

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021**



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**CITY OF NOGALES, ARIZONA
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2021**

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL SECTION

STATEMENT OF NET POSITION 13

STATEMENT OF ACTIVITIES 14

BALANCE SHEET — GOVERNMENTAL FUNDS 15

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION 16**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES 17**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES 18**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE — BUDGET TO ACTUAL 19**

**HURF FUND STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES — BUDGET TO ACTUAL 20**

STATEMENT OF NET POSITION — PROPRIETARY FUNDS 21

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
POSITION — PROPRIETARY FUNDS 22**

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS 23

NOTES TO BASIC FINANCIAL STATEMENTS 25

**CITY OF NOGALES, ARIZONA
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY — COST SHARING PENSION PLANS	63
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS — AGENT PENSION PLANS	65
SCHEDULE OF CITY PENSION CONTRIBUTIONS	69
NOTES TO PENSION SCHEDULES	71
SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS	72
NOTES TO OPEB SCHEDULE	73

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, 2021, 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 Enterprise Fund, which is both a major fund and 9%, 11%, and 20%, 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 as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison statements for the General and Highway User Revenue Fund (HURF) special revenue fund 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 13, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 13, 2022

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

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, 2021. 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 \$79.1 million (net position).
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$24.7 million, an increase of \$2.0 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$17.0 million or 86.1% of total General Fund expenditures.
- ◆ General Fund revenues were \$2.2 million less than budget for fiscal year 2021. Expenditures were \$11.3 million less than budget.
- ◆ General Fund revenues exceeded expenditures by \$1.7 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, 2021**

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 two categories: governmental funds and proprietary funds.

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

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

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

The basic governmental fund financial statements can be found on pages 15-20 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

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 21-24 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements pages 25-62 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, 2021**

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, 2021 and 2020 showing that assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$79.1 million at June 30, 2021.

**Condensed Statement of Net Position
June 30, 2021 and 2020**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets						
Current and Other Assets	\$ 28,888,307	\$ 26,700,083	\$ 18,426,972	\$ 16,289,957	\$ 47,315,279	\$ 42,990,040
Capital Assets:						
Nondepreciable	3,104,741	4,264,194	3,753,285	3,871,349	6,858,026	8,135,543
Depreciable (Net)	41,545,074	41,076,780	87,363,339	88,311,875	128,908,413	129,388,655
Total Assets	73,538,122	72,041,057	109,543,596	108,473,181	183,081,718	180,514,238
Deferred Outflows of Resources	9,372,573	8,750,393	1,917,384	1,758,684	11,289,957	10,509,077
Liabilities						
Current Liabilities	2,138,939	2,041,075	7,765,391	6,912,849	9,904,330	8,953,924
Noncurrent Liabilities:						
Due Within One Year	1,593,081	1,304,013	901,415	943,335	2,494,496	2,247,348
Due in More Than One Year	67,148,751	65,572,905	25,835,512	26,685,944	92,984,263	92,258,849
Total Liabilities	70,880,771	68,917,993	34,502,318	34,542,128	105,383,089	103,460,121
Deferred Inflows of Resources	6,981,729	7,135,043	2,859,448	2,881,676	9,841,177	10,016,719
Net Position						
Net Investment in Capital Assets	32,404,292	32,719,005	73,731,343	75,858,149	106,135,635	108,577,154
Restricted	7,299,904	6,669,208	2,128,737	15,446	9,428,641	6,684,654
Unrestricted	(34,656,001)	(34,649,799)	(1,760,866)	(3,065,534)	(36,416,867)	(37,715,333)
Total Net Position	\$ 5,048,195	\$ 4,738,414	\$ 74,099,214	\$ 72,808,061	\$ 79,147,409	\$ 77,546,475

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 (134.1%) 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, 2021**

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, 2021 and 2020**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 2,309,805	\$ 2,247,862	\$ 12,510,061	\$ 12,536,175	\$ 14,819,866	\$ 14,784,037
Operating Grants and Contributions	4,274,706	6,868,558	-	-	4,274,706	6,868,558
Capital Grants and Contributions	16,932	1,579,104	1,042,045	43,213	1,058,977	1,622,317
General Revenues:						
Sales Taxes	10,749,779	10,281,368	-	-	10,749,779	10,281,368
Franchise Taxes	649,495	647,013	-	-	649,495	647,013
State Shared Revenues	7,323,765	6,499,341	-	-	7,323,765	6,499,341
Impact Fees	-	-	126,025	56,400	126,025	56,400
Investment Earnings	21,907	602,374	28,977	240,971	50,884	843,345
Other	185,485	161,337	64,512	145,374	249,997	306,711
Total Revenues	25,531,874	28,886,957	13,771,620	13,022,133	39,303,494	41,909,090
EXPENSES						
General Government	3,852,357	9,783,438	-	-	3,852,357	9,783,438
Public Safety	15,206,942	13,987,484	-	-	15,206,942	13,987,484
Highways and Streets	4,084,107	1,947,432	-	-	4,084,107	1,947,432
Culture and Recreation	1,632,628	1,635,204	-	-	1,632,628	1,635,204
Interest on Long-Term Debt	446,059	461,707	-	-	446,059	461,707
Sewer	-	-	4,545,729	4,588,766	4,545,729	4,588,766
Water	-	-	3,223,903	1,143,281	3,223,903	1,143,281
Sanitation	-	-	2,045,782	761,362	2,045,782	761,362
NHA	-	-	2,665,053	3,042,411	2,665,053	3,042,411
Total Expenses	25,222,093	27,815,265	12,480,467	9,535,820	37,702,560	37,351,085
CHANGE IN NET POSITION	309,781	1,071,692	1,291,153	3,486,313	1,600,934	4,558,005
Net Position - Beginning of Year	4,738,414	3,666,722	72,808,061	69,321,748	77,546,475	72,988,470
NET POSITION - END OF YEAR	\$ 5,048,195	\$ 4,738,414	\$ 74,099,214	\$ 72,808,061	\$ 79,147,409	\$ 77,546,475

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

Government-Wide Financial Analysis (Continued)

Governmental activities. Governmental revenues decreased over prior year by \$3.4 million (11.6%).

Program revenues decreased \$4.1 million over the previous fiscal year and general revenues increased \$0.7 million. The decrease in program revenues was due to the decrease in operating grants and contributions (\$2.6 million) and the decrease in capital grants and contributions (\$1.6 million). Operating grants and contributions decreased largely due to \$2.3 million in CARES Act funding received in fiscal year 2020 from the U.S. Treasury to fund public safety costs during the COVID-19 pandemic. Capital grants and contributions decreased due to \$1.5 million received in CDBG funds for the McNab and Perkins projects in prior year.

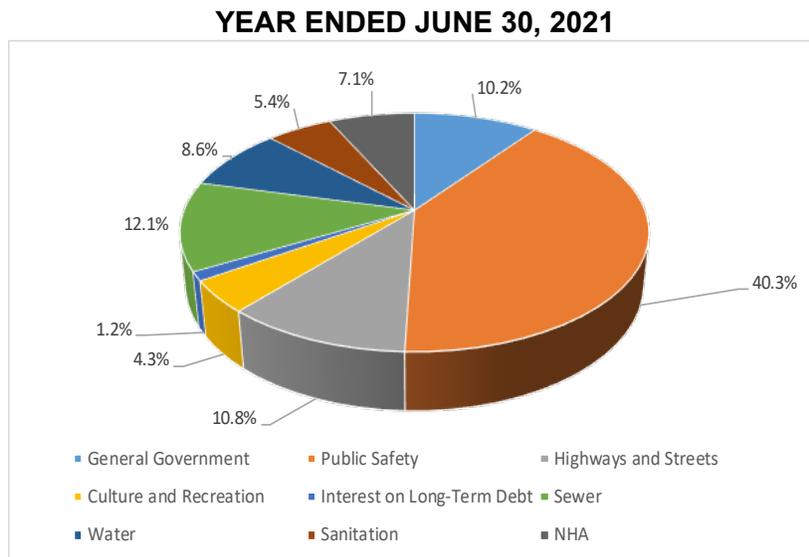
General revenues increased largely due to increased taxes and state shared revenues due to increased activity at the border.

Overall, expenses decreased \$2.6 million from the prior year. The decrease was largely due to decreases in pension and other postemployment benefit expenses, salary adjustments and various repairs and maintenance projects City-wide. The variances between functions are 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 were relatively unchanged over the prior fiscal year.

