The Governing Board employs executives, authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency's regulations and statutory authorizations, and causes the corporation to construct, own and operate public housing facilities within the boundaries of the City. The financial liability of the housing agency is essentially supported by the operating and debt service or cash subsidies received under contract from the federal government, although services or cash subsidies may be, and from time to time, are received from the City as well. The NHA is reported as an enterprise fund and a blended component unit of the City. The audited financial statements of the NHA may be obtained at the offices of the NHA. The financial information reported for the NHA is based on a March 31, 2014 fiscal year-end.

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

The *Internal Service Funds* account 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 \$389,883 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$281,127.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

Similarly, funds may borrow from other funds within the pool on a long-term basis. These receivables and payables are classified as "advances to other funds" or "advances from 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/expense in the governmental fund financial statements and 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.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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 (Continued)

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 fund financial statements consist 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, 2014

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, 2014 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 is 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 is 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, 2014

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 (Continued)

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 authorized the Finance Director to make assignments 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, 2014, 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	108,432	-	-	108,432
Streets	-	510,618	-	510,618
Local Transportation Assistance	-	-	348,336	348,336
Federal and State Grants	-	-	642,336	642,336
Unspent Lease Proceeds	-	-	278,278	278,278
Debt Service	-	-	412,781	412,781
Assigned				
Capital Outlay	-	-	99,713	99,713
Unassigned	11,857,950	-	-	11,857,950
Total Fund Balance	<u>\$ 11,982,627</u>	<u>\$ 510,618</u>	<u>\$ 1,781,444</u>	<u>\$ 14,274,689</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

No supplementary budgetary appropriations were necessary during the year.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds/departments:

	<u>Amount of Overexpenditure</u>
General Fund:	
MIS	\$ 17,926
Cemetery	1,899
Fire	151,242
Parks	124,683
Animal Control	25,545

Cash was available to meet all the over expenditures listed above.

C. Deficit Fund Equity

A deficit fund balance in the amount of \$2,682,274 was reported in the Sanitation Fund. 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.

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**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2014 consist of the following:

Deposits:	
Cash on Hand	\$ 4,221
Cash in Bank	15,880,820
Certificates of Deposit	1,287,577
Investments:	
U.S. Government Money Market Securities	2,035,004
U.S. Treasury Bill	<u>2,501,631</u>
Total Deposits and Investments	21,709,253
Restricted Cash and Investments	(7,006,639)
Fiduciary Funds	<u>(15,769)</u>
Total Cash and Cash Equivalents	<u><u>\$ 14,686,845</u></u>

Deposits – The carrying value of the City’s deposits at June 30, 2014 was \$17,168,397 including certificates of deposit, and the bank balance was \$17,325,143 the full balance of which was covered by federal depository insurance or collateral held under the continuing deposit security agreement.

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

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

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

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

Concentration of Credit Risk – The City’s investment policy does not address concentration of credit risk. However, the City only invests in funds authorized by Arizona State law and only has investments in U.S. Government Money Market and U.S. Treasury Bills at June 30, 2014.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2014 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Sale of Easement of Escrow Funds	\$ 107,615	\$ -	\$ 107,615
Operation and Maintenance	-	141,074	141,074
Repair and Replacement Fund	-	90,257	90,257
Future Debt Service and Construction	412,781	3,965,686	4,378,467
Housing Assistance Payments	-	41,116	41,116
Customer Deposits	37,954	706,002	743,956
Unspent Lease Proceeds	278,952	1,225,202	1,504,154
Total	<u>\$ 837,302</u>	<u>\$ 6,169,337</u>	<u>\$ 7,006,639</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, 2014

