

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2020**



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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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 (the City), as of and for the year ended June 30, 2020, 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% of the assets, net position and revenues of the Nogales Housing Authority Enterprise Fund and represents 9%, 11%, and 18%, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison statements for the General and major special 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, the pension schedules and the other postemployment benefits schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2021, 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 solely 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 the effectiveness of the City of Nogales, Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
April 28, 2021

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

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, 2020. 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. This analysis is based on currently known facts, decisions, and conditions, and is provided in an easily readable summary of operating results with explanations for material changes. This discussion will help the reader determine if our financial position improved or deteriorated over the past year. This report also addresses current operational activities, the sources, uses, and changes in resources, comparisons to the City's 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 and deferred inflows of resources at the close of the most recent fiscal year by \$77.5 million (net position).
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22.8 million, an increase of \$3.0 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$15.7 million or 88.1% of total General Fund expenditures.
- ◆ General Fund revenues were \$0.5 million less than budget for fiscal year 2020. Expenditures were \$7.0 million less than budget.
- ◆ General Fund revenues exceeded expenditures by \$3.2 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 revenue 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, liabilities, and deferred inflows of resources, 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.

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).

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 13-14 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, HURF Fund and Grants 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 15-21 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- ◆ *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 (a component unit) 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 change in net position 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 Sewer, Water, Sanitation, and the Nogales Housing Authority Funds, which are considered to be major funds of the City. The internal service funds are presented in the proprietary fund financial statements as a separate consolidated column.

The basic proprietary fund financial statements can be found on pages 22-25 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 basic fiduciary fund financial statement can be found on pages 26-27 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements pages 28-67 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 as required supplementary information other than MD&A immediately following the notes to the basic financial statements.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

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, 2020 and 2019 showing that assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$77.5 million at June 30, 2020.

**Condensed Statement of Net Position
June 30, 2020 and 2019**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Current and Other Assets	\$ 26,700,083	\$ 23,205,196	\$ 16,289,957	\$ 13,762,216	\$ 42,990,040	\$ 36,967,412
Capital Assets						
Nondepreciable	4,264,194	2,880,456	3,871,349	4,276,996	8,135,543	7,157,452
Depreciable (Net)	41,076,780	40,546,484	88,311,875	89,166,936	129,388,655	129,713,420
Total Assets	72,041,057	66,632,136	108,473,181	107,206,148	180,514,238	173,838,284
Deferred Outflows of Resources	8,750,393	8,600,527	1,758,684	1,934,344	10,509,077	10,534,871
Liabilities						
Current Liabilities	2,041,075	1,725,239	6,912,849	5,183,606	8,953,924	6,908,845
Noncurrent Liabilities:						
Due Within One Year	1,304,013	1,318,203	943,335	920,302	2,247,348	2,238,505
Due in More Than One Year	65,572,905	63,632,113	26,685,944	30,920,293	92,258,849	94,552,406
Total Liabilities	68,917,993	66,675,555	34,542,128	37,024,201	103,460,121	103,699,756
Deferred Inflows of Resources	7,135,043	4,890,386	2,881,676	2,794,543	10,016,719	7,684,929
Net Position						
Net Investment in Capital Assets	32,719,005	30,724,311	75,858,149	77,496,245	108,577,154	108,220,556
Restricted	6,669,208	6,276,903	15,446	2,197	6,684,654	6,279,100
Unrestricted	(34,649,799)	(33,334,492)	(3,065,534)	(8,176,694)	(37,715,333)	(41,511,186)
Total Net Position	\$ 4,738,414	\$ 3,666,722	\$ 72,808,061	\$ 69,321,748	\$ 77,546,475	\$ 72,988,470

Net position is the result of the excess of assets and deferred outflows of resources over liabilities and deferred Inflows of resources reported on the City's statement of net position. Specific discussion regarding the different components of assets, deferred outflows of resources, liabilities, and deferred inflows of resources can be found in the notes to the financial statements.

Net position consists of three components. The largest portion of the City's total net position (140.0%) 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.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Government-Wide Financial Analysis (Continued)

At the end of the current fiscal year, the City was able to report positive balances in two of the three categories of net position for the government as a whole. The negative unrestricted net position, reported in both the governmental and business-type activities, was largely due to the recognition of pension related and 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 contributes the actuarially required contributions to its pension obligations and amortizes the liability for the unfunded pension liability and other postemployment healthcare benefits over the employee's service period to the City.

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

**Changes in Net Position
Fiscal Years Ended June 30, 2020 and 2019**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
REVENUES						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 2,247,862	\$ 2,613,397	\$ 12,536,175	\$ 12,536,544	\$ 14,784,037	\$ 15,149,941
Operating Grants and Contributions	6,868,558	5,049,246	-	-	6,868,558	5,049,246
Capital Grants and Contributions	1,579,104	81,799	43,213	323,501	1,622,317	405,300
General Revenues:						
Sales Taxes	10,281,368	9,981,675	-	-	10,281,368	9,981,675
Franchise Taxes	647,013	597,528	-	-	647,013	597,528
State Shared Revenues	6,499,341	6,226,383	-	-	6,499,341	6,226,383
Impact Fees	-	-	56,400	90,652	56,400	90,652
Investment Earnings	602,374	435,184	240,971	350,921	843,345	786,105
Other	161,337	221,891	145,374	29,148	306,711	251,039
Total Revenues	<u>28,886,957</u>	<u>25,207,103</u>	<u>13,022,133</u>	<u>13,330,766</u>	<u>41,909,090</u>	<u>38,537,869</u>
EXPENSES						
General Government	9,783,438	5,698,000	-	-	9,783,438	5,698,000
Public Safety	13,987,484	14,956,461	-	-	13,987,484	14,956,461
Highways and Streets	1,947,432	3,562,815	-	-	1,947,432	3,562,815
Culture and Recreation	1,635,204	1,767,847	-	-	1,635,204	1,767,847
Interest on Long-Term Debt	461,707	508,225	-	-	461,707	508,225
Sewer	-	-	4,588,766	3,972,700	4,588,766	3,972,700
Water	-	-	1,143,281	3,966,298	1,143,281	3,966,298
Sanitation	-	-	761,362	2,095,484	761,362	2,095,484
NHA	-	-	3,042,411	2,665,365	3,042,411	2,665,365
Total Expenses	<u>27,815,265</u>	<u>26,493,348</u>	<u>9,535,820</u>	<u>12,699,847</u>	<u>37,351,085</u>	<u>39,193,195</u>
CHANGE IN NET POSITION	1,071,692	(1,286,245)	3,486,313	630,919	4,558,005	(655,326)
Net Position - Beginning of Year	3,666,722	4,952,967	69,321,748	68,690,829	72,988,470	73,643,796
NET POSITION - END OF YEAR	<u>\$ 4,738,414</u>	<u>\$ 3,666,722</u>	<u>\$ 72,808,061</u>	<u>\$ 69,321,748</u>	<u>\$ 77,546,475</u>	<u>\$ 72,988,470</u>

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Government-Wide Financial Analysis (Continued)

Governmental activities. Total governmental revenues increased over the prior year by \$3.7 million (14.6%).

Program revenues increased \$3.0 million over the previous fiscal year and general revenues increased \$0.7 million. The increase in program revenues was the net effect of a decrease in fees, fines, and charges for service (\$0.4 million), an increase in operating grants and contributions (\$1.8 million), and an increase in capital grants and contributions (\$1.5 million). Operating grants and contributions increased largely due to \$2.3 million in CARES Act funding received from the U.S. Treasury to fund public safety costs during the COVID-19 pandemic, offset by decreases in other operating grants. Capital grants and contributions increased due to \$1.5 million received in CDBG funds for the McNab and Perkins projects.

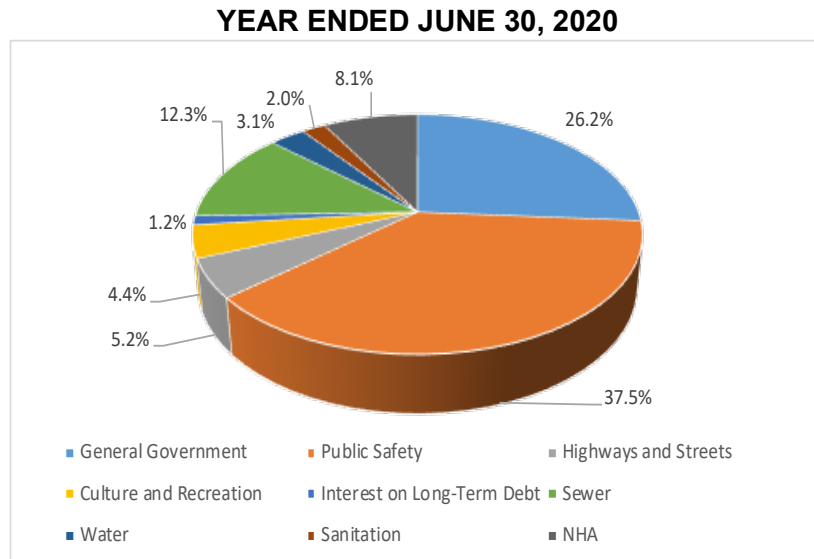
General revenues increased largely due to increased taxes and state shared revenues due to increased activity at the border.

Overall, expenses increased \$1.3 million from the prior year. The increase was largely due to increases in pension expense, salary adjustments and various repairs and maintenance projects City-wide. The variances between functions is largely due to the reallocation of pension expense based on the percent of prior year contributions for both pension and other postemployment benefits.

Business-type activities. Charges for services remained relatively unchanged over the prior fiscal year.

The decrease in expenses (\$3.2 million) is largely due to the allocation of pension and other postemployment benefits as an expense for changes in the percent of contributions. The pension and OPEB expense and related adjustments are presented as a separate line item on the statement of revenues, expenses and changes in net position – proprietary funds (page 23) to demonstrate the change effect of the reallocation. After accounting for the reallocation, expenses were comparable to previous fiscal year.

The following graph illustrates the City's government-wide expenses previously discussed.



**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

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.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$22.8 million, an increase of \$3.0 million in comparison with the prior year. Approximately 69.5% of this total amount (\$15.8 million) constitutes General Fund balance, which is reported as either nonspendable, restricted, assigned or unassigned fund balance. At the end of fiscal year 2019-20, fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2018-19
General Fund	\$ 15,832,780	\$ 2,740,219
Streets/HURF Fund	5,314,668	344,174
Grants	896,410	3,988
Nonmajor Governmental Funds	752,400	(65,755)
Total	<u>\$ 22,796,258</u>	<u>\$ 3,022,626</u>

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 balance and total fund balance to total fund expenditures. The unassigned General Fund fund balance represents 88.1% of total General Fund expenditures. The total unassigned fund balance represents 60.6% of total governmental fund expenditures.

The General Fund fund balance increase of \$2.7 million was due to a \$0.3 million increase in taxes, \$0.3 million increase in intergovernmental revenues, a decrease of \$1.9 million in public safety expenditures, and a decrease of \$0.1 million in debt service expenditures. The increase in taxes and intergovernmental revenues is due to an increase in business activity at the border. The decrease in public safety expenditures is due to moving unbudgeted extra duty public safety salaries (excluding overtime) to the grants fund funded by CARES Act monies.

The HURF Fund fund balance increase of \$0.3 million was \$1.0 million less than the prior year increase and was due to a reduction in the highway user revenue tax and an increase in maintenance projects.

The Grants Fund accounts for federal and state grants, which are largely reimbursable grants and therefore revenues equal expenditures during the year. The beginning balance is related to nonreimbursable grants that are yet to be spent.