The increase in expenses (\$2.9 million) is largely due to the allocation of pension and other postemployment benefits. In FY20, a reallocation of the pension and OPEB liability was recorded, based on employee contributions, between the governmental and business-type activities through expenses, reducing total expenses in FY20. This was a one-time adjustment to account for the reallocation of the liability. 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 22) 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, 2021**

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 \$24.7 million, an increase of \$2.0 million in comparison with the prior year. Approximately 70.8% of this total amount (\$17.5 million) constitutes General Fund balance, which is reported as either nonspendable, restricted, assigned or unassigned fund balance. At the end of fiscal year 2020-21, fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2019-20
General Fund	\$ 17,529,390	\$ 1,696,610
Streets/HURF Fund	5,613,081	298,413
Nonmajor Governmental Funds	1,605,961	(42,849)
Total	<u>\$ 24,748,432</u>	<u>\$ 1,952,174</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 balance represents 86.1% of total General Fund expenditures. The total unassigned fund balance represents 72.0% of total governmental fund expenditures.

The General Fund balance increase of \$1.7 million was due to an increase of \$1.0 million in intergovernmental revenues due to an increase in business activity at the border.

The HURF Fund balance increase of \$0.3 million was due to decrease in the highway and streets maintenance projects.

The Nonmajor governmental fund balance decreased by \$42 thousand in the current year and was not a significant change over the prior year. The fund balance of the nonmajor governmental funds include \$0.3 million restricted for debt service, \$0.3 million restricted for local transportation assistance, \$0.9 million restricted for federal and state grants, and the remaining balance is assigned for capital projects.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

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 19-20. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The City did not amend the budget during the fiscal year.

The budget was prepared based on assumptions regarding the continuing decline of the national and regional economy 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 \$21.9 million were \$2.2 million less than budget for fiscal year 2021. Expenditures were \$11.3 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 the \$1.1 million variance in culture and recreation. Culture and recreation expenditures were less than budget due to less expenditures as a result of the pandemic. The variances in other departments were not significant.

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2021 totaled \$44.6 million (net of accumulated depreciation), a decrease from the prior year of 1.5%. Business-type activities capital assets amounted to \$91.2 million (net of accumulated depreciation), a net decrease from the prior year of \$1.0 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:

- Completion of the Perkins Waterline for \$1.4 million.
- Purchase of two Freightline vehicles for \$0.7 million.

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

- Completion of Pena Blanca Project for \$1.2 million (\$0.4 million in prior year costs and \$0.8 million in current year costs).
- \$0.3 million in various infrastructure projects.
- Purchase of \$0.4 million vehicle.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

Capital Assets (Continued)

The following table provides a breakdown of the capital assets of the City at June 30, 2021 and 2020.

**Capital Assets (Net)
June 30, 2021 and 2020**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 2,314,134	\$ 2,314,134	\$ 3,103,782	\$ 3,103,782	\$ 5,417,916	\$ 5,417,916
Construction in Progress	790,607	1,950,060	649,503	767,567	1,440,110	2,717,627
Infrastructure	33,402,019	33,282,155	76,223,349	77,990,800	109,625,368	111,272,955
Buildings	2,911,843	3,066,936	8,972,219	8,938,648	11,884,062	12,005,584
Improvements other than Buildings	2,301,099	2,408,005	641,020	671,328	2,942,119	3,079,333
Vehicles, Machinery, and Equipment	2,930,113	2,319,684	1,526,751	711,099	4,456,864	3,030,783
Total Capital Assets	<u>\$ 44,649,815</u>	<u>\$ 45,340,974</u>	<u>\$ 91,116,624</u>	<u>\$ 92,183,224</u>	<u>\$ 135,766,439</u>	<u>\$ 137,524,198</u>

Long-Term Debt

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$32.5 million. \$30.7 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, 2021 and 2020. Further detail on the City's outstanding debt may be found in Notes 3.C. and 3.D.

**Outstanding Debt
June 30, 2021 and 2020**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenue Bonds	\$ 12,397,402	\$ 12,855,202	\$ 16,687,346	\$ 17,367,003	\$ 29,084,748	\$ 30,222,205
Loan Payable	-	-	1,579,084	1,666,705	1,579,084	1,666,705
Capital Leases	18,872	91,719	21,996	106,875	40,868	198,594
Compensated Absences	1,519,604	1,742,575	266,214	241,082	1,785,818	1,983,657
Total Outstanding Debt	<u>\$ 13,935,878</u>	<u>\$ 14,689,496</u>	<u>\$ 18,554,640</u>	<u>\$ 19,381,665</u>	<u>\$ 32,490,518</u>	<u>\$ 34,071,161</u>

The City's revenue bonds, loans payable, and capital leases decreased \$1.4 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 \$0.2 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, 2021**

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 2021-22 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, 2021

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Investments	\$ 25,453,984	\$ 13,559,310	\$ 39,013,294
Receivables, Net:			
Accounts	625,487	1,075,944	1,701,431
Intergovernmental	854,312	125,381	979,693
Taxes	1,222,951	-	1,222,951
Internal Balances	(219,599)	219,599	-
Prepaid Items	506,420	40,208	546,628
Inventory	29,503	5,881	35,384
Restricted Assets	373,739	3,400,649	3,774,388
Net OPEB Asset	41,510	-	41,510
Capital Assets:			
Nondepreciable	3,104,741	3,753,285	6,858,026
Depreciable (Net)	41,545,074	87,363,339	128,908,413
Total Assets	<u>73,538,122</u>	<u>109,543,596</u>	<u>183,081,718</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	255,965	1,215,905	1,471,870
Pension Related	8,476,073	520,633	8,996,706
OPEB Related	640,535	180,846	821,381
Total Deferred Outflows of Resources	<u>9,372,573</u>	<u>1,917,384</u>	<u>11,289,957</u>
LIABILITIES			
Accounts Payable	1,108,304	1,171,996	2,280,300
Accrued Wages and Benefits	524,141	109,952	634,093
Customer Deposits Payable	36,847	871,898	908,745
Unearned Revenue	-	52,535	52,535
Intergovernmental Payable	-	5,363,775	5,363,775
Claims Payable	469,647	-	469,647
Judgments Payable	-	195,235	195,235
Noncurrent Liabilities:			
Due Within One Year	1,593,081	901,415	2,494,496
Due in More Than One Year:			
Bonds, Notes and Other Long-Term Debt	12,342,797	17,653,225	29,996,022
Net Pension Liability	43,929,296	2,953,649	46,882,945
Net OPEB Liability	10,876,658	5,228,638	16,105,296
Total Liabilities	<u>70,880,771</u>	<u>34,502,318</u>	<u>105,383,089</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	1,245,095	166,153	1,411,248
OPEB Related	5,736,634	2,693,295	8,429,929
Total Deferred Inflows of Resources	<u>6,981,729</u>	<u>2,859,448</u>	<u>9,841,177</u>
NET POSITION			
Net Investment in Capital Assets	32,404,292	73,731,343	106,135,635
Restricted for:			
Highways and Streets	5,961,100	-	5,961,100
Federal and State Grants	919,126	-	919,126
Impound Fees	41,276	-	41,276
Other Postemployment Benefits	41,510	-	41,510
Debt Service	336,892	2,117,683	2,454,575
Housing	-	11,054	11,054
Unrestricted	<u>(34,656,001)</u>	<u>(1,760,866)</u>	<u>(36,416,867)</u>
Total Net Position	<u>\$ 5,048,195</u>	<u>\$ 74,099,214</u>	<u>\$ 79,147,409</u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

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	\$ 3,852,357	\$ 1,191,038	\$ 13,848	\$ 14,000	\$ (2,633,471)	\$ -	\$ (2,633,471)
Public Safety	15,206,942	1,099,317	1,168,327	2,932	(12,936,366)	-	(12,936,366)
Highways and Streets	4,084,107	6,609	2,807,584	-	(1,269,914)	-	(1,269,914)
Culture and Recreation	1,632,628	12,841	284,947	-	(1,334,840)	-	(1,334,840)
Interest on Long-Term Debt	446,059	-	-	-	(446,059)	-	(446,059)
Total Governmental Activities	25,222,093	2,309,805	4,274,706	16,932	(18,620,650)	-	(18,620,650)
Business-Type Activities:							
Sewer	4,545,729	3,676,591	-	553,775	-	(315,363)	(315,363)
Water	3,223,903	3,653,593	-	81,176	-	510,866	510,866
Sanitation	2,045,782	2,808,934	-	-	-	763,152	763,152
NHA	2,665,053	2,370,943	-	407,094	-	112,984	112,984
Total Business-Type Activities	12,480,467	12,510,061	-	1,042,045	-	1,071,639	1,071,639
Total Primary Government	\$ 37,702,560	\$ 14,819,866	\$ 4,274,706	\$ 1,058,977	(18,620,650)	1,071,639	(17,549,011)
GENERAL REVENUES							
Taxes:							
Sales Taxes					10,749,779	-	10,749,779
Franchise Taxes					649,495	-	649,495
Impact Fees					-	126,025	126,025
State Revenue Sharing					7,323,765	-	7,323,765
Investment Earnings					21,907	28,977	50,884
Other					185,485	64,512	249,997
Total General Revenues					18,930,431	219,514	19,149,945
CHANGE IN NET POSITION							
Net Position - Beginning					4,738,414	72,808,061	77,546,475
NET POSITION - END							
					\$ 5,048,195	\$ 74,099,214	\$ 79,147,409