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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,279,134	\$ -	\$ -	\$ 2,279,134
Construction in Progress	306,834	525,806	(306,834)	525,806
Total Capital Assets, Not Being Depreciated	<u>2,585,968</u>	<u>525,806</u>	<u>(306,834)</u>	<u>2,804,940</u>
Capital Assets, Being Depreciated:				
Infrastructure	57,289,266	489,041	-	57,778,307
Buildings	9,730,483	-	-	9,730,483
Improvements Other than Buildings	3,361,680	158,667	-	3,520,347
Vehicles, Machinery and Equipment	11,609,570	1,625,716	(261,091)	12,974,195
Total Capital Assets, Being Depreciated	<u>81,990,999</u>	<u>2,273,424</u>	<u>(261,091)</u>	<u>84,003,332</u>
Accumulated Depreciation for:				
Infrastructure	(20,753,956)	(1,237,387)	-	(21,991,343)
Buildings	(5,280,347)	(208,032)	-	(5,488,379)
Improvements Other than Buildings	(1,377,706)	(68,554)	-	(1,446,260)
Vehicles, Machinery and Equipment	(8,661,834)	(949,503)	261,091	(9,350,246)
Total Accumulated Depreciation	<u>(36,073,843)</u>	<u>(2,463,476)</u>	<u>261,091</u>	<u>(38,276,228)</u>
Total Capital Assets, Being Depreciated, Net	<u>45,917,156</u>	<u>(190,052)</u>	<u>-</u>	<u>45,727,104</u>
Governmental Activities Capital Assets, Net	<u>\$ 48,503,124</u>	<u>\$ 335,754</u>	<u>\$ (306,834)</u>	<u>\$ 48,532,044</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,242,853	\$ 8,000	\$ -	\$ 3,250,853
Construction in Progress	903,304	351,384	(307,956)	946,732
Total Capital Assets, Not Being Depreciated	4,146,157	359,384	(307,956)	4,197,585
Capital Assets, Being Depreciated:				
Infrastructure	113,907,399	-	-	113,907,399
Buildings	8,130,934	-	-	8,130,934
Improvements Other than Buildings	702,019	-	-	702,019
Vehicles, Machinery and Equipment	7,674,418	326,754	(49,767)	7,951,405
Housing Authority	13,796,278	308,807	-	14,105,085
Total Capital Assets, Being Depreciated	144,211,048	635,561	(49,767)	144,796,842
Accumulated Depreciation for:				
Infrastructure	(23,317,649)	(2,483,622)	-	(25,801,271)
Buildings	(4,688,864)	(176,371)	-	(4,865,235)
Improvements Other than Buildings	(336,635)	(15,600)	-	(352,235)
Vehicles, Machinery and Equipment	(6,756,509)	(254,588)	49,767	(6,961,330)
Housing Authority	(6,004,063)	(436,278)	-	(6,440,341)
Total Accumulated Depreciation	(41,103,720)	(3,366,459)	49,767	(44,420,412)
Total Capital Assets, Being Depreciated, Net	103,107,328	(2,730,898)	-	100,376,430
Business-Type Activities Capital Assets, Net	\$ 107,253,485	\$ (2,371,514)	\$ (307,956)	\$ 104,574,015

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 335,298
Public Safety	653,900
Highways and Streets	1,341,283
Culture and Recreation	132,995
Total Depreciation Expense	\$ 2,463,476

Business-Type Activities:

Sewer	\$ 2,070,358
Water	781,677
Sanitation	78,146
Nogales Housing Authority	436,278
Total Depreciation Expense	\$ 3,366,459

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, And Transfers

As of June 30, 2014 interfund receivable and payables were as follows:

	Due To
Due From	General Fund
Nonmajor Governmental Fund	\$ 88,439
Sewer Fund	3,340,951
Sanitation Fund	1,535,679
Internal Service Fund	67,302
	\$ 5,032,371

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2014 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, 2014, transfers were as follows:

	Transfers Out			
	General Fund	HURF Fund	Water Fund	Total
Nonmajor Governmental Funds	\$ 755,256	\$ 317,618	\$ 552,920	\$ 1,625,794
Sewer Fund	-	-	942,293	942,293
Sanitation Fund	-	-	5,547	5,547
Total	\$ 755,256	\$ 317,618	\$ 1,500,760	\$ 2,573,634

The transfer from the General Fund and HURF Fund to the Nonmajor governmental funds was recorded to make the principal and interest payments due on the outstanding revenue bonds. The transfer from the Water fund to the Nonmajor governmental fund, Sewer fund and Sanitation fund was to record the allocation of funds for the City's contribution to the refunding transaction.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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	\$ 2,824,761	\$ 2,356,155
Less: Accumulated Depreciation	<u>(2,110,571)</u>	<u>(658,132)</u>
Total	<u>\$ 714,190</u>	<u>\$ 1,698,023</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, 2014, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2015	\$ 424,113	\$ 393,577
2016	425,063	394,683
2017	427,030	396,974
2018	427,874	397,956
2019	229,106	241,380
2020 - 2024	<u>166,984</u>	<u>195,789</u>
Total Minimum Lease Payments	2,100,170	2,020,359
Less: Amount Representing Interest	<u>(171,556)</u>	<u>(141,324)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,928,614</u>	<u>\$ 1,879,035</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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 2006	1.50-5.25	07/01/19-36	\$ 6,141,330	\$ 6,141,330
Municipal Facilities Revenue and Refunding Bonds, Series 2009	3.75-5.42	10/01/14-39	2,689,490	2,252,574
Municipal Facilities Revenue Refunding Bonds, Series 2014	3.00-3.625	6/30/17-30	5,615,902	5,615,902
Total Governmental Activities			<u>\$ 14,446,722</u>	<u>\$ 14,009,806</u>
Business-Type Activities:				
Bonds Payable:				
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	10/01/14-39	12,445,511	10,427,425
Municipal Facilities Revenue Refunding Bonds, Series 2014	3.00-3.625	6/30/17-30	6,754,098	6,754,098
Total Business-Type Activities			<u>\$ 21,758,279</u>	<u>\$ 19,740,193</u>