The Nonmajor governmental fund balance decreased by \$0.1 million in the current year and was not a significant change over the prior year. The fund balance of the nonmajor governmental funds include \$0.4 million restricted for debt service, \$0.3 million restricted for local transportation assistance and the remaining balance is assigned for capital projects.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

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 19-21. 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 with a slight increase in budgeted expenditures over the prior year. 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 \$21.0 million were \$0.5 million less than budget for fiscal year 2020. Expenditures were \$7.0 million less than budget. The large positive variance in current year expenditures as compared to the budget is largely due to contingencies budgeted within the nondepartmental and public safety expenditures (Police and Fire) being moved to the grant fund for extra public safety duties related to the COVID-19 pandemic that were not previously budgeted and funded by the CARES Act. The variances in other departments were not significant.

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2020 totaled \$45.3 million (net of accumulated depreciation), an increase from the prior year of 4.4%. Business-type activities capital assets amounted to \$92.2 million (net of accumulated depreciation), a net decrease from the prior year of \$0.3 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:

- Vehicles \$1.2 million
- Completion of various infrastructure projects \$1.0 million

Business-Type Activities – The most significant change in capital assets in the Business-Type Activities was:

- Infrastructure additions for the Grand Avenue Sewer \$0.7 million
- Infrastructure additions for the Pena Blanca Potrero Creek \$0.3 million.
- Meadow Hills Pump and Well \$0.1 million
- Water Tank \$0.2 million
- Vehicles, machinery and equipment \$0.3 million

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Capital Assets (Continued)

The following table provides a breakdown of the capital assets of the City at June 30, 2020 and 2019.

**Capital Assets (Net)
June 30, 2020 and 2019**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 2,314,134	\$ 2,279,134	\$ 3,103,782	\$ 3,250,853	\$ 5,417,916	\$ 5,529,987
Construction in Progress	1,950,060	601,322	767,567	1,026,143	2,717,627	1,627,465
Infrastructure	33,282,155	33,553,522	77,990,800	79,020,251	111,272,955	112,573,773
Buildings	3,066,936	3,269,209	2,390,598	2,510,971	5,457,534	5,780,180
Improvements other than Buildings	2,408,005	2,188,837	671,328	357,695	3,079,333	2,546,532
Vehicles, Machinery and Equipment	2,319,684	1,534,916	647,741	455,062	2,967,425	1,989,978
Housing Authority	-	-	6,611,408	6,822,957	6,611,408	6,822,957
Total Capital Assets	<u>\$ 45,340,974</u>	<u>\$ 43,426,940</u>	<u>\$ 92,183,224</u>	<u>\$ 93,443,932</u>	<u>\$ 137,524,198</u>	<u>\$ 136,870,872</u>

Long-Term Debt

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$34.1 million. \$30.2 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, 2020 and 2019. Further detail on the City's outstanding debt may be found in Notes 3.C. and 3.D.

**Outstanding Debt
June 30, 2020 and 2019**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue Bonds	\$ 12,855,202	\$ 13,299,452	\$ 17,367,003	\$ 18,025,211	\$ 30,222,205	\$ 31,324,663
Loan Payable	-	-	1,666,705	1,752,389	1,666,705	1,752,389
Capital Leases	91,719	159,386	106,875	185,678	198,594	345,064
Compensated Absences	1,742,575	1,658,728	241,082	243,032	1,983,657	1,901,760
Total Outstanding Debt	<u>\$ 14,689,496</u>	<u>\$ 15,117,566</u>	<u>\$ 19,381,665</u>	<u>\$ 20,206,310</u>	<u>\$ 34,071,161</u>	<u>\$ 35,323,876</u>

The City's revenue bonds, loans payable, and capital leases decreased \$1.3 million due to scheduled principal payments due on the debt. The City did not issue any new debt during the year. Compensated absences increased by a net \$0.1 million due to the net effect of earned and used balances by employees.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

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 and currency exchange rates 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 2020-21 budget preparation was influenced by the following factors:

- ◆ Conservative growth in retail sales projected at the local level with dampened expectations due to the ongoing unfavorable exchange rate for our shoppers from Mexico.
- ◆ Conservative growth in projected HURF revenues due to the ongoing trend toward improved gas efficiency of vehicles and the growing use of hybrid vehicles.
- ◆ Continued efforts to attract new and sustainable businesses to the area.
- ◆ Continued improvement of cross-border transportation for Mariposa Port of Entry and relationships with Mexico sister city.
- ◆ The City's sales tax revenues were impacted with the increased protection by homeland security at the border crossing, making Mexican shoppers reluctant to come to the City to shop. While this concern has diminished the City continues to spend conservatively and cautiously.
- ◆ Increased efforts to attract tourism to the City of Nogales.
- ◆ Impacts of the COVID-19 pandemic and the projected effect on the economy.

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>

BASIC FINANCIAL SECTION

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CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Investments	\$ 21,521,471	\$ 11,243,669	\$ 32,765,140
Receivables, Net:			
Accounts	537,051	1,269,831	1,806,882
Intergovernmental	3,166,740	139,413	3,306,153
Taxes	1,037,016	-	1,037,016
Interfund Balances	(178,551)	178,551	-
Prepaid Items	107,872	43,415	151,287
Inventory	15,313	6,204	21,517
Restricted Assets	443,024	3,408,874	3,851,898
Net OPEB Asset	50,147	-	50,147
Capital Assets:			
Nondepreciable	4,264,194	3,871,349	8,135,543
Depreciable (Net)	41,076,780	88,311,875	129,388,655
Total Assets	<u>72,041,057</u>	<u>108,473,181</u>	<u>180,514,238</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	271,981	1,285,033	1,557,014
Pension Related	7,908,884	274,404	8,183,288
OPEB Related	569,528	199,247	768,775
Total Deferred Outflows of Resources	<u>8,750,393</u>	<u>1,758,684</u>	<u>10,509,077</u>
LIABILITIES			
Accounts Payable	1,185,727	1,311,755	2,497,482
Accrued Wages and Benefits	445,237	164,355	609,592
Customer Deposits Payable	40,567	853,002	893,569
Unearned Revenue	-	4,675	4,675
Intergovernmental Payable	-	4,383,827	4,383,827
Claims Payable	369,544	-	369,544
Judgments Payable	-	195,235	195,235
Noncurrent Liabilities:			
Due Within One Year	1,304,013	943,335	2,247,348
Due in More Than One Year			
Bonds, Notes and Other Long-Term Debt	13,385,483	18,438,330	31,823,813
Net Pension Liability	40,699,726	2,719,362	43,419,088
Net OPEB Liability	11,487,696	5,528,252	17,015,948
Total Liabilities	<u>68,917,993</u>	<u>34,542,128</u>	<u>103,460,121</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	1,360,294	198,363	1,558,657
OPEB Related	5,774,749	2,683,313	8,458,062
Total Deferred Inflows of Resources	<u>7,135,043</u>	<u>2,881,676</u>	<u>10,016,719</u>
NET POSITION			
Net Investment in Capital Assets	32,719,005	75,858,149	108,577,154
Restricted for:			
Highways and Streets	5,662,686	-	5,662,686
Federal and State Grants	896,410	-	896,410
Impound Fees	59,965	-	59,965
Other Postemployment Benefits	50,147	-	50,147
Housing	-	15,446	15,446
Unrestricted	(34,649,799)	(3,065,534)	(37,715,333)
Total Net Position	<u>\$ 4,738,414</u>	<u>\$ 72,808,061</u>	<u>\$ 77,546,475</u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions/Programs	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
Governmental Activities:							
General Government	9,783,438	\$ 1,258,525	\$ 29,963	\$ 1,562,533	\$ (6,932,417)	\$ -	\$ (6,932,417)
Public Safety	13,987,484	954,127	3,366,881	16,571	(9,649,905)	-	(9,649,905)
Highways and Streets	1,947,432	9,135	3,173,826	-	1,235,529	-	1,235,529
Culture and Recreation	1,635,204	26,075	297,888	-	(1,311,241)	-	(1,311,241)
Interest on Long-Term Debt	461,707	-	-	-	(461,707)	-	(461,707)
Total Governmental Activities	27,815,265	2,247,862	6,868,558	1,579,104	(17,119,741)	-	(17,119,741)
Business-Type Activities:							
Sewer	4,588,766	3,772,855	-	-	-	(815,911)	(815,911)
Water	1,143,281	3,524,050	-	43,213	-	2,423,982	2,423,982
Sanitation	761,362	2,898,611	-	-	-	2,137,249	2,137,249
NHA	3,042,411	2,340,659	-	-	-	(701,752)	(701,752)
Total Business-Type Activities	9,535,820	12,536,175	-	43,213	-	3,043,568	3,043,568
Total Primary Government	\$ 37,351,085	\$ 14,784,037	\$ 6,868,558	\$ 1,622,317	(17,119,741)	3,043,568	(14,076,173)
GENERAL REVENUES							
Taxes:							
Sales Taxes					10,281,368	-	10,281,368
Franchise Taxes					647,013	-	647,013
Impact Fees					-	56,400	56,400
State Revenue Sharing					6,499,341	-	6,499,341
Investment Earnings					602,374	240,971	843,345
Other					161,337	145,374	306,711
Total General Revenues					18,191,433	442,745	18,634,178
CHANGE IN NET POSITION							
Net Position - Beginning					3,666,722	69,321,748	72,988,470
NET POSITION - END					\$ 4,738,414	\$ 72,808,061	\$ 77,546,475

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

ASSETS	<u>General</u>	<u>Streets/HURF</u>	<u>Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Investments	\$ 13,270,383	\$ 5,204,333	\$ 7,224	\$ 661,413	\$ 19,143,353
Restricted Assets	40,567	-	-	402,457	443,024
Receivables, Net:					
Accounts	450,161	-	-	-	450,161
Intergovernmental	253,408	152,883	2,760,449	-	3,166,740
Taxes	1,037,016	-	-	-	1,037,016
Due from Other Funds	1,774,977	-	-	-	1,774,977
Prepaid Items	107,872	-	-	-	107,872
Total Assets	<u>\$ 16,934,384</u>	<u>\$ 5,357,216</u>	<u>\$ 2,767,673</u>	<u>\$ 1,063,870</u>	<u>\$ 26,123,143</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 664,662	\$ 34,558	\$ 131,400	\$ 309,822	\$ 1,140,442
Accrued Wages and Benefits	396,375	7,990	30,729	1,648	436,742
Due to Other Funds	-	-	1,709,134	-	1,709,134
Customer Deposits Payable	40,567	-	-	-	40,567
Total Liabilities	<u>1,101,604</u>	<u>42,548</u>	<u>1,871,263</u>	<u>311,470</u>	<u>3,326,885</u>
 FUND BALANCES					
Nonspendable:					
Prepaid Items	107,872	-	-	-	107,872
Restricted	59,965	5,314,668	896,410	750,476	7,021,519
Assigned	-	-	-	1,924	1,924
Unassigned	15,664,943	-	-	-	15,664,943
Total Fund Balances	<u>15,832,780</u>	<u>5,314,668</u>	<u>896,410</u>	<u>752,400</u>	<u>22,796,258</u>
 Total Liabilities and Fund Balances	 <u>\$ 16,934,384</u>	 <u>\$ 5,357,216</u>	 <u>\$ 2,767,673</u>	 <u>\$ 1,063,870</u>	 <u>\$ 26,123,143</u>

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total Fund Balances for Governmental Funds \$ 22,796,258

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Governmental Capital Assets (Less Internal Service Fund)	97,037,932
Less: Accumulated Depreciation (Less Internal Service Fund)	(51,745,374)
Capital Assets Used in Governmental Activities (Less Internal Service Fund)	45,292,558

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	(12,663,278)
Deferred Amount on Refunding	271,981
Bond Premium	(191,924)
Capital Leases	(91,719)
Compensated Absences (Less Internal Service Fund)	(1,715,561)
Net OPEB Asset (Liability)	(11,437,549)
Net Pension Liability (Less Internal Service Fund)	(40,265,310)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred Outflows of Resources Related to Pensions (Less Internal Service Fund)	7,865,895
Deferred Inflows of Resources Related to Pensions (Less Internal Service Fund)	(1,328,605)
Deferred Outflows of Resources Related to OPEB	569,528
Deferred Inflows of Resources Related to OPEB	(5,774,749)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.