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

ASSETS	General	Streets/HURF	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Investments	\$ 16,274,632	\$ 5,483,495	\$ 1,051,896	\$ 22,810,023
Restricted Assets	36,847	-	336,892	373,739
Receivables, Net:				
Accounts	538,597	-	-	538,597
Intergovernmental	264,252	258,971	331,089	854,312
Taxes	1,222,951	-	-	1,222,951
Due from Other Funds	64,318	-	-	64,318
Prepaid Items	506,420	-	-	506,420
Total Assets	<u>\$ 18,908,017</u>	<u>\$ 5,742,466</u>	<u>\$ 1,719,877</u>	<u>\$ 26,370,360</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 875,157	\$ 119,203	\$ 77,079	\$ 1,071,439
Accrued Wages and Benefits	466,623	10,182	36,837	513,642
Customer Deposits Payable	36,847	-	-	36,847
Total Liabilities	<u>1,378,627</u>	<u>129,385</u>	<u>113,916</u>	<u>1,621,928</u>
FUND BALANCES				
Nonspendable:	506,420	-	-	506,420
Restricted	41,276	5,613,081	1,604,037	7,258,394
Assigned	-	-	1,924	1,924
Unassigned	16,981,694	-	-	16,981,694
Total Fund Balances	<u>17,529,390</u>	<u>5,613,081</u>	<u>1,605,961</u>	<u>24,748,432</u>
Total Liabilities and Fund Balances	<u>\$ 18,908,017</u>	<u>\$ 5,742,466</u>	<u>\$ 1,719,877</u>	<u>\$ 26,370,360</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, 2021

Total Fund Balances for Governmental Funds \$ 24,748,432

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)	98,498,533
Less: Accumulated Depreciation (Less Internal Service Fund)	(53,883,466)
Capital Assets Used in Governmental Activities (Less Internal Service Fund)	44,615,067

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	(12,218,927)
Deferred Amount on Refunding	255,965
Bond Premium	(178,475)
Capital Leases	(18,872)
Compensated Absences (Less Internal Service Fund)	(1,490,621)
Net OPEB Asset (Liability)	(10,835,148)
Net Pension Liability (Less Internal Service Fund)	(43,490,711)

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)	8,398,192
Deferred Inflows of Resources Related to Pensions (Less Internal Service Fund)	(1,220,423)
Deferred Outflows of Resources Related to OPEB	640,535
Deferred Inflows of Resources Related to OPEB	(5,736,634)

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	1,799,414
Less: Amount Attributed to the Business-Type Activities	(219,599)
	1,579,815

Total Net Position of Governmental Activities \$ 5,048,195

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	General	Streets/HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 10,749,779	\$ -	\$ -	\$ 10,749,779
Franchise Taxes	649,495	-	-	649,495
Intergovernmental	8,006,898	2,686,448	922,057	11,615,403
Fines and Forfeitures	183,985	-	-	183,985
Licenses and Permits	981,615	-	-	981,615
Charges for Services	1,144,205	-	-	1,144,205
Investment Earnings	21,829	-	78	21,907
Other	138,325	1,800	45,360	185,485
Total Revenues	<u>21,876,131</u>	<u>2,688,248</u>	<u>967,495</u>	<u>25,531,874</u>
EXPENDITURES				
Current:				
General Government	4,534,048	-	68,996	4,603,044
Public Safety	12,660,109	-	849,717	13,509,826
Highways and Streets	879,538	1,987,267	-	2,866,805
Culture and Recreation	1,613,346	-	25,988	1,639,334
Debt Service:				
Principal Retirement	32,009	40,838	444,351	517,198
Interest on Long-Term Debt	1,181	2,900	439,412	443,493
Total Expenditures	<u>19,720,231</u>	<u>2,031,005</u>	<u>1,828,464</u>	<u>23,579,700</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,155,900	657,243	(860,969)	1,952,174
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	818,120	818,120
Transfers Out	(459,290)	(358,830)	-	(818,120)
Total Other Financing Sources (Uses)	<u>(459,290)</u>	<u>(358,830)</u>	<u>818,120</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	1,696,610	298,413	(42,849)	1,952,174
Fund Balance - Beginning of Year	<u>15,832,780</u>	<u>5,314,668</u>	<u>1,648,810</u>	<u>22,796,258</u>
FUND BALANCE - END OF YEAR	<u>\$ 17,529,390</u>	<u>\$ 5,613,081</u>	<u>\$ 1,605,961</u>	<u>\$ 24,748,432</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, 2021

Net Change in Fund Balances - Total Governmental Funds \$ 1,952,174

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	1,481,551
Less: Current Year Depreciation (Less Internal Service Fund)	(2,159,042)
Excess Depreciation over Capital Expenditures	(677,491)

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	444,351
Principal Payments on Capital Leases	72,847
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)	3,374,584
Pension Expense (Less Internal Service Fund)	(5,959,506)
OPEB Contributions	292,803
OPEB Expense	418,720

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)	224,940
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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	209,974
Less: Amount Attributable to the Business-Type Activities	(41,048)
Subtotal	168,926

Change in Net Position of Governmental Activities **\$ 309,781**

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE — BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2021**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 10,299,100	\$ 11,399,274	\$ 1,100,174
Intergovernmental	10,466,115	8,006,898	(2,459,217)
Fines and Forfeitures	225,000	183,985	(41,015)
Licenses and Permits	1,071,000	981,615	(89,385)
Charges for Services	1,208,600	1,144,205	(64,395)
Investment Earnings	285,000	21,829	(263,171)
Other	551,300	138,325	(412,975)
Total Revenues	<u>24,106,115</u>	<u>21,876,131</u>	<u>(2,229,984)</u>
EXPENDITURES			
Current:			
General Government:			
Mayor and Elections	156,208	107,677	48,531
Council	168,431	91,120	77,311
Administration	433,318	321,909	111,409
Finance	1,036,974	1,010,886	26,088
Human Resources	307,396	274,659	32,737
MIS	636,171	641,736	(5,565)
Planning and Zoning	506,691	477,843	28,848
City Attorney	661,921	519,342	142,579
City Court	567,862	474,905	92,957
Cemetery	72,600	74,511	(1,911)
Nondepartmental	9,727,797	539,460	9,188,337
Total General Government	<u>14,275,369</u>	<u>4,534,048</u>	<u>9,741,321</u>
Public Safety:			
Police	6,672,274	5,999,772	672,502
Fire	5,939,668	6,356,689	(417,021)
Animal Control	360,650	302,078	58,572
Total Public Safety	<u>12,972,592</u>	<u>12,660,109</u>	<u>312,483</u>
Highways and Streets:			
Nogales Rides	60,643	61,435	(792)
Facilities Maintenance	743,288	674,365	68,923
Engineering	155,675	143,738	11,937
Total Highways and Streets	<u>959,606</u>	<u>879,538</u>	<u>80,068</u>
Culture and Recreation:			
Parks	1,522,678	757,389	765,289
Recreation	614,821	390,293	224,528
Library	569,894	455,059	114,835
Golf Course	35,890	10,605	25,285
Total Culture and Recreation	<u>2,743,283</u>	<u>1,613,346</u>	<u>1,129,937</u>
Debt Service:			
Principal Retirement	40,155	32,009	8,146
Interest on Long-Term Debt	114	1,181	(1,067)
Total Debt Service	<u>40,269</u>	<u>33,190</u>	<u>7,079</u>
Total Expenditures	<u>30,991,119</u>	<u>19,720,231</u>	<u>11,270,888</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,885,004)	2,155,900	9,040,904
OTHER FINANCING SOURCES (USES)			
Transfers Out	(205,459)	(459,290)	(253,831)
NET CHANGE IN FUND BALANCE	(7,090,463)	1,696,610	8,787,073
Fund Balance - Beginning of Year	15,832,780	15,832,780	-
FUND BALANCE - END OF YEAR	<u>\$ 8,742,317</u>	<u>\$ 17,529,390</u>	<u>\$ 8,787,073</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, 2021**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 2,705,560	\$ 2,686,448	\$ (19,112)
Other	86,000	1,800	(84,200)
Total Revenues	<u>2,791,560</u>	<u>2,688,248</u>	<u>(103,312)</u>
EXPENDITURES			
Current:			
Highways and Streets	2,797,560	1,987,267	810,293
Debt Service:			
Principal Retirement	-	40,838	(40,838)
Interest on Long-Term Debt	-	2,900	(2,900)
Total Expenditures	<u>2,797,560</u>	<u>2,031,005</u>	<u>766,555</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,000)	657,243	663,243
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(84,192)</u>	<u>(358,830)</u>	<u>(274,638)</u>
NET CHANGE IN FUND BALANCE	(90,192)	298,413	388,605
Fund Balance - Beginning of Year	<u>5,314,668</u>	<u>5,314,668</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 5,224,476</u></u>	<u><u>\$ 5,613,081</u></u>	<u><u>\$ 388,605</u></u>