The City has pledged excise tax revenues of the General Fund to repay \$14.5 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 City's Debt Service Fund through transfers 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 \$25,059,878. Principal and interest paid for the current year and total excise taxes were \$892,064 and \$19,154,895, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City's Sewer, Water and Sanitation Funds use operating funds to repay \$19.7 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. In the event operations of the Water, Sewer or Sanitation Funds are not sufficient to make the required principal and interest payments, the debt is pledged through City excise tax revenues. 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 \$34,979,553.

During the fiscal year ended June 30, 2014, the City issued \$12,370,000 in refunding bonds at a net premium of \$171,036 and utilized \$407,027 of unused bond proceeds from prior issuances and \$565,730 of City cash contributions to refund current principal of \$260,000 and advance refund \$12,450,000 in revenue bonds. The refunding bonds, unused prior bond proceeds and City cash contribution were used to place \$3,831 into debt service reserve funds, pay \$238,850 in issuance costs and deposit \$13,271,115 into an escrow account to pay the current debt service and defeased debt. The refunding resulted in a savings of \$1,716,547 and a net present value savings of \$1,129,346.

The defeased debt is no longer considered outstanding debt of the City and has been removed from the City's long-term liabilities. The defeased debt will be paid by the trustee from funds deposited into escrow, as well as interest earned on the escrow deposit. The amount of debt defeased, but remaining outstanding to be paid by the escrow agent is \$12,450,000.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2014 are as follows:

	July 1, 2013	Increases	Decreases	June 30, 2014	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 14,126,090	\$ 5,615,902	\$ (5,732,186)	\$ 14,009,806	\$ 82,631
Deferred Amounts:					
Premium	299,609	77,650	(195,151)	182,108	-
Total Bonds	<u>14,425,699</u>	<u>5,693,552</u>	<u>(5,927,337)</u>	<u>14,191,914</u>	<u>82,631</u>
Other Liabilities:					
Capital Leases	1,192,699	1,096,330	(360,415)	1,928,614	368,658
Compensated Absences	1,644,498	860,738	(743,426)	1,761,810	744,995
Other Postemployment Benefits	8,364,938	2,655,749	(469,684)	10,551,003	-
Total Other Liabilities	<u>11,202,135</u>	<u>4,612,817</u>	<u>(1,573,525)</u>	<u>14,241,427</u>	<u>1,113,653</u>
Governmental Activities Long-Term Liabilities	<u>\$ 25,627,834</u>	<u>\$ 10,306,369</u>	<u>\$ (7,500,862)</u>	<u>\$ 28,433,341</u>	<u>\$ 1,196,284</u>
	July 1, 2013	Increases	Decreases	June 30, 2014	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 20,153,911	\$ 6,754,098	\$ (7,167,816)	\$ 19,740,193	\$ 382,369
Deferred Amounts:					
Premium	295,026	93,386	(238,792)	149,620	-
Discount	(237,462)	-	9,132	(228,330)	-
Total Bonds Payable	<u>20,211,475</u>	<u>6,847,484</u>	<u>(7,397,476)</u>	<u>19,661,483</u>	<u>382,369</u>
Other Liabilities:					
Capital Leases	618,067	1,509,100	(248,132)	1,879,035	354,329
Compensated Absences	310,280	194,076	(178,875)	325,481	151,555
Other Postemployment Benefits	2,457,622	591,333	-	3,048,955	-
Business-Type Activities Long-Term Liabilities	<u>\$ 23,597,444</u>	<u>\$ 9,141,993</u>	<u>\$ (7,824,483)</u>	<u>\$ 24,914,954</u>	<u>\$ 888,253</u>

Debt service requirements on long-term debt at June 30, 2014 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 82,631	\$ 680,461	\$ 382,369	\$ 932,020
2016	85,296	673,652	394,704	916,619
2017	285,308	664,465	644,692	898,606
2018	294,778	654,818	665,222	879,606
2019	465,012	644,838	559,988	879,583
2020 - 2024	2,252,766	2,956,872	3,232,234	3,919,204
2025 - 2029	2,632,383	2,438,459	3,812,617	3,171,880
2030 - 2034	4,523,784	1,748,215	3,426,216	2,263,822
2035 - 2039	3,387,848	588,292	6,622,151	1,378,020
Total	<u>\$ 14,009,806</u>	<u>\$ 11,050,072</u>	<u>\$ 19,740,193</u>	<u>\$ 15,239,360</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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 \$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, 2014. 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, 2014 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, 2014 and 2013 were as follows:

	Claims Liability at beginning of year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at end of year
2013-14	\$ 282,097	2,051,277	\$ (2,072,344)	261,030
2012-13	344,270	2,675,366	(2,737,539)	282,097

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, 2014

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans

Firefighters Relief and Pension Fund

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

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

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

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

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

Arizona State Retirement System

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

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

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, 2014, active plan members were required by statute to contribute at the actuarially determined rate of 11.54% (11.30% 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 11.54% (10.70% for retirement, 0.60% 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, 2014 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>
2014	\$ 646,666	\$ 36,262	\$ 14,505
2013	632,899	40,135	14,819
2012	592,141	37,796	14,399

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 employment of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy – Covered employees are required to contribute 7.65% of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The contribution rate for fiscal year 2014 was 22.97% and 27.33% of annual covered payroll for Police and Fire, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual Pension Cost – During the year ended June 30, 2014, the City of Nogales, Arizona's annual pension cost of \$710,200 for police and \$632,944 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, 2012 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 8.0% per year compounded annually, (b) projected salary increases of 5.0% (not including inflation) per year compounded annually, and (c) additional projected salary increases of 5.0% to 9.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2014, the plan for police was 54.0% funded and the plan for fire was 50.5% funded. The actuarial accrued liability for benefits was \$23.0 million and \$18.0 million for police and fire, respectively; and the actuarial value of assets was \$12.4 million and \$9.1 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$10.6 million and \$8.9 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.4 million and \$2.3 million, and the ratio of the UAAL to the covered payroll was 313.9% and 389.0%, respectively.

As of June 30, 2014, the other postemployment benefits plan for police was 91.0% funded and the plan for fire was 67.7% funded. The actuarial accrued liability for benefits was \$1.0 million and \$0.7 million for police and fire, respectively; and the actuarial value of assets was \$0.9 million and \$0.5 million for police and fire; resulting in an unfunded actuarial accrued liability (UAAL) of \$0.1 million and \$0.2 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$3.4 million and \$2.3 million, and the ratio of the UAAL to the covered payroll was 2.5% and 10.2%, respectively.

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

The actuarial value of the City of Nogales, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The City of Nogales, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014 was 22 years.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 pension costs to the plan for 2014 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
2012	\$ 647,608	100.0 %	\$ -
2013	700,460	100.0	-
2014	710,200	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2012	\$ 70,808	100.0 %	\$ -
2013	68,131	100.0	-
2014	66,254	100.0	-
Three-Year Trend Information			
Fire			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2012	\$ 543,596	100.0 %	\$ -
2013	559,206	100.0	-
2014	632,944	100.0	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2012	\$ 53,326	100.0 %	\$ -
2013	53,187	100.0	-
2014	50,786	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 58.

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, 2014**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Other Postemployment Benefits

The City's liability for postemployment healthcare benefits other than pensions as of June 30, 2014 is based on the actuarial performed as of July 1, 2013.

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, 2014, 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	282	
Total	367	

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, 2014

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, 2014:

Annual Required Contribution	\$ 3,372,941
Interest on Net OPEB Obligation	485,026
Adjustments to Annual Required Contributions	(476,941)
Annual OPEB cost	<u>3,381,026</u>
Contributions Made	<u>603,628</u>
Increase in Net OPEB Obligation	2,777,398
Net OPEB Obligation - Beginning of Year	<u>10,822,560</u>
Net OPEB Obligation - End of Year	<u><u>\$ 13,599,958</u></u>

Schedule of Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the City held \$-0- in assets and had an actuarial determined accrued liability of \$40.1 million. The plan is underfunded by \$40.1 million and annual covered payroll was 362.7 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
2012	\$ 2,918,867	\$ 600,950	21%	\$ 8,278,260
2013	3,143,118	598,818	19%	10,822,560
2014	3,381,026	603,628	18%	13,599,958

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, 2014**

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	24 Years as of June 30, 2014
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%

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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, 2014**

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
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%
2014	12,430,324	23,001,990	54.0%	10,571,666	3,368,196	313.9%

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
2012	\$ -	\$ 858,086	0.0%	\$ 858,086	\$ 3,066,028	28.0%
2013	-	906,184	0.0%	906,184	3,090,619	29.3%
2014	868,677	954,345	91.0%	85,668	3,368,196	2.5%

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
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%
2014	9,087,407	17,992,415	50.5%	8,905,008	2,289,390	389.0%

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
2012	\$ -	\$ 685,262	0.0%	\$ 685,262	\$ 2,269,167	30.2%
2013	-	715,534	0.0%	715,534	2,350,157	30.5%
2014	490,031	724,127	67.7%	234,096	2,289,390	10.2%

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2014	\$ -	\$ 40,125,844	0.0%	\$ 40,125,844	\$ 11,061,776	362.7%
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%

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