Internal Service Fund Net Position	1,589,440
Less: Amount Attributed to the Business-Type Activities	(178,551)
	1,410,889

Total Net Position of Governmental Activities \$ 4,738,414

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General	Streets/HURF	Grants	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Sales Taxes	\$ 10,281,368	\$ -	\$ -	\$ -	\$ 10,281,368
Franchise Taxes	647,013	-	-	-	647,013
Intergovernmental	7,046,800	3,161,741	4,738,462	-	14,947,003
Fines and Forfeitures	233,957	-	-	-	233,957
Licenses and Permits	980,050	-	-	-	980,050
Charges for Services	1,033,855	-	-	-	1,033,855
Investment Earnings	594,655	-	-	7,719	602,374
Other	160,528	809	-	-	161,337
Total Revenues	<u>20,978,226</u>	<u>3,162,550</u>	<u>4,738,462</u>	<u>7,719</u>	<u>28,886,957</u>
EXPENDITURES					
Current:					
General Government	5,654,608	-	1,598,355	-	7,252,963
Public Safety	9,492,785	-	3,111,119	-	12,603,904
Highways and Streets	829,059	2,417,101	-	-	3,246,160
Culture and Recreation	1,778,695	-	25,000	-	1,803,695
Debt Service:					
Principal Retirement	29,732	37,935	-	430,801	498,468
Interest on Long-Term Debt	2,541	4,635	-	451,965	459,141
Total Expenditures	<u>17,787,420</u>	<u>2,459,671</u>	<u>4,734,474</u>	<u>882,766</u>	<u>25,864,331</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,190,806	702,879	3,988	(875,047)	3,022,626
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	809,292	809,292
Transfers Out	(450,587)	(358,705)	-	-	(809,292)
Total Other Financing Sources (Uses)	<u>(450,587)</u>	<u>(358,705)</u>	<u>-</u>	<u>809,292</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	2,740,219	344,174	3,988	(65,755)	3,022,626
Fund Balance - Beginning of Year	13,092,561	4,970,494	892,422	818,155	19,773,632
FUND BALANCE - END OF YEAR	<u>\$ 15,832,780</u>	<u>\$ 5,314,668</u>	<u>\$ 896,410</u>	<u>\$ 752,400</u>	<u>\$ 22,796,258</u>

See accompanying Notes to 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, 2020

Net Change in Fund Balances - Total Governmental Funds \$ 3,022,626

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	4,040,907
Less: Current Year Depreciation (Less Internal Service Fund)	(2,106,948)
Excess Depreciation over Capital Expenditures	1,933,959

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these items are amortized over the term of the long-term debt in the statement of activities.

Principal Payments on Long-Term Revenue Bonds	430,801
Principal Payments on Capital Leases	67,667
Amortization of Bond Premium	13,449
Amortization of Deferred Amount on Refunding	(16,016)

Governmental funds report City pension contributions as expenditures when made. However, in the statement of activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and the investment experience.

Pension Contributions (Less Internal Service Fund)	3,338,734
Pension Expense (Less Internal Service Fund)	(5,293,215)
OPEB Contributions	288,692
OPEB Expense	(2,711,588)

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.

Change in Compensated Absences (Less Internal Service Fund)	(88,127)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund is reported with governmental activities.

Net Revenues of the Internal Service Fund	92,860
Less: Amount Attributable to the Business-Type Activities	(8,150)
	84,710

Change in Net Position of Governmental Activities \$ 1,071,692

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE — BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2020**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 10,437,000	\$ 10,928,381	\$ 491,381
Intergovernmental	6,978,737	7,046,800	68,063
Fines and Forfeitures	260,000	233,957	(26,043)
Licenses and Permits	1,269,600	980,050	(289,550)
Charges for Services	1,151,500	1,033,855	(117,645)
Investment Earnings	265,000	594,655	329,655
Other	1,148,700	160,528	(988,172)
Total Revenues	<u>21,510,537</u>	<u>20,978,226</u>	<u>(532,311)</u>
EXPENDITURES			
Current:			
General Government:			
Mayor and Elections	95,337	75,465	19,872
Council	165,471	143,842	21,629
Administration	480,596	433,403	47,193
Finance	1,083,319	1,001,748	81,571
Human Resources	284,088	276,819	7,269
MIS	631,253	548,490	82,763
Planning and Zoning	580,355	490,897	89,458
City Attorney	699,767	470,758	229,009
City Court	535,491	485,220	50,271
Cemetery	71,600	85,037	(13,437)
Nondepartmental	3,987,050	1,642,929	2,344,121
Total General Government	<u>8,614,327</u>	<u>5,654,608</u>	<u>2,959,719</u>
Public Safety:			
Police	7,226,056	4,813,267	2,412,789
Fire	5,657,033	4,307,246	1,349,787
Animal Control	360,650	350,032	10,618
Total Public Safety	<u>13,243,739</u>	<u>9,492,785</u>	<u>3,750,954</u>
Highways and Streets:			
Nogales Rides	70,055	54,149	15,906
Facilities Maintenance	583,064	582,785	279
Engineering	227,251	192,125	35,126
Total Highways and Streets	<u>880,370</u>	<u>829,059</u>	<u>51,311</u>
Culture and Recreation:			
Parks	821,491	805,559	15,932
Recreation	533,217	442,654	90,563
Library	595,223	524,185	71,038
Golf Course	35,890	6,297	29,593
Total Culture and Recreation	<u>1,985,821</u>	<u>1,778,695</u>	<u>207,126</u>
Debt Service:			
Principal Retirement	30,000	29,732	268
Interest on Long-Term Debt	2,500	2,541	(41)
Total Debt Service	<u>32,500</u>	<u>32,273</u>	<u>227</u>
Total Expenditures	<u>24,756,757</u>	<u>17,787,420</u>	<u>6,969,337</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,246,220)	3,190,806	6,437,026
OTHER FINANCING SOURCES (USES)			
Transfers Out	(205,459)	(450,587)	(245,128)
NET CHANGE IN FUND BALANCE	(3,451,679)	2,740,219	6,191,898
Fund Balance - Beginning of Year	13,092,561	13,092,561	-
FUND BALANCE - END OF YEAR	<u>\$ 9,640,882</u>	<u>\$ 15,832,780</u>	<u>\$ 6,191,898</u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES — BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2020**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 2,746,873	\$ 3,161,741	\$ 414,868
Other	50,000	809	(49,191)
Total Revenues	<u>2,796,873</u>	<u>3,162,550</u>	<u>365,677</u>
EXPENDITURES			
Current:			
Highways and Streets	2,024,642	2,417,101	(392,459)
Debt Service:			
Principal Retirement	314,628	37,935	276,693
Interest on Long-Term Debt	107,603	4,635	102,968
Total Expenditures	<u>2,446,873</u>	<u>2,459,671</u>	<u>(12,798)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	350,000	702,879	352,879
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(85,310)</u>	<u>(358,705)</u>	<u>(273,395)</u>
NET CHANGE IN FUND BALANCE	264,690	344,174	79,484
Fund Balance - Beginning of Year	<u>1,700,000</u>	<u>4,970,494</u>	<u>3,270,494</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,964,690</u></u>	<u><u>\$ 5,314,668</u></u>	<u><u>\$ 3,349,978</u></u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES — BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2020**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 4,272,683	\$ 4,738,462	\$ 465,779
EXPENDITURES			
Current:			
General Government	2,796,957	1,598,355	1,198,602
Public Safety	2,308,455	3,111,119	(802,664)
Culture and Recreation	-	25,000	(25,000)
Total Expenditures	<u>5,105,412</u>	<u>4,734,474</u>	<u>370,938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(832,729)	3,988	836,717
Fund Balance - Beginning of Year	<u>892,422</u>	<u>892,422</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 59,693</u></u>	<u><u>\$ 896,410</u></u>	<u><u>\$ 836,717</u></u>

See accompanying Notes to Financial Statements.

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CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

	Business-Type Funds - Enterprise Funds				Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 2,699,484	\$ 5,044,465	\$ 1,238,987	\$ 2,007,732	\$ 10,990,668	\$ 2,378,118
Investments	-	-	-	253,001	253,001	-
Receivables, Net:						
Accounts	479,027	473,263	308,996	8,545	1,269,831	86,890
Intergovernmental	-	18,824	-	120,589	139,413	-
Inventories	-	-	-	6,204	6,204	15,313
Prepaid Assets	-	-	-	43,415	43,415	-
Restricted Assets	2,323,738	1,062,649	7,041	15,446	3,408,874	-
Total Current Assets	5,502,249	6,599,201	1,555,024	2,454,932	16,111,406	2,480,321
Noncurrent Assets:						
Advances to Other Funds	49,100	-	-	-	49,100	-
Capital Assets:						
Nondepreciable	476,777	2,165,103	159,522	1,069,947	3,871,349	-
Depreciable (Net)	58,990,897	22,351,421	358,151	6,611,406	88,311,875	48,416
Total Noncurrent Assets	59,516,774	24,516,524	517,673	7,681,353	92,232,324	48,416
Total Assets	65,019,023	31,115,725	2,072,697	10,136,285	108,343,730	2,528,737
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Amount on Refunding	1,080,822	197,755	6,456	-	1,285,033	-
Pension Related	44,054	92,107	79,819	58,424	274,404	42,989
OPEB Related	29,916	58,558	87,264	23,509	199,247	-
Total Deferred Outflows of Resources	1,154,792	348,420	173,539	81,933	1,758,684	42,989
LIABILITIES						
Current Liabilities:						
Accounts Payable	1,080,434	140,476	68,163	22,682	1,311,755	45,285
Accrued Wages and Benefits	9,986	22,246	16,124	115,999	164,355	8,495
Intergovernmental Payable	4,382,823	1,004	-	-	4,383,827	-
Unearned Revenue	-	-	-	4,675	4,675	-
Customer Deposits Payable	-	799,127	-	53,875	853,002	-
Claims Payable	-	-	-	-	-	369,544
Judgements Payable	-	195,235	-	-	195,235	-
Due To Other Funds	-	-	-	-	-	65,843
Compensated Absences	17,513	51,549	33,449	2,674	105,185	21,187
Capital Leases Payable	10,565	74,314	-	-	84,879	-
Bonds and Notes Payable	189,319	558,785	5,167	-	753,271	-
Total Current Liabilities	5,690,640	1,842,736	122,903	199,905	7,856,184	510,354
Noncurrent Liabilities:						
Advances from Other Funds	-	-	49,100	-	49,100	-
Compensated Absences	44,147	44,051	23,633	24,066	135,897	5,827
Capital Leases Payable	2,738	19,258	-	-	21,996	-
Other Postemployment Benefits Liability	792,520	1,551,317	2,311,799	872,616	5,528,252	-
Bonds and Notes Payable	7,749,375	10,440,966	90,096	-	18,280,437	-
Net Pension Liability	334,772	823,329	828,331	732,930	2,719,362	434,416
Total Noncurrent Liabilities	8,923,552	12,878,921	3,302,959	1,629,612	26,735,044	440,243
Total Liabilities	14,614,192	14,721,657	3,425,862	1,829,517	34,591,228	950,597
DEFERRED INFLOWS OF RESOURCES						
Pension Related	24,420	60,058	60,422	53,463	198,363	31,689
OPEB Related	384,675	752,981	1,122,105	423,552	2,683,313	-
Total Deferred Inflows of Resources	409,095	813,039	1,182,527	477,015	2,881,676	31,689
NET POSITION						
Net Investment in Capital Assets	53,877,045	13,863,844	435,907	7,681,353	75,858,149	48,416
Restricted	-	-	-	15,446	15,446	-
Unrestricted	(2,726,517)	2,065,605	(2,798,060)	214,887	(3,244,085)	1,541,024
Total Net Position	\$ 51,150,528	\$ 15,929,449	\$ (2,362,153)	\$ 7,911,686	72,629,510	\$ 1,589,440
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					178,551	
Net Position of Business-Type Activities					<u>\$ 72,808,061</u>	