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

	Business-Type Funds - Enterprise Funds				Totals	Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 3,770,973	\$ 5,441,244	\$ 1,930,988	\$ 2,242,177	\$ 13,385,382	\$ 2,643,961
Investments	-	-	-	173,928	173,928	-
Receivables, Net:						
Accounts	406,788	422,086	239,446	7,624	1,075,944	86,890
Intergovernmental	1	100,000	-	25,380	125,381	-
Inventories	-	-	-	5,881	5,881	29,503
Prepaid Items	-	-	-	40,208	40,208	-
Restricted Assets	2,251,092	1,084,357	6,456	58,744	3,400,649	-
Total Current Assets	<u>6,428,854</u>	<u>7,047,687</u>	<u>2,176,890</u>	<u>2,553,942</u>	<u>18,207,373</u>	<u>2,760,354</u>
Noncurrent Assets:						
Advances to Other Funds	49,100	-	-	-	49,100	-
Capital Assets:						
Nondepreciable	343,881	2,188,333	-	1,221,071	3,753,285	-
Depreciable (Net)	58,382,407	22,040,257	547,910	6,392,765	87,363,339	34,748
Total Noncurrent Assets	<u>58,775,388</u>	<u>24,228,590</u>	<u>547,910</u>	<u>7,613,836</u>	<u>91,165,724</u>	<u>34,748</u>
Total Assets	<u>65,204,242</u>	<u>31,276,277</u>	<u>2,724,800</u>	<u>10,167,778</u>	<u>109,373,097</u>	<u>2,795,102</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Amount on Refunding	1,023,770	186,048	6,087	-	1,215,905	-
Pension Related	82,865	173,088	148,160	116,520	520,633	77,881
OPEB Related	28,483	48,625	82,340	21,398	180,846	-
Total Deferred Outflows of Resources	<u>1,135,118</u>	<u>407,761</u>	<u>236,587</u>	<u>137,918</u>	<u>1,917,384</u>	<u>77,881</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable	559,297	519,221	59,346	34,132	1,171,996	36,865
Accrued Wages and Benefits	12,303	27,262	20,393	49,994	109,952	10,499
Intergovernmental Payable	5,362,771	1,004	-	-	5,363,775	-
Unearned Revenue	-	-	-	52,535	52,535	-
Customer Deposits Payable	-	820,813	-	51,085	871,898	-
Claims Payable	-	-	-	-	-	469,647
Judgements Payable	-	195,235	-	-	195,235	-
Due To Other Funds	-	-	-	-	-	64,318
Compensated Absences	16,434	46,387	39,952	3,618	106,391	23,908
Capital Leases Payable	2,738	19,258	-	-	21,996	-
Bonds and Notes Payable	193,152	574,563	5,313	-	773,028	-
Total Current Liabilities	<u>6,146,695</u>	<u>2,203,743</u>	<u>125,004</u>	<u>191,364</u>	<u>8,666,806</u>	<u>605,237</u>
Noncurrent Liabilities:						
Advances from Other Funds	-	-	49,100	-	49,100	-
Compensated Absences	49,655	55,226	22,378	32,564	159,823	5,075
OPEB Liability	777,906	1,327,996	2,248,783	873,953	5,228,638	-
Bonds and Notes Payable	7,551,470	9,857,228	84,704	-	17,493,402	-
Net Pension Liability	481,843	971,206	807,931	692,669	2,953,649	438,585
Total Noncurrent Liabilities	<u>8,860,874</u>	<u>12,211,656</u>	<u>3,212,896</u>	<u>1,599,186</u>	<u>25,884,612</u>	<u>443,660</u>
Total Liabilities	<u>15,007,569</u>	<u>14,415,399</u>	<u>3,337,900</u>	<u>1,790,550</u>	<u>34,551,418</u>	<u>1,048,897</u>
DEFERRED INFLOWS OF RESOURCES						
Pension Related	27,105	54,634	45,449	38,965	166,153	24,672
OPEB Related	400,703	684,057	1,158,358	450,177	2,693,295	-
Total Deferred Inflows of Resources	<u>427,808</u>	<u>738,691</u>	<u>1,203,807</u>	<u>489,142</u>	<u>2,859,448</u>	<u>24,672</u>
NET POSITION						
Net Investment in Capital Assets	51,752,595	13,900,932	463,980	7,613,836	73,731,343	34,748
Restricted for Debt Service	1,998,308	112,919	6,456	-	2,117,683	-
Restricted for Housing	-	-	-	11,054	11,054	-
Unrestricted	(2,846,920)	2,516,097	(2,050,756)	401,114	(1,980,465)	1,764,666
Total Net Position	<u>\$ 50,903,983</u>	<u>\$ 16,529,948</u>	<u>\$ (1,580,320)</u>	<u>\$ 8,026,004</u>	<u>73,879,615</u>	<u>\$ 1,799,414</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					219,599	
Net Position of Business-Type Activities					<u>\$ 74,099,214</u>	

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2021

	Business-Type Funds - Enterprise Funds				Totals	Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA		
OPERATING REVENUES						
Charges for Services	\$ 3,676,591	\$ 3,653,593	\$ 2,808,934	\$ -	\$ 10,139,118	\$ 3,856,472
Rents and Royalties	-	-	-	602,689	602,689	-
Operating Grants	-	-	-	1,684,929	1,684,929	-
Other Income	-	-	-	83,325	83,325	-
Total Operating Revenues	<u>3,676,591</u>	<u>3,653,593</u>	<u>2,808,934</u>	<u>2,370,943</u>	<u>12,510,061</u>	<u>3,856,472</u>
OPERATING EXPENSES						
Cost of Sales and Services	2,135,972	2,133,927	1,983,583	2,247,300	8,500,782	1,663,105
Claims	-	-	-	-	-	1,953,570
OPEB and Pension Expense	162,468	(121,795)	(14,509)	(56,743)	(30,579)	62,646
Depreciation	1,930,002	890,149	93,394	474,611	3,388,156	13,668
Total Operating Expenses	<u>4,228,442</u>	<u>2,902,281</u>	<u>2,062,468</u>	<u>2,665,168</u>	<u>11,858,359</u>	<u>3,692,989</u>
OPERATING INCOME (LOSS)	(551,851)	751,312	746,466	(294,225)	651,702	163,483
NONOPERATING REVENUES (EXPENSES)						
Development Impact Fees	74,653	51,372	-	-	126,025	-
Investment Earnings	402	27,125	1	1,449	28,977	46,491
Interest Expense	(325,444)	(334,254)	(3,458)	-	(663,156)	-
Miscellaneous Nonoperating Revenues	1,920	23,768	38,824	-	64,512	-
Total Nonoperating Revenues (Expenses)	<u>(248,469)</u>	<u>(231,989)</u>	<u>35,367</u>	<u>1,449</u>	<u>(443,642)</u>	<u>46,491</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(800,320)	519,323	781,833	(292,776)	208,060	209,974
Capital Contributions	553,775	81,176	-	407,094	1,042,045	-
CHANGE IN NET POSITION	(246,545)	600,499	781,833	114,318	1,250,105	209,974
Net Position - Beginning of Year	51,150,528	15,929,449	(2,362,153)	7,911,686		1,589,440
NET POSITION - END OF YEAR	<u>\$ 50,903,983</u>	<u>\$ 16,529,948</u>	<u>\$ (1,580,320)</u>	<u>\$ 8,026,004</u>		<u>\$ 1,799,414</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					41,048	
Change in Net Position of Business-Type Activities					<u>\$ 1,291,153</u>	

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021**

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 3,748,830	\$ 3,704,770	\$ 2,878,484	\$ 644,249	\$10,976,333	\$ 3,856,472
Operating Grants	-	-	-	1,774,643	1,774,643	-
Payments to Suppliers	(731,116)	(1,179,690)	(1,065,391)	(1,560,392)	(4,536,589)	(1,306,222)
Payments to Employees	(447,670)	(856,156)	(1,028,536)	(747,330)	(3,079,692)	(475,906)
Payments for Claims	-	-	-	-	-	(1,853,467)
Other Receipts	1,920	23,768	38,824	80,535	145,047	-
Customer Deposits Payable	-	21,686	-	-	21,686	-
Net Cash Provided (Used) by Operating Activities	2,571,964	1,714,378	823,381	191,705	5,301,428	220,877
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund Borrowing	-	-	-	-	-	(1,525)
Development Impact Fees	74,653	51,372	-	-	126,025	-
Net Cash Provided (Used) by Noncapital Financing Activities	74,653	51,372	-	-	126,025	(1,525)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Intergovernmental Revenues	553,774	-	-	412,610	966,384	-
Purchases of Capital Assets	(1,728,921)	(409,567)	(123,631)	(407,094)	(2,669,213)	-
Principal Paid on Capital Debt	(199,884)	(633,099)	(5,167)	-	(838,150)	-
Interest Paid on Capital Debt	(273,145)	(331,722)	(3,168)	-	(608,035)	-
Net Cash Used by Capital and Related Financing Activities	(1,648,176)	(1,374,388)	(131,966)	5,516	(3,149,014)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment Earnings	402	27,125	1	80,522	108,050	46,491
NET CHANGE IN CASH AND CASH EQUIVALENTS	998,843	418,487	691,416	277,743	2,386,489	265,843
Cash and Cash Equivalents - Beginning of Year	5,023,222	6,107,114	1,246,028	2,023,178	14,399,542	2,378,118
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,022,065</u>	<u>\$ 6,525,601</u>	<u>\$ 1,937,444</u>	<u>\$ 2,300,921</u>	<u>\$ 16,786,031</u>	<u>\$ 2,643,961</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION						
Cash and Cash Equivalents	\$ 3,770,973	\$ 5,441,244	\$ 1,930,988	\$ 2,242,177	\$13,385,382	\$ 2,643,961
Restricted Assets	2,251,092	1,084,357	6,456	58,744	3,400,649	-
Total Cash and Cash Equivalents	<u>\$ 6,022,065</u>	<u>\$ 6,525,601</u>	<u>\$ 1,937,444</u>	<u>\$ 2,300,921</u>	<u>\$ 16,786,031</u>	<u>\$ 2,643,961</u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