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2020

	Business-Type Funds - Enterprise Funds				Business-Type	Governmental
	Sewer	Water	Sanitation	NHA	Activities - Enterprise Funds Totals	Activities Internal Service Funds
OPERATING REVENUES						
Charges for Services	\$ 3,772,855	\$ 3,524,050	\$ 2,898,611	\$ -	\$ 10,195,516	\$ 4,172,981
Rents and Royalties	-	-	-	661,473	661,473	-
Operating Grants	-	-	-	1,594,128	1,594,128	-
Other Income	-	-	-	85,058	85,058	-
Total Operating Revenues	<u>3,772,855</u>	<u>3,524,050</u>	<u>2,898,611</u>	<u>2,340,659</u>	<u>12,536,175</u>	<u>4,172,981</u>
OPERATING EXPENSES						
Cost of Sales and Services	2,207,400	1,868,927	2,078,989	2,175,682	8,330,998	1,695,091
Claims	-	-	-	-	-	2,338,543
OPEB and Pension Expense	126,308	(2,017,300)	(1,372,644)	378,283	(2,885,353)	62,646
Depreciation	1,924,796	941,778	51,107	494,728	3,412,409	19,925
Total Operating Expenses	<u>4,258,504</u>	<u>793,405</u>	<u>757,452</u>	<u>3,048,693</u>	<u>8,858,054</u>	<u>4,116,205</u>
OPERATING INCOME (LOSS)	(485,649)	2,730,645	2,141,159	(708,034)	3,678,121	56,776
NONOPERATING REVENUES (EXPENSES)						
Development Impact Fees	25,500	30,900	-	-	56,400	-
Investment Earnings	29,317	208,878	125	2,651	240,971	36,084
Interest Expense	(330,620)	(351,692)	(3,604)	-	(685,916)	-
Miscellaneous Nonoperating Revenues	5,263	126,472	13,639	-	145,374	-
Total Nonoperating Revenues (Expenses)	<u>(270,540)</u>	<u>14,558</u>	<u>10,160</u>	<u>2,651</u>	<u>(243,171)</u>	<u>36,084</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(756,189)	2,745,203	2,151,319	(705,383)	3,434,950	92,860
Capital Contributions	-	18,824	-	24,389	43,213	-
CHANGE IN NET POSITION	(756,189)	2,764,027	2,151,319	(680,994)	3,478,163	92,860
Net Position - Beginning of Year	<u>51,906,717</u>	<u>13,165,422</u>	<u>(4,513,472)</u>	<u>8,592,680</u>		<u>1,496,580</u>
NET POSITION - END OF YEAR	<u>\$ 51,150,528</u>	<u>\$ 15,929,449</u>	<u>\$ (2,362,153)</u>	<u>\$ 7,911,686</u>		<u>\$ 1,589,440</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					8,150	
Change in Net Position of Business-Type Activities					<u>\$ 3,486,313</u>	

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020**

	Business-Type Activities - Enterprise Funds				Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 3,721,387	\$ 3,410,032	\$ 2,879,007	\$ 655,105	\$ 10,665,531	\$ 4,172,186
Operating Grants	-	-	-	1,576,282	1,576,282	-
Payments to Suppliers	(1,115,060)	(907,916)	(1,280,570)	(1,502,112)	(4,805,658)	(1,309,929)
Payments to Employees	(584,048)	(1,029,703)	(891,362)	(674,145)	(3,179,258)	(423,409)
Payments for Claims	-	-	-	-	-	(2,263,402)
Other Receipts	5,263	126,472	13,639	85,058	230,432	-
Customer Deposits Payable	-	32,661	-	1,730	34,391	-
Net Cash Provided (Used) by Operating Activities	2,027,542	1,631,546	720,714	141,918	4,521,720	175,446
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund Borrowing	(189,286)	-	-	-	(189,286)	(186)
Development Impact Fees	25,500	30,900	-	-	56,400	-
Net Cash Provided (Used) by Noncapital Financing Activities	(163,786)	30,900	-	-	(132,886)	(186)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Capital Contributions	22,019	-	-	53,542	75,561	-
Purchases of Capital Assets	(222,369)	(557,857)	(245,086)	(62,563)	(1,087,875)	-
Principal Paid on Capital Debt	(192,277)	(611,405)	(5,005)	-	(808,687)	-
Interest Paid on Capital Debt	(278,320)	(349,160)	(3,314)	-	(630,794)	-
Net Cash Used by Capital and Related Financing Activities	(670,947)	(1,518,422)	(253,405)	(9,021)	(2,451,795)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment Earnings	29,317	208,878	125	2,578	240,898	36,084
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,222,126	352,902	467,434	135,475	2,177,937	211,344
Cash and Cash Equivalents - Beginning of Year	3,801,096	5,754,212	778,594	1,887,703	12,221,605	2,166,774
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,023,222</u>	<u>\$ 6,107,114</u>	<u>\$ 1,246,028</u>	<u>\$ 2,023,178</u>	<u>\$ 14,399,542</u>	<u>\$ 2,378,118</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION						
Cash and Cash Equivalents	\$ 2,699,484	\$ 5,044,465	\$ 1,238,987	\$ 2,007,732	\$ 10,990,668	\$ 2,378,118
Restricted Assets	2,323,738	1,062,649	7,041	15,446	3,408,874	-
Total Cash and Cash Equivalents	<u>\$ 5,023,222</u>	<u>\$ 6,107,114</u>	<u>\$ 1,246,028</u>	<u>\$ 2,023,178</u>	<u>\$ 14,399,542</u>	<u>\$ 2,378,118</u>

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	Business-Type Activities - Enterprise Funds				Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (485,649)	\$ 2,730,645	\$ 2,141,159	\$ (708,034)	\$ 3,678,121	\$ 56,776
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	1,924,796	941,778	51,107	494,728	3,412,409	19,925
Bad Debt Expense	-	-	-	16,531	16,531	-
Nonoperating Receipts	5,263	126,472	13,639	-	145,374	-
Change in Assets/Liabilities:						
Receivables	(51,468)	(114,018)	(19,604)	(24,300)	(209,390)	(795)
Prepaid Items	-	4,590	-	2,144	6,734	-
Inventories	-	-	-	1,482	1,482	8,040
Deferred Outflows of Resources	(6,337)	57,173	43,116	12,579	106,531	11,131
Accounts and Intergovernmental Payable	561,432	41,676	17,454	(38,537)	582,025	(2,371)
Accrued Wages and Benefits	(7,576)	(12,805)	(11,434)	80,730	48,915	(6,330)
Unearned Revenue	-	-	-	86	86	-
Other Postemployment Benefits	(23,507)	(1,775,427)	(1,648,783)	21,089	(3,426,628)	-
Net Pension Liability	(32,185)	(176,078)	114,724	133,496	39,957	42,395
Compensated Absences	5,837	585	5,589	(13,962)	(1,951)	(4,280)
Claims Payable	-	-	-	-	-	75,141
Judgments Payable	-	-	-	-	-	-
Customer Deposits Payable	-	32,661	-	1,730	34,391	-
Deferred Inflows of Resources	136,936	(225,706)	13,747	162,156	87,133	(24,186)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,027,542</u>	<u>\$ 1,631,546</u>	<u>\$ 720,714</u>	<u>\$ 141,918</u>	<u>\$ 4,521,720</u>	<u>\$ 175,446</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The amortization of premiums, discounts, and deferred amounts on refundings represent noncash transactions:

Amortization of Premium (Discount)	\$ 4,753	\$ 9,175	\$ 79	\$ -	\$ 14,007	\$ -
Amortization of Reacquisition Costs on Refunding	(57,053)	(11,707)	(369)	-	(69,129)	-

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020**

	<u>Pension Trust</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 15,770</u>
NET POSITION	
Restricted for Pensions	<u><u>\$ 15,770</u></u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020**

	<u>Pension Trust</u>
ADDITIONS	
Interest	\$ 1
DEDUCTIONS	
Total Deductions	-
CHANGE IN NET POSITION	1
Net Position - Beginning of Year	15,769
NET POSITION - END OF YEAR	\$ 15,770

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020 fiscal year-end.

Nogales Municipal Development Authority (MDA) – The MDA is a nonprofit corporation formed by the City to obtain financing for 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 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020

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

The *Grants Fund* accounts for activity of federal and state grants restricted for governmental activities.

The City reports the following major proprietary funds:

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

The *Water Fund* accounts for the costs to operate, construct, and finance the City's water 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, 2020

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

2. Receivables

Receivables include all trade receivables, intergovernmental receivables for earned, but not yet received sales tax, state shared revenues, federal and state grants, and interest revenue, as well as taxes for the City's local sales taxes. All trade receivables are shown net of an allowance for uncollectibles.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. 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. Borrowings between governmental and business-type activities are reflected on the government-wide financial statements as interfund balances.

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. Borrowings between governmental funds are eliminated in the preparation of the government-wide financial statements. Borrowings between governmental and business-type activities are reflected on the government-wide financial statements as interfund balances.

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. Expenditure/expenses are recognized in the government-wide and fund financial statements the period in which the goods and/or services are received/rendered.

5. Restricted Assets

Certain assets of the governmental activities, business-type activities and enterprise funds are set aside for repayment of debt or are restricted for construction, operation and maintenance or the purchase of assets by parties outside the City, through bond covenant agreements or other restrictions.

Customer deposits recorded in the governmental activities, business-type activities, and enterprise funds are set aside for repayment to customers.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at acquisition 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.

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 and amounts related to pensions and other postemployment benefits (OPEB). The reacquisition costs are amortized and expensed over the lesser of the maturity of the refunded bonds or the refunding bonds. Reported amounts for pension and OPEB are related to the requirements of accounting and financial reporting for pensions and other postemployment benefits.

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, 2020

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. Pensions and Other Postemployment Benefits

For purposes of measuring the net pension liability, net other postemployment benefit (OPEB) assets or liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension expense and OPEB expense, information about the fiduciary net position of the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from ASRS/PSPRS's fiduciary net position have been determined on the same basis as they are reported by ASRS/PSPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Deferred Inflows of Resources

The deferred inflows of resources reported on the government-wide and proprietary fund financial statements represent amounts related to the requirements of accounting and financial reporting for pensions and other postemployment benefits.

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, 2020 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. 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.

13. 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.

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.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Fund Balance Classifications (Continued)

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

At June 30, 2020, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Grants	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepays	\$ 107,872	\$ -	\$ -	\$ -	\$ 107,872
Restricted:					
Impound Fees	59,965	-	-	-	59,965
Streets	-	5,314,668	-	-	5,314,668
Local Transportation					
Assistance	-	-	-	348,019	348,019
Federal and State Grants	-	-	896,410	-	896,410
Debt Service	-	-	-	402,457	402,457
Assigned:					
Capital Outlay	-	-	-	1,924	1,924
Unassigned	15,664,943	-	-	-	15,664,943
Total Fund Balance	<u>\$ 15,832,780</u>	<u>\$ 5,314,668</u>	<u>\$ 896,410</u>	<u>\$ 752,400</u>	<u>\$ 22,796,258</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020**

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:	
Cemetery	\$ 13,437
HURF Fund	12,798

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

C. Deficit Fund Equity

A deficit net position in the amount of \$2,362,153 was reported in the Sanitation Fund. The City does not expect to recover the deficit in the upcoming fiscal year, but plans to increase customer rates and reduce costs in future years to reduce the deficit.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2020 consist of the following:

Deposits:	
Cash on Hand	\$ 4,246
Cash in Bank	6,850,765
Investments:	
U.S. Agency Securities	11,400,693
Marketable Certificate of Deposits	7,841,170
Money Market Funds	<u>10,535,934</u>
Total Deposits and Investments	36,632,808
Less: Restricted Cash and Investments	(3,851,898)
Less: Fiduciary Funds	<u>(15,770)</u>
Total Deposits and Investments	<u><u>\$ 32,765,140</u></u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Deposits – The carrying value of the City’s deposits at June 30, 2020 was \$6,850,765 and the bank balance was \$7,052,239 of which \$1,967,204 was covered by federal depository insurance and the remaining being collateralized 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. The U.S. money market government securities are reported at amortized cost.

Interest rate risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the City’s investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature concurrent with the anticipated cash requirements for ongoing operations and investing funds primarily in shorter-term securities or similar investment pools and limiting the average maturity of the portfolio.

Investment	Investment Maturities (in Years)		
	Amount	Less than 1	1-5
U.S. Agency Securities	\$ 11,400,693	\$ 7,809,459	\$ 3,591,234
Marketable Certificate of Deposits	7,841,170	1,758,675	6,082,495
Money Market Funds	10,535,934	10,535,934	-
Total Investments	<u>\$ 29,777,797</u>	<u>\$ 20,104,068</u>	<u>\$ 9,673,729</u>

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 requires a minimum of 35% of the total investment portfolio have maturities of one year or less and no more than 20% of the portfolio may have a maturity of greater than three years.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Credit risk – The City limits its investments to the State Treasurer’s Investment Pool, U.S. Agency Securities, negotiable certificates of deposit, and money market funds. A portion of the investment in the money market funds is on hand at the end of the fiscal year in order to make the required principal and interest payments on outstanding bonds. The funds are on deposit with a trustee for less than one month and do not pose a credit risk to the City. The City’s investments consist of only the Federal Agency Securities, marketable certificate of deposits, and money market funds. The City’s investment rating based on investment type is shown below:

<u>Investment Type</u>	<u>Rating</u>	<u>Agency</u>	<u>Amount</u>
U.S. Agency Securities			
United States Treasury Note	AA+	Moody's	\$ 6,550,271
Fannie Mae	AA+	Moody's	1,259,188
Federal Farm Credit Bank	AA+	Moody's	1,525,528
Federal Home Loan	AA+	Moody's	2,065,706
Marketable Certificate of Deposits	N/R	N/R	7,841,170
Money Market Funds	N/R	N/R	10,535,934
Total			<u>\$ 29,777,797</u>

Concentration of Credit Risk – The City policy allows a maximum of 10% of the market value of the portfolio be invested in debt issued by any single entity. The City places an 80% limit on the amount the City may invest in debt backed by the United States Treasury. The City did not have any single issuer in which investments accounted for more than 5% of the total portfolio that are required to be disclosed.

Fair Value Measurements –The City uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

The City’s investments were measured as follows at June 30, 2020:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Investments by Fair Value Level	Total		
Debt Securities:			
U.S. Agency Securities	\$ 11,400,693	\$ -	\$ 11,400,693
Marketable Certificate of Deposits	7,841,170		7,841,170
Total Investments by Fair Value Level	<u>19,241,863</u>	<u>\$ -</u>	<u>\$ 19,241,863</u>
Investments Measured at Amortized Cost			
Money Market Funds	10,535,934		
Total Investments	<u>\$ 29,777,797</u>		

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2020 consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Operation and Maintenance	\$ -	\$ 154,157	\$ 154,157
Repair and Replacement Fund	-	98,627.00	98,627
Future Debt Service and Construction	402,457	2,190,892.00	2,593,349
Debt Service Reserve	-	150,625.00	150,625
Customer Deposits	40,567	814,573.00	855,140
Total	<u>\$ 443,024</u>	<u>\$ 3,408,874</u>	<u>\$ 3,851,898</u>

3. Receivables

The government-wide financial statements and fund financial statements recognize a receivable for revenues earned, but not yet received, net of any allowance for uncollectibles.

The governmental activities report an allowance of \$1,674,634 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$752,755.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,279,134	\$ 35,000	\$ -	\$ 2,314,134
Construction in Progress	601,322	2,376,012	(1,027,274)	1,950,060
Total Capital Assets, Not Being Depreciated	2,880,456	2,411,012	(1,027,274)	4,264,194
Capital Assets, Being Depreciated:				
Infrastructure	61,970,554	1,027,274	-	62,997,828
Buildings	9,793,193	-	-	9,793,193
Improvements Other than Buildings	4,058,959	321,336	-	4,380,295
Vehicles, Machinery and Equipment	14,342,279	1,308,559	-	15,650,838
Total Capital Assets, Being Depreciated	90,164,985	2,657,169	-	92,822,154
Accumulated Depreciation for:				
Infrastructure	(28,417,032)	(1,298,641)	-	(29,715,673)
Buildings	(6,523,984)	(202,273)	-	(6,726,257)
Improvements Other than Buildings	(1,870,122)	(102,168)	-	(1,972,290)
Vehicles, Machinery, and Equipment	(12,807,363)	(523,791)	-	(13,331,154)
Total Accumulated Depreciation	(49,618,501)	(2,126,873)	-	(51,745,374)
Total Capital Assets, Being Depreciated, Net	40,546,484	530,296	-	41,076,780
Governmental Activities Capital Assets, Net	<u>\$ 43,426,940</u>	<u>\$ 2,941,308</u>	<u>\$ (1,027,274)</u>	<u>\$ 45,340,974</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 146,462
Public Safety	424,832
Highways and Streets	1,389,182
Culture and Recreation	166,397
Total Depreciation Expense	<u>\$ 2,126,873</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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	\$ 3,250,853	\$ 18,000	\$ (165,071)	\$ 3,103,782
Construction in Progress	1,026,143	324,964	(583,540)	767,567
Total Capital Assets, Not Being Depreciated	4,276,996	342,964	(748,611)	3,871,349
Capital Assets, Being Depreciated:				
Infrastructure	117,482,315	1,533,652	-	119,015,967
Buildings	8,139,460	-	-	8,139,460
Improvements Other than Buildings	812,886	344,906	-	1,157,792
Vehicles, Machinery and Equipment	8,690,673	395,611	-	9,086,284
Housing Authority	15,792,870	284,086	(907)	16,076,049
Total Capital Assets, Being Depreciated	150,918,204	2,558,255	(907)	153,475,552
Accumulated Depreciation for:				
Infrastructure	(38,462,064)	(2,563,103)	-	(41,025,167)
Buildings	(5,628,489)	(120,373)	-	(5,748,862)
Improvements Other than Buildings	(455,191)	(31,273)	-	(486,464)
Vehicles, Machinery and Equipment	(8,235,611)	(202,932)	-	(8,438,543)
Housing Authority	(8,969,913)	(494,728)	-	(9,464,641)
Total Accumulated Depreciation	(61,751,268)	(3,412,409)	-	(65,163,677)
Total Capital Assets, Being Depreciated, Net	89,166,936	(854,154)	(907)	88,311,875
Business-Type Activities Capital Assets, Net	\$ 93,443,932	\$ (511,190)	\$ (749,518)	\$ 92,183,224

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:

Sewer	\$ 1,924,796
Water	941,778
Sanitation	51,107
Nogales Housing Authority	494,728
Total Depreciation Expense	<u>\$ 3,412,409</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The City has active construction projects at June 30, 2020. At fiscal year-end the City's commitments with contractors were as follows:

	Governmental Activities	
<u>Project</u>	Spent-to-date	Remaining Commitment
Perkins Avenue Waterline Replacement	\$ 1,233,652	\$ 17,140
	Business-Type Activities	
<u>Project</u>	Spent-to-date	Remaining Commitment
Pena Blanca - Potrero Creek	\$ 300,574	\$ 423,842

B. Interfund Receivables, Payables, and Transfers

As of June 30, 2020 interfund receivable and payables were as follows:

	Due To General Fund
<u>Due From</u>	
Grants Fund	\$ 1,709,134
Internal Service Fund	65,843
Total	\$ 1,774,977

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received or are expected to be received subsequent to June 30, 2020 to cover the deficit.

	Advances To Sanitation Fund
<u>Advances From</u>	
Sewer Fund	\$ 49,100

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers (Continued)

As of June 30, 2020, transfers were as follows:

<u>Transfers Out</u>	<u>Transfers In</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
General Fund	\$ 450,587
HURF Fund	358,705
Total	\$ 809,292

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.

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</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Assets:		
Machinery and Equipment	\$ 2,824,761	\$ 2,356,155
Less: Accumulated Depreciation	(2,606,542)	(2,102,039)
Total	\$ 218,219	\$ 254,116

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2020, were as follows:

<u>Year Ending June 30.</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
2021	\$ 75,534	\$ 87,959
2022	18,970	22,162
Total Minimum Lease Payments	94,504	110,121
Less: Amount Representing Interest	(2,785)	(3,246)
Present Value of Minimum Lease Payments	\$ 91,719	\$ 106,875

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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				
Refunding Bonds, Series 2014	3.00-3.625	6/30/20-30	\$ 5,615,902	\$ 4,378,750
Municipal Facilities Revenue				
Refunding Bonds, Series 2015	3.25-4.00	6/30/31-36	5,509,550	5,509,550
Municipal Facilities Revenue				
Refunding Bonds, Series 2016	2.00-3.00	6/1/21-39	1,841,463	1,796,413
Municipal Facilities Revenue				
Refunding Bonds, Series 2019	3.50-4.00	6/1/20-39	1,005,675	978,565
Total Governmental Activities			<u>\$ 13,972,590</u>	<u>\$ 12,663,278</u>
Business-Type Activities:				
Municipal Facilities Revenue				
Refunding Bonds, Series 2014	3.00-3.625	6/30/20-30	\$ 6,754,098	\$ 5,266,248
Municipal Facilities Revenue				
Refunding Bonds, Series 2015	3.25-4.00	6/30/31-36	2,295,450	2,295,450
Municipal Facilities Revenue				
Refunding Bonds, Series 2016	2.00-3.00	6/1/21-39	5,108,537	4,983,587
Municipal Facilities Revenue				
Refunding Bonds, Series 2019	3.50-4.00	6/1/20-39	4,744,325	4,616,431
Total Business-Type Activities			<u>\$ 18,902,410</u>	<u>\$ 17,161,716</u>

The City has pledged excise tax revenues of the General Fund to repay \$12.7 million in combined governmental municipal facilities revenue obligation bonds presented above. Proceeds of the bonds provided financing for street improvements, bridges and other City infrastructure. The bonds are payable from the 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 \$17,637,429. Principal and interest paid for the current year and total excise taxes were \$882,766 and \$20,459,545, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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 \$17.2 million in combined business-type revenue obligation bonds. 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 25.0% of revenues. The total principal and interest remaining to be paid on the bonds is \$20,044,577.