	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)	\$ (551,851)	\$ 751,312	\$ 746,466	\$ (294,225)	\$ 651,702	\$ 163,483
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	1,930,002	890,149	93,394	474,611	3,388,156	13,668
Bad Debt Expense	-	-	-	7,200	7,200	-
Nonoperating Receipts	1,920	23,768	38,824	-	64,512	-
Change in Assets/Liabilities:						
Receivables	72,239	51,177	69,550	83,414	276,380	-
Prepaid Items	-	-	-	3,207	3,207	-
Inventories	-	-	-	323	323	(14,190)
Deferred Outflows of Resources Accounts and Intergovernmental Payable	(37,378)	(71,048)	(63,417)	(55,985)	(227,828)	(34,892)
Accrued Wages and Benefits	999,116	186,097	(8,817)	11,450	1,187,846	(8,420)
Unearned Revenue	2,317	5,016	4,269	(66,005)	(54,403)	2,004
Other Postemployment Benefits	-	-	-	47,860	47,860	-
Net Pension Liability	(14,614)	(223,321)	(63,016)	1,337	(299,614)	-
Compensated Absences	147,071	147,877	(20,400)	(40,261)	234,287	4,169
Claims Payable	4,429	6,013	5,248	9,442	25,132	1,969
Customer Deposits Payable	-	-	-	-	-	100,103
Deferred Inflows of Resources	-	21,686	-	(2,790)	18,896	-
Net Cash Provided (Used) by Operating Activities	18,713	(74,348)	21,280	12,127	(22,228)	(7,017)
	<u>\$ 2,571,964</u>	<u>\$ 1,714,378</u>	<u>\$ 823,381</u>	<u>\$ 191,705</u>	<u>\$ 5,301,428</u>	<u>\$ 220,877</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	(57,052)	(11,707)	(369)	-	(69,128)	-

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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. 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, 2021 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, 2021

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 and proprietary funds. 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 and proprietary 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.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 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.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges for services. Operating expenses for the proprietary funds include the cost of sales and services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, with the exception of money market funds which are stated at amortized cost, 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.

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 internal 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 internal balances.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 in the period in which the goods and/or services are received/rendered.

5. Restricted Assets

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

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

6. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities and business-type 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Capital Assets (Continued)

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.

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. 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2021 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.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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)

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

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

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

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has authorized the Finance Director to make assignments for specific purpose.

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

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

At June 30, 2021, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepays	\$ 506,420	\$ -	\$ -	\$ 506,420
Restricted:				
Impound Fees	41,276	-	-	41,276
Streets	-	5,613,081	-	5,613,081
Local Transportation				
Assistance	-	-	348,019	348,019
Federal and State Grants	-	-	919,126	919,126
Debt Service	-	-	336,892	336,892
Assigned:				
Capital Outlay	-	-	1,924	1,924
Unassigned	16,981,694	-	-	16,981,694
Total Fund Balance	<u>\$ 17,529,390</u>	<u>\$ 5,613,081</u>	<u>\$ 1,605,961</u>	<u>\$ 24,748,432</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds/departments:

	Amount of Overexpenditure
General Fund:	
MIS	\$ 5,565
Cemetery	1,911
Fire	417,021
Nogales Rides	792

Cash was available to meet all the overexpenditures listed above.

C. Deficit Fund Equity

A deficit net position in the amount of \$1,580,320 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, 2021 consist of the following:

Deposits:	
Cash on Hand	\$ 4,246
Cash in Bank	11,153,980
Investments:	
Government Money Market Funds	6,443,350
U.S. Agency Securities	15,532,785
Marketable Certificate of Deposits	9,479,393
Housing Certificate of Deposit	173,928
Total Deposits and Investments	42,787,682
Less: Restricted Cash and Investments	(3,774,388)
Total Deposits and Investments	\$ 39,013,294

Deposits – The carrying value of the City’s deposits at June 30, 2021 was \$11,153,980 and the bank balance was \$10,943,351 of which \$750,000 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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	\$ 15,532,785	\$ 14,514,082	\$ 1,018,703
Marketable Certificate of Deposits	9,653,321	424,186	9,229,135
Money Market Funds	6,443,350	6,443,350	-
Total Investments	<u>\$ 31,629,456</u>	<u>\$ 21,381,618</u>	<u>\$ 10,247,838</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.

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:

Investment Type	Rating	Agency	Amount
U.S. Agency Securities			
United States Treasury Note	AA+	Moody's	\$ 11,996,663
Federal Farm Credit Bank	AA+	Moody's	1,502,338
Federal Home Loan	AA+	Moody's	2,033,784
Marketable Certificate of Deposits	N/R	N/R	9,653,321
Money Market Funds	N/R	N/R	6,443,350
Total			<u>\$ 31,629,456</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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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.

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, 2021:

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities:				
U.S. Agency Securities	\$ 15,532,785	\$ -	\$ 15,532,785	\$ -
Marketable Certificate of Deposits	9,653,321	-	9,653,321	-
Total Investments by Fair Value Level	25,186,106	\$ -	\$ 25,186,106	\$ -
Investments Measured at Amortized Cost				
Money Market Funds	6,443,350			
Total Investments	<u>\$ 31,629,456</u>			

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2021 consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Operation and Maintenance	\$ -	\$ 154,157	\$ 154,157
Repair and Replacement Fund	-	98,627	98,627
Future Debt Service and Construction	336,892	2,117,683	2,454,575
Debt Service Reserve	-	150,625	150,625
Customer Deposits	36,847	820,813	857,660
NHA Grant and Housing Funds	-	58,744	58,744
Total	<u>\$ 373,739</u>	<u>\$ 3,400,649</u>	<u>\$ 3,774,388</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 \$1,773,222 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$920,286 for utility billings.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,314,134	\$ -	\$ -	\$ 2,314,134
Construction in Progress	1,950,060	225,003	(1,384,456)	790,607
Total Capital Assets, Not Being Depreciated	4,264,194	225,003	(1,384,456)	3,104,741
Capital Assets, Being Depreciated:				
Infrastructure	62,997,828	1,464,968	-	64,462,796
Buildings	9,793,193	47,218	-	9,840,411
Improvements Other than Buildings	4,380,295	-	-	4,380,295
Vehicles, Machinery and Equipment	15,650,838	1,128,818	(20,950)	16,758,706
Total Capital Assets, Being Depreciated	92,822,154	2,641,004	(20,950)	95,442,208
Accumulated Depreciation for:				
Infrastructure	(29,715,673)	(1,345,104)	-	(31,060,777)
Buildings	(6,726,257)	(202,311)	-	(6,928,568)
Improvements Other than Buildings	(1,972,290)	(106,906)	-	(2,079,196)
Vehicles, Machinery, and Equipment	(13,331,154)	(518,389)	20,950	(13,828,593)
Total Accumulated Depreciation	(51,745,374)	(2,172,710)	20,950	(53,897,134)
Total Capital Assets, Being Depreciated, Net	41,076,780	468,294	-	41,545,074
Governmental Activities Capital Assets, Net	<u>\$ 45,340,974</u>	<u>\$ 693,297</u>	<u>\$ (1,384,456)</u>	<u>\$ 44,649,815</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 165,603
Public Safety	364,051
Highways and Streets	1,478,862
Culture and Recreation	164,194
Total Depreciation Expense	<u>\$ 2,172,710</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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	\$ 3,103,782	\$ -	\$ -	\$ 3,103,782
Construction in Progress	767,567	1,035,928	(1,153,992)	649,503
Total Capital Assets, Not Being Depreciated	3,871,349	1,035,928	(1,153,992)	3,753,285
Capital Assets, Being Depreciated:				
Infrastructure	119,015,967	830,743	-	119,846,710
Buildings	23,472,527	610,809	-	24,083,336
Improvements Other than Buildings	1,157,792	-	-	1,157,792
Vehicles, Machinery and Equipment	9,829,266	998,068	(372,144)	10,455,190
Total Capital Assets, Being Depreciated	153,475,552	2,439,620	(372,144)	155,543,028
Accumulated Depreciation for:				
Infrastructure	(41,025,167)	(2,598,194)	-	(43,623,361)
Buildings	(14,533,879)	(577,238)	-	(15,111,117)
Improvements Other than Buildings	(486,464)	(30,308)	-	(516,772)
Vehicles, Machinery and Equipment	(9,118,167)	(182,416)	372,144	(8,928,439)
Total Accumulated Depreciation	(65,163,677)	(3,388,156)	372,144	(68,179,689)
Total Capital Assets, Being Depreciated, Net	88,311,875	(948,536)	-	87,363,339
Business-Type Activities Capital Assets, Net	<u>\$ 92,183,224</u>	<u>\$ 87,392</u>	<u>\$ (1,153,992)</u>	<u>\$ 91,116,624</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Sewer	\$ 1,930,002
Water	890,149
Sanitation	93,394
Nogales Housing Authority	474,611
Total Depreciation Expense	<u>\$ 3,388,156</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The City has active construction projects at June 30, 2021. At fiscal year-end the City's commitments with contractors were as follows:

	Governmental Activities	
Project	Spent-to-date	Remaining Commitment
Noon St Improvement	\$ 11,000	\$ 1,004,496

B. Interfund Receivables, Payables, and Transfers

As of June 30, 2021 interfund receivable and payables were as follows:

	Due To General Fund
Due From Internal Service Fund	\$ 64,318

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, 2021 to cover the deficit.

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

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

As of June 30, 2021, transfers were as follows:

	Transfers In Nonmajor Governmental Funds
Transfers Out General Fund	\$ 459,290
HURF Fund	358,830
Total	\$ 818,120

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases

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

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Assets:		
Machinery and Equipment	\$ 2,824,761	\$ 2,356,155
Less: Accumulated Depreciation	(2,642,912)	(2,144,391)
Total	<u>\$ 181,849</u>	<u>\$ 211,764</u>

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2021, were as follows:

<u>Year Ending June 30,</u> 2022	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	\$ 19,032	\$ 22,162
Less: Amount Representing Interest	(160)	(166)
Present Value of Minimum Lease Payments	<u>\$ 18,872</u>	<u>\$ 21,996</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. 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	6/30/21-30	\$ 5,615,902	\$ 3,997,390
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	1,750,037
Municipal Facilities Revenue				
Refunding Bonds, Series 2019	3.50-4.00	6/1/21-39	1,005,675	961,950
Total Governmental Activities			<u>\$ 13,972,590</u>	<u>\$ 12,218,927</u>
Business-Type Activities:				
Municipal Facilities Revenue				
Refunding Bonds, Series 2014	3.00-3.625	6/30/21-30	\$ 6,754,098	\$ 4,807,603
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	4,854,962
Municipal Facilities Revenue				
Refunding Bonds, Series 2019	3.50-4.00	6/1/21-39	4,744,325	4,538,051
Total Business-Type Activities			<u>\$ 18,902,410</u>	<u>\$ 16,496,066</u>

The City has pledged excise tax revenues of the General Fund to repay \$12.2 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 \$16,754,011. Principal and interest paid for the current year and total excise taxes were \$883,763 and \$21,357,650, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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 \$16.5 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 12.0% of revenues. The total principal and interest remaining to be paid on the bonds is \$22,797,310.

The City has acquired a loan through a direct borrowing with 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 \$1,668,208.

During June 30, 2021, the City acquired a \$3,343,650 and a \$9,037,064 loan through a direct borrowing through WIFA to fund wastewater system improvements to the City's existing collection system and wastewater treatment plant and to finance the design and construction of water upgrades which includes the replacement of existing water mains and water storage tanks, respectively. Both loans are structured where the City draws on the loan as funds are needed and makes semiannual interest payments at a rate of 1.739% per annum on the balance of the outstanding funds drawn. The loans are payable from sewer and water charges for services through July 1, 2040. To-date, the City has not drawn on any of the available funds for either loan and the remaining principal and interest to be paid on the loans are \$0 as of June 30, 2021.

Changes in governmental long-term obligations for the year ended June 30, 2021 are as follows:

	July 1, 2020	Increases	Decreases	June 30, 2021	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 12,663,278	\$ -	\$ (444,351)	\$ 12,218,927	\$ 456,575
Premium	191,924	-	(13,449)	178,475	-
Total Bonds	12,855,202	-	(457,800)	12,397,402	456,575
Other Liabilities:					
Capital Leases	91,719	-	(72,847)	18,872	18,872
Compensated Absences	1,742,575	835,558	(1,058,529)	1,519,604	1,117,634
Total Other Liabilities	1,834,294	835,558	(1,131,376)	1,538,476	1,136,506
Governmental Activities					
Long-Term Liabilities	<u>\$ 14,689,496</u>	<u>\$ 835,558</u>	<u>\$ (1,589,176)</u>	<u>\$ 13,935,878</u>	<u>\$ 1,593,081</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021 are as follows:

	July 1, 2020	Increases	Decreases	June 30, 2021	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 17,161,716	\$ -	\$ (665,650)	\$ 16,496,066	\$ 683,426
Premium	205,287	-	(14,007)	191,280	-
Total Bonds Payable	<u>17,367,003</u>	<u>-</u>	<u>(679,657)</u>	<u>16,687,346</u>	<u>683,426</u>
Other Liabilities:					
Notes Payable - Direct Borrowing	1,666,705	-	(87,621)	1,579,084	89,602
Capital Leases	106,875	-	(84,879)	21,996	21,996
Compensated Absences	241,082	119,839	(94,707)	266,214	106,391
Business-Type Activities Long-Term Liabilities	<u>\$ 19,381,665</u>	<u>\$ 119,839</u>	<u>\$ (946,864)</u>	<u>\$ 18,554,640</u>	<u>\$ 901,415</u>

Debt service requirements on long-term debt at June 30, 2021 are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 456,575	\$ 426,144	\$ 683,426	\$ 585,184
2023	468,800	412,388	701,201	552,905
2024	483,674	398,262	726,326	531,407
2025	498,169	383,398	746,832	507,771
2026	514,863	368,082	775,138	483,437
2027-2031	2,931,582	1,567,200	4,313,419	1,991,612
2032-2036	5,473,034	883,514	3,571,967	1,292,024
2037-2040	1,392,230	96,096	4,977,757	356,904
Total	<u>\$ 12,218,927</u>	<u>\$ 4,535,084</u>	<u>\$ 16,496,066</u>	<u>\$ 6,301,244</u>

Year Ending June 30,	Direct Borrowings Business-Type Activities	
	Principal	Interest
2022	\$ 89,602	\$ 11,335
2023	91,628	10,638
2024	93,700	9,925
2025	95,818	9,195
2026	97,985	8,450
2027-2031	524,175	30,460
2032-2036	586,176	9,121
Total	<u>\$ 1,579,084</u>	<u>\$ 89,124</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Judgements

During fiscal year 2020, 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 of June 30, 2021, the City reported \$195,235 in judgements liability.

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, 2021. 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, 2021 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

Changes in the claims liability amount for the years ended June 30, 2021 and 2020 were as follows:

	Claims Liability at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at End of Year
2020-21	\$ 369,544	\$ 1,953,570	\$ (1,853,467)	\$ 469,647
2019-20	294,403	2,338,543	(2,263,402)	369,544

B. Contingencies

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

C. Retirement Plans

Firefighters Relief and Pension Fund

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

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed \$150 per month 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 earned on the balance held by the City for the firefighters relief 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, 2021

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, 2021 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	\$ 43,929,296	\$ 2,953,649	\$ 46,882,945
Deferred Outflows of Resources	8,476,073	520,633	8,996,706
Deferred Inflows of Resources	1,245,095	166,153	1,411,248
Pension Expense	5,953,379	177,544	6,130,923

The City reported accrued payroll and employee benefits of \$73,216 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2021. Additionally, the City reported \$3,374,584 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

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, 2021. For the year ended March 31, 2021, the Authority recognized a negative pension expense of \$56,743, 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, 2021**

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, 2021, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.04% of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.65% of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 10.14% of annual covered payroll of retired members who worked for the City 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, 2021

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, 2021 was \$710,913.