The City has acquired a loan through the Water Infrastructure Financing Authority of Arizona (WIFA). The City acquired a \$2,000,000 loan from WIFA for the construction of a high pressure water system. The loan is structured where the City draws on the loan as funds are needed. To-date, the City has drawn down the authorized loan of \$2.0 million. The loans are payable from water charges for services through the fiscal year 2036. The remaining principal and interest to be paid on the outstanding balance is \$1,767,846.

Changes in governmental long-term obligations for the year ended June 30, 2020 are as follows:

	July 1, 2019	Increases	Decreases	June 30, 2020	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 13,094,079	\$ -	\$ (430,801)	\$ 12,663,278	\$ 444,350
Deferred Amounts:					
Premium	205,373	-	(13,449)	191,924	-
Total Bonds	<u>13,299,452</u>	<u>-</u>	<u>(444,250)</u>	<u>12,855,202</u>	<u>444,350</u>
Other Liabilities:					
Capital Leases	159,386	-	(67,667)	91,719	72,891
Compensated Absences	1,658,728	883,295	(799,448)	1,742,575	786,772
Total Other Liabilities	<u>1,818,114</u>	<u>883,295</u>	<u>(867,115)</u>	<u>1,834,294</u>	<u>859,663</u>
Governmental Activities					
Long-Term Liabilities	<u>\$ 15,117,566</u>	<u>\$ 883,295</u>	<u>\$ (1,311,365)</u>	<u>\$ 14,689,496</u>	<u>\$ 1,304,013</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in business-type long-term obligations for the year ended June 30, 2020 are as follows:

	July 1, 2019	Increases	Decreases	June 30, 2020	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 17,805,916	\$ -	\$ (644,200)	\$ 17,161,716	\$ 665,650
Deferred Amounts:					
Premium	219,295	-	(14,008)	205,287	-
Total Bonds Payable	18,025,211	-	(658,208)	17,367,003	665,650
Other Liabilities:					
Notes Payable	1,752,389	-	(85,684)	1,666,705	87,621
Capital Leases	185,678	-	(78,803)	106,875	84,879
Compensated Absences	243,032	101,515	(103,465)	241,082	105,185
Business-Type Activities					
Long-Term Liabilities	<u>\$ 20,206,310</u>	<u>\$ 101,515</u>	<u>\$ (926,160)</u>	<u>\$ 19,381,665</u>	<u>\$ 943,335</u>

Debt service requirements on long-term debt at June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 444,350	\$ 439,066	\$ 753,271	\$ 604,969
2022	456,575	426,144	773,027	585,184
2023	468,800	412,388	792,829	563,543
2024	483,674	398,262	820,026	541,332
2025	498,169	383,398	842,650	516,966
2026-2030	2,747,190	1,662,073	4,660,396	2,172,457
2031-2035	4,992,818	1,062,561	4,315,396	1,436,909
2036-2040	2,571,702	190,258	5,870,826	562,642
Total	<u>\$ 12,663,278</u>	<u>\$ 4,974,150</u>	<u>\$ 18,828,421</u>	<u>\$ 6,984,002</u>

E. Judgements

During the current fiscal year, the City entered into a settlement agreement for a lawsuit that had been filed against the City for improper water charges on its City water irrigation account. The plaintiff filed a claim for \$400,000 and the City management estimated that a full and fair settlement was \$348,000 which was previously accrued as Judgements Payable within the Water Fund and Business-type Activities.

The settlement agreement permits Kino Springs' use of Well Number 5 for a term of twenty years. For the first ten year period, Kino Springs will not pay the City for the water it has caused to be withdrawn through and from the well, in an amount not to exceed one thousand acre feet of water. In the second ten year period, Kino Springs will pay to the City the Raw Water Fee Rate for each acre foot of water that is withdrawn. As a result of the settlement agreement, the City wrote the judgements payable liability down to \$195,235 in the previous fiscal year.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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 (Arizona Municipal Risk Retention Pool), of which the City is a participating member. The limit for basic coverage is \$5,000,000 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, 2020. 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, 2020 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, 2020 and 2019 were as follows:

	Claims Liability at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at End of Year
2019-20	\$ 294,403	\$ 2,338,543	\$ (2,263,402)	\$ 369,544
2018-19	360,807	2,176,944	(2,243,348)	294,403

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, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Contingencies (Continued)

One pending contract claim is that of the U.S. Section of the International Boundary and Water Commission (USIBWC). USIBWC operates the Nogales International Wastewater Treatment Plant (NIWTP), which is owned by the City, and the two parties are co-permittees on a discharge permit issued by the Arizona Department of Environmental Quality (ADEQ). ADEQ has sued USIBWC alleging violations of the Clean Water Act that are also violations of the conditions of the discharge permit. USIBWC then alleged that the City should be equally liable as a co-tortfeasor and named the City as a defendant in the action. The City has prevailed on two dispositive motions and now has been dismissed from that case. However, apart from that litigation, USIBWC has made demands on the City with respect to its proper share of operation costs of the NIWTP, which the City has denied and answered that it has overpaid USIBWC for operational costs for many years. To date, USIBWC has neither withdrawn its demand for payment, which now totals \$4.4 million, nor has it filed suit. The parties are in the initial stages of negotiating a new Memorandum of Understanding that would both resolve this monetary dispute and set forth the terms of USIBWC's operation of the NIWTP going forward.

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 until total employee contributions, plus investment earnings are exhausted (depending on the individual's contribution to the plan), as determined by the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

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

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

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

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Cost-Sharing and Agent Multiple-Employer Pension Plans

The City contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for police officers and firefighters. The plans are component units of the state of Arizona.

At June 30, 2020 the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-Type Activities	Total
Net Pension Liabilities	\$ 40,699,726	\$ 2,719,362	\$ 43,419,088
Deferred Outflows of Resources	7,908,884	274,404	8,183,288
Deferred Inflows of Resources	1,360,294	198,363	1,558,657
Pension Expense	5,355,860	47,181	5,403,041

The City reported accrued payroll and employee benefits of \$59,783 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2020. Additionally, the City reported \$3,338,734 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

During the year ended June 30, 2020, the City did not liquidate any of its pension liabilities. Liquidations of these liabilities would be paid primarily from the General Fund.

The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense recorded in the City's financial statements includes the proportionate share allocated to the Nogales Housing Authority Enterprise Fund. The Nogales Housing Authority issues separately audited financial statements and have a fiscal year-end of March 31, 2020. For the year ended March 31, 2020, the Authority recognized pension expense of \$73,568, not including adjustments for a reallocation of its proportionate share.

Arizona State Retirement System

Plan Description – City employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The ASRS Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

The ASRS OPEB plan disclosures are not included in the City's financial statements as the liability and related deferred inflows of resources, deferred outflows of resources, and OPEB expense are not material.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement	
	Initial Membership Date	
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years, age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years, age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percentage per year of service	2.1% to 2.3 %	2.1% to 2.3 %

* With actuarial reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.94% of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.45% of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 10.29% of annual covered payroll of retired members who worked for the District in positions that would typically be filled by an employee who contributes to the ASRS.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

The City's contribution to the pension plan for the year ended June 30, 2020 was \$774,209.

During the fiscal year ended June 30, 2020, the City paid for ASRS pension contributions as follows: 62% from the General Fund, 5% from the HURF Fund, 22% from major enterprise funds, and 11% from other funds.

Pension Liability – At June 30, 2020, the City reported a liability of \$9,510,639 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The City's proportion of the net pension liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2019, and the change from its proportions measured as of June 30, 2018. The City's proportion measured as of June 30, 2019, was 0.065360%, which was a decrease of 0.00027 from its proportion measured as of June 30, 2018.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2020, the City recognized pension expense for ASRS of \$830,794. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 171,812	\$ 1,788
Changes of Assumptions or Other Inputs	40,202	378,732
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	213,766
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	99,465
City Contributions Subsequent to the Measurement Date	774,209	-
Total	\$ 986,223	\$ 693,751

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

The \$774,209 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2021	\$ (231,767)
2022	(266,170)
2023	(41,052)
2024	57,252

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial Valuation Date	June 30, 2018
Actuarial Roll Forward Date	June 30, 2019
Actuarial Cost Method	Entry age normal
Discount Rate	7.5%
Projected Salary Increases	2.7 - 7.2%
Inflation	2.3%
Permanent Benefit Increase	Included
Mortality Rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial study for the five-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.50% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Rate of Return</u>
Equity	50 %	6.09 %
Credit	20	5.36
Interest Rate Sensitive Bonds	10	1.62
Real Estate	20	5.85
Total	<u>100%</u>	

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Discount Rate – The discount rate used to measure the ASRS total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's Proportionate Share of the Net Pension Liability	\$ 13,535,844	\$ 9,510,639	\$ 6,146,606

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System (PSPRS)

Plan Description – City police and firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the board of trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS plans. The report is available on the PSPRS website at www.psprs.com.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Benefits Provided – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS	Initial Membership Date		
	Before 1/1/2012	On or After 1/1/2012 and before 7/1/2017	On or After 7/1/2017
Retirement and Disability			
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years of service or 15 years of credited service, age 52.5	15 years of service, age 52.5 15 or more years of service, age 62
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years	Highest 60 consecutive months of last 15 years
Benefit Percentage:			
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater		
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater		
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20		
Survivor Benefit:			
Retired Members	80-100% of retired member's pension benefit		
Active Members	80-100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job		

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50% of the member's compensation for up to 12 months.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Employees Covered by Benefit Terms – At June 30, 2020, the following employees were covered by the agent pension plans' benefit terms:

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	36	25
Inactive Employees Entitled to But Not Yet Receiving Benefits	7	6
Active Employees	44	33
Total	<u>87</u>	<u>64</u>

Contributions – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2020, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Active Members - Pension	7.65% - 9.94%	7.65% - 9.94%
City		
PSPRS Tier 1/2	51.28%	60.34%
PSPRS Tier 3	9.80%	9.80%

In addition, statute required the City to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the PSPRS would typically fill.

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Pension	38.83%	45.90%

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

For the agent plans, the City's contributions to the pension plan for the year ended June 30, 2020, were:

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Pension:		
Contributions Made	\$ 1,377,516	\$ 1,434,097

During the fiscal year June 30, 2020, the City paid for PSPRS pension contributions 100% from the General Fund.

Pension Liability – At June 30, 2020, the City reported the following net pension liabilities:

	<u>Net Pension Liability</u>
PSPRS Police	\$ 18,119,003
PSPRS Firefighters	15,789,446

The net assets and net liabilities were measured as of June 30, 2019, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4% to 7.3% and update the mortality rates.