During the fiscal year ended June 30, 2021, 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, 2021, the City reported a liability of \$10,333,537 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2020. 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, 2019, to the measurement date of June 30, 2020. 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, 2020, and the change from its proportions measured as of June 30, 2019. The City's proportion measured as of June 30, 2020, was 0.05964%, which was a decrease of 0.00572 from its proportion measured as of June 30, 2019.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2021, the City recognized pension expense for ASRS of \$619,169. At June 30, 2021, 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	\$ 93,485	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	996,682	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	581,299
City Contributions Subsequent to the Measurement Date	710,913	-
Total	\$ 1,801,080	\$ 581,299

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

The \$710,913 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, 2022. 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	\$ (196,251)
2022	36,341
2023	360,510
2024	308,268

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

Actuarial Valuation Date	June 30, 2019
Actuarial Roll Forward Date	June 30, 2020
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, 2019 valuation were based on the results of an actuarial experience 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 %	6.39 %
Fixed Income - Credit	20	5.44
Real Estate	20	5.85
Fixed Income - Interest Rate Sensitive	10	0.22
Total	<u>100%</u>	

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2021**

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	\$ 14,130,971	\$ 10,333,537	\$ 7,159,076

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, 2021

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, 2021

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Employees Covered by Benefit Terms – At June 30, 2021, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police	PSPRS Firefighters
Inactive Employees or Beneficiaries Currently Receiving Benefits	39	27
Inactive Employees Entitled to But Not Yet Receiving Benefits	9	6
Active Employees	39	30
Total	87	63

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, 2021, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police	PSPRS Firefighters
Active Members - Pension	7.65% - 9.94%	7.65% - 9.94%
City		
PSPRS Tier 1/2	60.36%	65.70%
PSPRS Tier 3	9.21%	9.94%

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.

	PSPRS Police	PSPRS Firefighters
Pension	47.34%	50.35%

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021, were:

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Pension:		
Contributions Made	\$ 1,509,010	\$ 1,395,302

During the fiscal year June 30, 2021, the City paid for PSPRS pension contributions 100% from the General Fund.

Pension Liability – At June 30, 2021, the City reported the following net pension liabilities:

	<u>Net Pension Liability</u>
PSPRS Police	\$ 19,156,624
PSPRS Firefighters	17,392,784

The net assets and net liabilities were measured as of June 30, 2020, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

Actuarial Valuation Date	June 30, 2020
Measurement Date	June 30, 2020
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, 2020, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Public Equity	23.00 %	4.93 %
International Public Equity	15.00	6.09
Global Public Equity	18.00	8.42
Other Assets (Capital Appreciation)	7.00	5.61
Core Bonds	2.00	0.22
Private Credit	22.00	5.31
Diversifying Strategies	12.00	3.22
Cash - Mellon	1.00	(0.60)
Total	<u>100.00 %</u>	

Pension Discount Rates – At June 30, 2020, the discount rate used to measure the PSPRS total pension liabilities was 7.30%, which was equal to the discount rate used in the prior year. 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, 2021

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) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
<u>PSPRS - Police</u>			
Balance at June 30, 2019	\$ 35,098,523	\$ 16,979,520	\$ 18,119,003
Adjustment to Beginning of Year	-	(94,273)	94,273
Changes for the Year:			
Service Cost	559,992	-	559,992
Interest on the Total Pension Liability	2,545,588	-	2,545,588
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(356,133)	-	(356,133)
Contributions - Employer	-	1,394,294	(1,394,294)
Contributions - Employee	-	213,986	(213,986)
Net Investment Income	-	215,598	(215,598)
Benefit Payments, Including Refunds of Employee Contributions	(1,574,894)	(1,574,894)	-
Administrative Expenses	-	(17,779)	17,779
Net Changes	<u>1,174,553</u>	<u>136,932</u>	<u>1,037,621</u>
Balances as of June 30, 2020	<u>\$ 36,273,076</u>	<u>\$ 17,116,452</u>	<u>\$ 19,156,624</u>

	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
<u>PSPRS - Firefighters</u>			
Balance at June 30, 2020	\$ 28,718,089	\$ 12,928,643	\$ 15,789,446
Adjustment to Beginning of Year	-	(82,283)	82,283
Changes for the Year:			
Service Cost	492,443	-	492,443
Interest on the Total Pension Liability	2,076,645	-	2,076,645
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	661,992	-	661,992
Contributions - Employer	-	1,390,561	(1,390,561)
Contributions - Employee	-	170,805	(170,805)
Net Investment Income	-	162,070	(162,070)
Benefit Payments, Including Refunds of Employee Contributions	(1,526,669)	(1,526,669)	-
Administrative Expenses	-	(13,411)	13,411
Net Changes	<u>1,704,411</u>	<u>101,073</u>	<u>1,603,338</u>
Balances as of June 30, 2021	<u>\$ 30,422,500</u>	<u>\$ 13,029,716</u>	<u>\$ 17,392,784</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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	\$ 24,291,159	\$ 19,156,624	\$ 15,011,830
PSPRS Firefighters:			
Rate	6.30 %	7.30 %	8.30 %
Net Pension Liability	\$ 21,655,883	\$ 17,392,784	\$ 13,932,004

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, 2021, the City recognized the pension expense as follows:

	<u>Pension Expense</u>
PSPRS Police	\$ 2,868,074
PSPRS Firefighters	2,643,680

Pension Deferred Outflows/Inflows of Resources – At June 30, 2021, 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	\$ 438,550	\$ 299,965
Changes of Assumptions or Other Inputs	387,598	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	918,249	-
City Contributions Subsequent to the Measurement Date	1,509,010	-
Total	<u>\$ 3,253,407</u>	<u>\$ 299,965</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

<u>PSPRS - Firefighters</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 969,671	\$ 529,984
Changes of Assumptions or Other Inputs	874,121	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	703,125	-
City Contributions Subsequent to the Measurement Date	1,395,302	-
Total	<u>\$ 3,942,219</u>	<u>\$ 529,984</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, 2022. 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>	PSPRS Police	PSPRS Firefighters
2022	\$ 560,418	\$ 809,257
2023	499,106	711,652
2024	181,389	340,726
2025	203,519	155,298

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, 2021, the City reported aggregate amounts related to OPEB for all plans to which it contributions as follows:

	Arizona State Retirement System	Public Safety Personnel Retirement System	City Single Employer Plan	Total
OPEB Asset	\$ 41,510	\$ -	\$ -	\$ 41,510
OPEB Liability	44,750	184,918	15,875,628	16,105,296
Deferred Outflows of Resources	114,963	135,728	570,690	821,381
Deferred Inflows of Resources	86,150	166,173	8,177,606	8,429,929
OPEB Expense	26,915	(8,816)	(647,445)	(629,346)

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, 2021**

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, 2021 is based on the actuarial valuation performed as of June 30, 2020.

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, 2021, the following employees were covered by the OPEB benefit terms:

Number of Active Employees	246
Number of Retired Members and Beneficiaries Currently Receiving Benefits	67
Total	313

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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 \$15,875,628 had a measurement date through June 30, 2020, and an actuarial valuation date of June 30, 2020.

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 June 30, 2020 actuarial valuation reflected changes in benefits and changes in assumptions: 1) effective January 1, 2020, the plan was amended to provide coverage to surviving spouses of law enforcement officers deceased in the line of duty. The coverage will terminate upon the surviving spouse's Medicare eligibility age; 2) the discount rate decreased from 3.50% to 2.21%, based on changes in the Bond Buyer 20 index municipal bond rate from June 30, 2019 to June 30, 2020; and 3) the 2020-21 per capita health costs and trends on such costs were updated to reflect recent experience and future expectations.

The total OPEB liability as of June 30, 2021, 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, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age, level % of pay
Salary Increases	2.7% - 7.5%
Discount Rate	2.21%
Health Care Trend Rates	
Medical	7.0% decreasing to 4.5% over 10 years
Prescription Drug	8.0% decreasing to 4.5% over 14 years
Dental and Administrative Costs	4.5% and 3.00%, respectively

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

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.

Changes in OPEB Liability

Balances at June 30, 2020	\$ 16,862,136
Changes for the Year:	
Service Cost	696,096
Interest	608,370
Differences Between Expected and Actual Experience	(1,196,174)
Change in Assumptions	(798,595)
Benefit Payments	(355,498)
Other	59,293
Net Changes	<u>(986,508)</u>
Balances at June 30, 2021	<u><u>\$ 15,875,628</u></u>

Discount Rate – The discount rate used to measure the OPEB liability was 2.21% (a decrease of 1.29 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 used in determining the discount rate used to measure the Total OPEB Liability as of June 30, 2020.