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability for PSPRS are as follows:

Actuarial Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.30%
Projected Salary Increases	3.5%
Inflation	2.5%
Cost-of-Living Adjustment	1.75%
Mortality Rates	PubS-2010 tables

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The long-term expected rate of return on PSPRS plan investments was determined to be 7.30% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short-Term Investments	2.00 %	0.25 %
Risk Parity	4.00	4.01
Fixed Income	5.00	3.00
Real Assets	9.00	6.75
GTS	12.00	4.01
Private Equity	12.00	8.40
Real Estate	10.00	4.50
Private Credit	16.00	5.36
Non-U.S. Equity	14.00	5.00
U.S. Equity	16.00	4.75
Total	100.00 %	

Pension Discount Rates – At June 30, 2019, the discount rate used to measure the PSPRS and CORP total pension liabilities was 7.30%, which was a decrease of 0.10 from the discount rate used as of June 30, 2018. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Changes in the Agent Plans Net Pension Liability – The following tables present changes in the City’s net pension liability for the PSPRS – Police and PSPRS – Fire pension plans as follows:

	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
<u>PSPRS - Police</u>			
Balance at June 30, 2019	\$ 32,319,718	\$ 15,785,069	\$ 16,534,649
Adjustment to Beginning of Year	-	(11,408)	11,408
Changes for the Year:			
Service Cost	620,720	-	620,720
Interest on the Total Pension Liability	2,384,281	-	2,384,281
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	581,382	-	581,382
Changes of Assumptions or Other Inputs	633,282	-	633,282
Contributions - Employer	-	1,571,338	(1,571,338)
Contributions - Employee	-	244,244	(244,244)
Net Investment Income	-	846,862	(846,862)
Benefit Payments, Including Refunds of Employee Contributions	(1,440,860)	(1,440,860)	-
Administrative Expenses	-	(15,725)	15,725
Net Changes	2,778,805	1,194,451	1,584,354
Balances as of June 30, 2020	<u>\$ 35,098,523</u>	<u>\$ 16,979,520</u>	<u>\$ 18,119,003</u>

	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
<u>PSPRS - Firefighters</u>			
Balance at June 30, 2019	\$ 27,332,372	\$ 11,731,270	\$ 15,601,102
Adjustment to Beginning of Year	-	(20,359)	20,359
Changes for the Year:			
Service Cost	524,342	-	524,342
Interest on the Total Pension Liability	2,023,916	-	2,023,916
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(601,854)	-	(601,854)
Changes of Assumptions or Other Inputs	452,317	-	452,317
Contributions - Employer	-	1,432,593	(1,432,593)
Contributions - Employee	-	173,583	(173,583)
Net Investment Income	-	636,622	(636,622)
Benefit Payments, Including Refunds of Employee Contributions	(1,013,004)	(1,013,004)	-
Administrative Expenses	-	(12,062)	12,062
Net Changes	1,385,717	1,197,373	188,344
Balances as of June 30, 2020	<u>\$ 28,718,089</u>	<u>\$ 12,928,643</u>	<u>\$ 15,789,446</u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Sensitivity of the City's Net Pension Liability to Changes in the Discount Rate –

The following table presents the City's net pension liabilities calculated using the discount rates noted above, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.30%) or 1 percentage point higher (8.30%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS Police:			
Rate	6.30 %	7.30 %	8.30 %
Net Pension Liability	\$ 23,163,965	\$ 18,119,003	\$ 14,051,390
PSPRS Firefighters:			
Rate	6.30 %	7.30 %	8.30 %
Net Pension Liability	\$ 19,801,762	\$ 15,789,446	\$ 12,535,279

Pension Plan Fiduciary Net Position – Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2020, the City recognized the pension expense as follows:

	<u>Pension Expense</u>
PSPRS Police	\$ 2,338,906
PSPRS Firefighters	2,233,341

Pension Deferred Outflows/Inflows of Resources – At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>PSPRS - Police</u>		
Differences Between Expected and Actual Experience	\$ 800,727	\$ 119,222
Changes of Assumptions or Other Inputs	920,399	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	251,928	-
City Contributions Subsequent to the Measurement Date	1,377,516	-
Total	<u>\$ 3,350,570</u>	<u>\$ 119,222</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>PSPRS - Firefighters</u>		
Differences Between Expected and Actual Experience	\$ 761,429	\$ 745,684
Changes of Assumptions or Other Inputs	1,461,805	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	189,164	-
City Contributions Subsequent to the Measurement Date	1,434,097	-
Total	<u>\$ 3,846,495</u>	<u>\$ 745,684</u>

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
2021	\$ 956,377	\$ 767,467
2022	445,932	488,461
2023	384,620	390,856
2024	66,903	19,930

D. Other Postemployment Benefits

The City participates in the Arizona State Retirement System and Public Safety other postemployment benefit plans, a cost-sharing multiple-employer and agent-multiple employer defined benefit plan, respectively. The City also offers a single employer plan administered by the City to eligible City employees. At June 30, 2020, the City reported aggregate amounts related to OPEB for all plans to which it contributions as follows:

	<u>Arizona State Retirement System</u>	<u>Public Safety Personnel Retirement System</u>	<u>City Single Employer Plan</u>	<u>Total</u>
OPEB Asset	\$ 17,825	\$ 32,322	\$ -	\$ 50,147
OPEB Liability	42,122	112,532	16,861,294	17,015,948
Deferred Outflows of Resources	91,565	50,170	627,040	768,775
Deferred Inflows of Resources	46,267	227,628	8,184,167	8,458,062
OPEB Expense	35,824	(85,851)	(170,918)	(220,945)

All required disclosures related to the Arizona State Retirement System and the Public Safety Personnel Retirement System have been excluded as the amounts are not material to the financial statements.

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2020**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

The City’s liability for postemployment healthcare benefits other than pensions as of June 30, 2020 is based on the actuarial performed as of June 30, 2019.

Plan Description – The City provides postretirement insurance (health and dental) benefits, for certain retirees and their dependents, in accordance with the Postemployment Benefit Plan. The plan is a single-employer defined benefit plan administered by the City. Employees who are eligible to retire under the Arizona State Retirement System (ASRS) or the Public Safety Personnel Retirement System (PSPRS) and have completed 20 or more years of service with the City are eligible to receive postemployment medical benefits from the City.

Benefits Provided – If the retiree is not Medicare eligible, the City contributes the entire cost of each eligible participating retiree’s coverage. Retirees who elect to cover dependents will contribute 25% if hired on or prior to January 1, 2016, 50% if hired on or before January 1, 2017, 75% if hired on or after January 1, 2018 and 100% if hired January 1, 2019 or after. Employees who retire with at least 10 years but fewer than 20 years of service with the City may continue their coverage but are responsible for paying the entire cost of coverage.

Upon becoming Medicare eligible, due to age or disability, City contributions toward the cost of retiree City Insurance shall terminate. Instead, the retiree will receive a monthly subsidy to be used toward the purchase of medical benefits. The amount of the subsidy is \$75 for a single retiree and \$150 for a retiree with dependents. Postemployment benefits continue throughout the lifetime of each participating retiree. However, benefits will terminate if the retiree becomes covered under another employer sponsored medical insurance plan. Benefits to dependents will cease upon the retiree’s death. A surviving dependent will be offered COBRA coverage at his/her sole expense.

Retirees and their dependents who are receiving an ASRS or PSPRS pension are eligible to receive from ASRS/PSPRS a monthly subsidy toward the cost of their postemployment healthcare coverage. The City contributes the entire cost of each eligible participating retiree’s coverage, less any subsidy received from the ASRS or PSPRS. Retirees who elect to cover dependents will contribute a percentage of the remaining amount after any subsidy received from the ASRS or PSPRS is subtracted from the cost of dependent coverage.

Employees Covered by Benefit Terms – At June 30, 2020, the following employees were covered by the OPEB benefit terms:

Number of Active Employees	272
Number of Retired Members and Beneficiaries	70
Total	342

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

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.

Total OPEB Liability – The City’s total OPEB liability of \$16,861,294 had a measurement date through June 30, 2019, and an actuarial valuation date of June 30, 2019.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Actuarially determined amounts are subject of continual revision as actual results are compared to past expectations and new estimates are made about the future.

The total OPEB liability as of June 30, 2020, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age, level % of pay
Salary Increases	4.00% annual increases.
Discount Rate	3.50%
Health Care Trend Rates	7.18% decreasing to 4.25% over 12 years

The mortality rates used in this valuation are PubG-2010 and PubS-2010 with generational projections from the MP-2019 improvement scale. Pre-Retirement: PubG-2010 and PubS Employee tables with generational projections from the MP-2019 improvement scale. Post-Retirement: PubG-2010 and PubS Healthy Annuitant tables with generational projections from the MP-2019 improvement scale. Post-Disablement: PubG-2010 and PubS Disabled Annuitant tables with generational projections from the MP-2019 improvement scale.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

Changes in OPEB Liability

Balances at June 30, 2019	\$ 20,111,800
Changes for the Year:	
Service Cost	740,994
Interest	798,588
Differences Between Expected and Actual Experience	(2,508,344)
Change in Assumptions	(1,967,107)
Benefit Payments	(190,897)
Other	(123,740)
Net Changes	<u>(3,250,506)</u>
Balances at June 30, 2020	<u>\$ 16,861,294</u>

Discount Rate – The discount rate used to measure the OPEB liability was 3.50% (a decrease of 0.37 from the discount rate used in the prior year). The discount rate is based on a yield or index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better for benefits not covered by plan assets. The Bond Buyer 20-Bond General Obligation Index was in determining the discount rate used to measure the Total OPEB Liability as of June 30, 2019.

Sensitivity Results – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<u>1% Decrease</u> <u>(2.50%)</u>	<u>Discount Rate</u> <u>(3.50%)</u>	<u>1% Increase</u> <u>(4.50%)</u>
Net OPEB Liability	\$ 18,974,260	\$ 16,861,294	\$ 15,036,412

The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>Healthcare Cost</u> <u>Current Trend</u> <u>Rates</u> <u>(8.0% decreasing</u> <u>to 4.5% over</u> <u>17 years)</u>		
	<u>1% Decrease</u>		<u>1% Increase</u>
Net OPEB Liability	\$ 14,754,131	\$ 16,861,294	\$ 19,382,559

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2020, the City recognized a negative OPEB expense of \$170,918. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ -	\$ 5,892,010
Differences Between Expected and Actual Experience	321,401	2,292,157
Benefit Payments Subsequent to the Measurement Date	305,639	-
Total	<u>\$ 627,040</u>	<u>\$ 8,184,167</u>

The \$305,639 reported as deferred outflows of resources related to OPEB resulting from City benefit payments subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Future Recognition</u>
2021	\$ (1,596,493)
2022	(1,596,493)
2023	(1,596,493)
2024	(1,596,493)
2025	(775,791)
Thereafter	(701,003)

E. Uncertainties

The spread of novel strain of coronavirus (COVID-19) in 2020 has caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the City's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on businesses, employees and vendors, all of which are uncertain and cannot be determined at this time.

F. Subsequent Events

On December 10, 2020, the Water Infrastructure Finance Authority of Arizona (WIFA) approved an application for a \$10.6 million and \$4.3 million loan. The loans have forgivable portions of \$1.5 million and \$950K, respectively. The \$10.6 million loan will be used to provide funds for water system capital improvements and the \$4.3 million loan will be used for wastewater system capital improvements.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY —
COST SHARING PENSION PLANS
JUNE 30, 2020

Arizona State Retirement System

	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
City's Proportion of the Net Pension Liability	0.065360%	0.065630%	0.066800%	0.067850%	0.071220%	0.073466%
City's Proportionate Share of the Net Pension Liability	\$ 9,510,639	\$ 8,947,711	\$ 10,436,145	\$ 10,951,672	\$ 11,093,764	\$ 10,870,471
City's Covered Payroll	\$ 6,277,138	\$ 6,324,596	\$ 6,573,355	\$ 6,574,516	\$ 6,427,809	\$ 6,397,985
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	151.51%	141.47%	158.76%	166.58%	172.59%	169.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.24%	73.00%	69.92%	67.06%	68.35%	69.49%

See accompanying Notes to Pension Schedules.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND
RELATED RATIOS — AGENT PENSION PLANS
JUNE 30, 2020

PSPRS Police	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total Pension Liability						
Service Cost	\$ 620,720	\$ 612,644	\$ 683,797	\$ 632,118	\$ 650,848	\$ 597,019
Interest on the Total Pension Liability	2,384,281	2,213,586	2,076,189	1,851,701	1,796,333	1,449,565
Changes of Benefit Terms	-	-	353,971	1,220,887	-	426,360
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	581,382	640,449	(378,290)	307,190	(779,043)	449,885
Changes of Assumptions or Other Inputs	633,282	-	816,680	1,097,489	-	2,344,265
Benefit Payments, Including Refunds of Employee Contributions	<u>(1,440,860)</u>	<u>(1,507,940)</u>	<u>(1,063,974)</u>	<u>(1,018,527)</u>	<u>(888,380)</u>	<u>(864,781)</u>
Net Change in Total Pension Liability	2,778,805	1,958,739	2,488,373	4,090,858	779,758	4,402,313
Total Pension Liability - Beginning	<u>32,319,718</u>	<u>30,360,979</u>	<u>27,872,606</u>	<u>23,781,748</u>	<u>23,001,990</u>	<u>18,599,677</u>
Total Pension Liability - Ending (a)	<u>35,098,523</u>	<u>32,319,718</u>	<u>30,360,979</u>	<u>27,872,606</u>	<u>23,781,748</u>	<u>23,001,990</u>
Plan Fiduciary Net Position						
Contributions - Employer	1,571,338	1,337,972	991,252	863,530	754,068	709,292
Contributions - Employee	244,244	245,054	349,723	381,314	356,974	349,414
Net Investment Income	846,862	1,040,425	1,636,160	76,325	457,113	1,488,112
Benefit Payments, Including Refunds of Employee Contributions	<u>(1,440,860)</u>	<u>(1,507,940)</u>	<u>(1,063,974)</u>	<u>(1,018,527)</u>	<u>(888,380)</u>	<u>(864,781)</u>
Hall/Parker Settlement	-	(587,700)	-	-	-	-
Administrative Expenses	(15,725)	(16,535)	(14,877)	(11,383)	(11,527)	(11,984)
Other Changes	<u>-</u>	<u>185</u>	<u>174</u>	<u>51,084</u>	<u>106,595</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	1,205,859	511,461	1,898,458	342,343	774,843	1,670,053
Plan Fiduciary Net Position - Beginning	<u>15,785,069</u>	<u>15,273,608</u>	<u>13,375,150</u>	<u>13,032,807</u>	<u>12,257,964</u>	<u>10,587,911</u>
Adjustments Beginning of Year	<u>(11,408)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u>16,979,520</u>	<u>15,785,069</u>	<u>15,273,608</u>	<u>13,375,150</u>	<u>13,032,807</u>	<u>12,257,964</u>
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 18,119,003</u>	<u>\$ 16,534,649</u>	<u>\$ 15,087,371</u>	<u>\$ 14,497,456</u>	<u>\$ 10,748,941</u>	<u>\$ 10,744,026</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.38%	48.84%	50.31%	47.99%	54.80%	53.29%
Covered Payroll	\$ 2,709,332	\$ 3,021,827	\$ 2,896,219	\$ 3,216,887	\$ 3,096,516	\$ 3,368,193
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	668.76%	547.17%	520.93%	450.67%	347.13%	318.98%

See accompanying Notes to Pension Schedules.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND
RELATED RATIOS — AGENT PENSION PLANS (CONTINUED)
JUNE 30, 2020

PSPRS Fire	Reporting Year	Reporting Year	Reporting Year	Reporting Year	Reporting Year	Reporting Year
	(Measurement	(Measurement	(Measurement	(Measurement	(Measurement	(Measurement
	Date)	Date)	Date)	Date)	Date)	Date)
	2020	2019	2018	2017	2016	2015
	(2019)	(2018)	(2017)	(2016)	(2015)	(2014)
Total Pension Liability						
Service Cost	\$ 524,342	\$ 533,550	\$ 604,423	\$ 461,578	\$ 447,535	\$ 461,117
Interest on the Total Pension Liability	2,023,916	1,925,358	1,627,144	1,497,706	1,402,925	1,162,805
Changes of Benefit Terms	-	-	241,618	925,436	-	357,990
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(601,854)	(353,546)	1,475,451	(150,856)	202,190	49,280
Changes of Assumptions or Other Inputs	452,317	-	1,443,165	827,356	-	1,711,570
Benefit Payments, Including Refunds of Employee Contributions	(1,013,004)	(1,049,129)	(1,017,406)	(1,015,488)	(689,053)	(665,170)
Net Change in Total Pension Liability	1,385,717	1,056,233	4,374,395	2,545,732	1,363,597	3,077,592
Total Pension Liability - Beginning	27,332,372	26,276,139	21,901,744	19,356,012	17,992,415	14,914,823
Total Pension Liability - Ending (a)	28,718,089	27,332,372	26,276,139	21,901,744	19,356,012	17,992,415
Plan Fiduciary Net Position						
Contributions - Employer	1,432,593	1,272,970	997,891	737,757	585,262	614,419
Contributions - Employee	173,583	205,058	294,838	279,990	261,083	237,504
Net Investment Income	636,622	757,185	1,184,169	54,697	331,913	1,078,216
Benefit Payments, Including Refunds of Employee Contributions	(1,013,004)	(1,049,129)	(1,017,406)	(1,015,488)	(689,053)	(665,170)
Administrative Expenses	(12,062)	(12,224)	(10,878)	(8,271)	(8,477)	(8,683)
Hall/Parker Settlement	-	(421,742)	-	-	-	-
Other Changes	-	126	117	46,233	(6,751)	-
Net Change in Plan Fiduciary Net Position	1,217,732	752,244	1,448,731	94,918	473,977	1,256,286
Plan Fiduciary Net Position - Beginning	11,731,270	10,979,026	9,530,295	9,435,377	8,961,400	7,705,114
Adjustments Beginning of Year	(20,359)	-	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	12,928,643	11,731,270	10,979,026	9,530,295	9,435,377	8,961,400
City's Net Pension Liability (Asset) - Ending (a) - (b)	\$ 15,789,446	\$ 15,601,102	\$ 15,297,113	\$ 12,371,449	\$ 9,920,635	\$ 9,031,015
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	45.02%	42.92%	41.78%	43.51%	48.75%	49.81%
Covered Payroll	\$ 2,116,247	\$ 2,570,211	\$ 2,533,205	\$ 2,341,847	\$ 2,268,595	\$ 2,289,386
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	746.11%	607.00%	603.86%	528.28%	437.30%	394.47%

See accompanying Notes to Pension Schedules.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS
JUNE 30, 2020

Arizona State Retirement System

	Reporting Fiscal Year						
	2020	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	\$ 774,209	\$ 707,531	\$ 689,381	\$ 693,489	\$ 681,454	\$ 699,988	\$ 708,602
City's Contribution in Relation to the Statutorily Required Contribution	(774,209)	(707,531)	(689,381)	(693,489)	(681,454)	(699,988)	(708,602)
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 6,190,828	\$ 6,277,138	\$ 6,324,596	\$ 6,573,355	\$ 6,574,516	\$ 6,427,809	\$ 6,397,985
City's Contributions as a Percentage of Covered Payroll	12.51%	11.27%	10.90%	10.55%	10.37%	10.89%	11.08%

PSPRS Police

	Reporting Fiscal Year						
	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 1,377,516	\$ 1,295,402	\$ 738,864	\$ 991,252	\$ 863,530	\$ 754,068	\$ 709,292
City's Contribution in Relation to the Actuarially Determined Contribution	1,377,516	1,295,402	738,864	991,252	863,530	724,491	709,292
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 3,113,776	\$ 2,709,332	\$ 3,021,827	\$ 2,896,219	\$ 3,216,887	\$ 3,096,516	\$ 3,368,193
City's Contributions as a Percentage of Covered Payroll	44.24%	47.81%	24.45%	34.23%	26.84%	23.40%	21.06%

PSPRS Fire

	Reporting Fiscal Year						
	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 1,434,097	\$ 1,137,792	\$ 807,385	\$ 997,891	\$ 737,757	\$ 585,262	\$ 614,419
City's Contribution in Relation to the Actuarially Determined Contribution	1,434,097	1,137,792	807,385	997,891	737,757	585,262	614,419
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 2,938,149	\$ 2,116,247	\$ 2,570,211	\$ 2,533,205	\$ 2,341,847	\$ 2,268,595	\$ 2,289,386
City's Contributions as a Percentage of Covered Payroll	48.81%	53.76%	31.41%	39.39%	31.50%	25.80%	26.84%

See accompanying Notes to Pension Schedules.

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO PENSION SCHEDULES
JUNE 30, 2020**

NOTE 1 ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial Cost Method	Entry age normal
Amortization Method	PSPRS members with initial membership date before July 1, 2017: Level percent-of-pay, closed PSPRS members with initial membership on or after July 1, 2017: Level dollar closed
Remaining Amortization Period as of the 2018 Actuarial Valuation	PSPRS members with initial membership date before July 1, 2017: 20 years PSPRS members with initial membership on or after July 1, 2017: 10 years
Asset Valuation Method	PSPRS members with initial membership date before July 1, 2017: 7-year smoothed market value; 80%/120% market corridor PSPRS members with initial membership on or after July 1, 2017: five-year smoothed market value; 80%/120% market corridor

Actuarial Assumptions:

Investment Rate of Return	7.5%, net of investment and administrative expenses.
Projected Salary Increases	3.00%; No explicit price inflation assumption is used in this valuation.
Wage Inflation	4.0%
Retirement Age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

NOTE 2 INFORMATION PRIOR TO THE MEASUREMENT DATE

Ten years of information is required; however, information prior to the measurement date (June 30, 2014 for pensions and June 30, 2018 for OPEB) was not available.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
JUNE 30, 2020

Schedule of Changes in the City's Total OPEB Liability and Related Ratios

	June 30 (Measurement Date) <u>2020</u> <u>(2019)</u>	June 30 (Measurement Date) <u>2019</u> <u>(2018)</u>	June 30 (Measurement Date) <u>2018</u> <u>(2017)</u>
Total OPEB Liability			
Service Cost	\$ 740,994	\$ 753,728	\$ 975,550
Interest	798,588	724,613	714,281
Differences Between Expected and Actual Experience	(2,508,344)	(191,032)	560,926
Changes of Assumptions	(1,967,107)	(559,626)	(6,481,128)
Benefit Payments	(190,897)	(203,704)	(533,735)
Other	<u>(123,740)</u>		
Net Change in Total OPEB Liability	<u>(3,250,506)</u>	<u>523,979</u>	<u>(4,764,106)</u>
Total OPEB Liability - Beginning	<u>20,111,800</u>	<u>19,587,821</u>	<u>24,351,927</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 16,861,294</u></u>	<u><u>\$ 20,111,800</u></u>	<u><u>\$ 19,587,821</u></u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 305,639	\$ 203,704	\$ 533,735
Benefit Payments	<u>(305,639)</u>	<u>(203,704)</u>	<u>(533,735)</u>
Net Change in Plan Fiduciary Net Position	-	-	-
Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
City's Net OPEB Liability - Ending (a) - (b)	\$ 16,861,294	\$ 20,111,800	\$ 19,587,821
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%
Covered Payroll	\$ 12,791,614	\$ 14,016,534	\$ 13,426,528
City's Net OPEB Liability as a Percentage of Covered Payroll	131.82%	143.49%	145.89%