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:

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
Net OPEB Liability	<u>\$ 17,899,512</u>	<u>\$ 15,875,628</u>	<u>\$ 14,131,725</u>

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>		
	Current Health Care Cost		
	1% Decrease	Trend Rates	1% Increase
Net OPEB Liability	<u>\$ 1,400,494</u>	<u>\$ 15,875,628</u>	<u>\$ 18,094,176</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021, the City recognized a negative OPEB expense of \$647,445. At June 30, 2021, 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	\$ -	\$ 5,264,438
Differences Between Expected and Actual Experience	241,582	2,913,168
Benefit Payments Subsequent to the Measurement Date	329,108	-
Total	<u>\$ 570,690</u>	<u>\$ 8,177,606</u>

The \$329,108 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, 2022. 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>	Future Recognition
2021	\$ (1,921,904)
2022	(1,921,904)
2023	(1,921,904)
2024	(1,101,202)
2025	(958,191)
Thereafter	(110,919)

E. Subsequent Events

Subsequent to June 30, 2021, the City authorized the issuance of \$16,355,000 of pledged revenue obligations taxable series 2022 revenue bonds to fund all or a portion of the City's unfunded liabilities with respect to the Arizona Public Safety Personnel Retirement System (PSPRS) pension obligation. The pledged revenue obligation will require annual principal and semi-annual principal payments through May 2038.

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, 2021 AND SIX YEARS PRIOR**

Arizona State Retirement System

	Reporting Year (Measurement Date)		
	2021 (2020)	2020 (2019)	2019 (2018)
City's Proportion of the Net Pension Liability	0.059640%	0.065360%	0.065630%
City's Proportionate Share of the Net Pension Liability	\$ 10,333,537	\$ 9,510,639	\$ 8,947,711
City's Covered Payroll	\$ 6,190,828	\$ 6,277,138	\$ 6,324,596
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	166.92%	151.51%	141.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.33%	73.24%	73.00%

See accompanying Notes to Pension Schedules.

Reporting Year (Measurement Date)			
2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
0.066800%	0.067850%	0.071220%	0.073466%
\$ 10,436,145	\$ 10,951,672	\$ 11,093,764	\$ 10,870,471
\$ 6,573,355	\$ 6,574,516	\$ 6,427,809	\$ 6,397,985
158.76%	166.58%	172.59%	169.90%
69.92%	67.06%	68.35%	69.49%

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, 2021 AND SIX YEARS PRIOR

PSPRS Police

	Reporting Year (Measurement Date)		
	2021 (2020)	2020 (2019)	2019 (2018)
Total Pension Liability			
Service Cost	\$ 559,992	\$ 620,720	\$ 612,644
Interest on the Total Pension Liability	2,545,588	2,384,281	2,213,586
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(356,133)	581,382	640,449
Changes of Assumptions or Other Inputs	-	633,282	-
Benefit Payments, Including Refunds of Employee Contributions	(1,574,894)	(1,440,860)	(1,507,940)
Net Change in Total Pension Liability	1,174,553	2,778,805	1,958,739
Total Pension Liability - Beginning	35,098,523	32,319,718	30,360,979
Total Pension Liability - Ending (a)	36,273,076	35,098,523	32,319,718
Plan Fiduciary Net Position			
Contributions - Employer	1,394,294	1,571,338	1,337,972
Contributions - Employee	213,986	244,244	245,054
Net Investment Income	215,598	846,862	1,040,425
Benefit Payments, Including Refunds of Employee Contributions	(1,574,894)	(1,440,860)	(1,507,940)
Hall/Parker Settlement	-	-	(587,700)
Administrative Expenses	(17,779)	(15,725)	(16,535)
Other Changes	-	-	185
Net Change in Plan Fiduciary Net Position	231,205	1,205,859	511,461
Plan Fiduciary Net Position - Beginning	16,979,520	15,785,069	15,273,608
Adjustments Beginning of Year	(94,273)	(11,408)	-
Plan Fiduciary Net Position - Ending (b)	17,116,452	16,979,520	15,785,069
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 19,156,624</u>	<u>\$ 18,119,003</u>	<u>\$ 16,534,649</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.19%	48.38%	48.84%
Covered Payroll	\$ 2,358,219	\$ 2,709,332	\$ 3,021,827
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	812.33%	668.76%	547.17%

See accompanying Notes to Pension Schedules.

Reporting Year (Measurement Date)			
2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
\$ 683,797	\$ 632,118	\$ 650,848	\$ 597,019
2,076,189	1,851,701	1,796,333	1,449,565
353,971	1,220,887	-	426,360
(378,290)	307,190	(779,043)	449,885
816,680	1,097,489	-	2,344,265
<u>(1,063,974)</u>	<u>(1,018,527)</u>	<u>(888,380)</u>	<u>(864,781)</u>
2,488,373	4,090,858	779,758	4,402,313
27,872,606	23,781,748	23,001,990	18,599,677
<u>30,360,979</u>	<u>27,872,606</u>	<u>23,781,748</u>	<u>23,001,990</u>
991,252	863,530	754,068	709,292
349,723	381,314	356,974	349,414
1,636,160	76,325	457,113	1,488,112
(1,063,974)	(1,018,527)	(888,380)	(864,781)
-	-	-	-
(14,877)	(11,383)	(11,527)	(11,984)
174	51,084	106,595	-
1,898,458	342,343	774,843	1,670,053
13,375,150	13,032,807	12,257,964	10,587,911
-	-	-	-
<u>15,273,608</u>	<u>13,375,150</u>	<u>13,032,807</u>	<u>12,257,964</u>
<u>\$ 15,087,371</u>	<u>\$ 14,497,456</u>	<u>\$ 10,748,941</u>	<u>\$ 10,744,026</u>
50.31%	47.99%	54.80%	53.29%
\$ 2,896,219	\$ 3,216,887	\$ 3,096,516	\$ 3,368,193
520.93%	450.67%	347.13%	318.98%

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, 2021 AND SIX YEARS PRIOR

PSPRS Fire

	Reporting Year (Measurement Date)		
	2021 (2020)	2020 (2019)	2019 (2018)
Total Pension Liability			
Service Cost	\$ 492,443	\$ 524,342	\$ 533,550
Interest on the Total Pension Liability	2,076,645	2,023,916	1,925,358
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	661,992	(601,854)	(353,546)
Changes of Assumptions or Other Inputs	-	452,317	-
Benefit Payments, Including Refunds of Employee Contributions	(1,526,669)	(1,013,004)	(1,049,129)
Net Change in Total Pension Liability	1,704,411	1,385,717	1,056,233
Total Pension Liability - Beginning	28,718,089	27,332,372	26,276,139
Total Pension Liability - Ending (a)	30,422,500	28,718,089	27,332,372
Plan Fiduciary Net Position			
Contributions - Employer	1,390,561	1,432,593	1,272,970
Contributions - Employee	170,805	173,583	205,058
Net Investment Income	162,070	636,622	757,185
Benefit Payments, Including Refunds of Employee Contributions	(1,526,669)	(1,013,004)	(1,049,129)
Administrative Expenses	(13,411)	(12,062)	(12,224)
Hall/Parker Settlement	-	-	(421,742)
Other Changes	-	-	126
Net Change in Plan Fiduciary Net Position	183,356	1,217,732	752,244
Plan Fiduciary Net Position - Beginning	12,928,643	11,731,270	10,979,026
Adjustments Beginning of Year	(82,283)	(20,359)	-
Plan Fiduciary Net Position - Ending (b)	13,029,716	12,928,643	11,731,270
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 17,392,784</u>	<u>\$ 15,789,446</u>	<u>\$ 15,601,102</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	42.83%	45.02%	42.92%
Covered Payroll	\$ 1,942,754	\$ 2,116,247	\$ 2,570,211
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	895.26%	746.11%	607.00%

See accompanying Notes to Pension Schedules.

Reporting Year (Measurement Date)			
2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
\$ 604,423	\$ 461,578	\$ 447,535	\$ 461,117
1,627,144	1,497,706	1,402,925	1,162,805
241,618	925,436	-	357,990
1,475,451	(150,856)	202,190	49,280
1,443,165	827,356	-	1,711,570
<u>(1,017,406)</u>	<u>(1,015,488)</u>	<u>(689,053)</u>	<u>(665,170)</u>
4,374,395	2,545,732	1,363,597	3,077,592
21,901,744	19,356,012	17,992,415	14,914,823
<u>26,276,139</u>	<u>21,901,744</u>	<u>19,356,012</u>	<u>17,992,415</u>
997,891	737,757	585,262	614,419
294,838	279,990	261,083	237,504
1,184,169	54,697	331,913	1,078,216
(1,017,406)	(1,015,488)	(689,053)	(665,170)
(10,878)	(8,271)	(8,477)	(8,683)
-	-	-	-
117	46,233	(6,751)	-
<u>1,448,731</u>	<u>94,918</u>	<u>473,977</u>	<u>1,256,286</u>
9,530,295	9,435,377	8,961,400	7,705,114
-	-	-	-
<u>10,979,026</u>	<u>9,530,295</u>	<u>9,435,377</u>	<u>8,961,400</u>
<u>\$ 15,297,113</u>	<u>\$ 12,371,449</u>	<u>\$ 9,920,635</u>	<u>\$ 9,031,015</u>
41.78%	43.51%	48.75%	49.81%
\$ 2,533,205	\$ 2,341,847	\$ 2,268,595	\$ 2,289,386
603.86%	528.28%	437.30%	394.47%

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS
JUNE 30, 2021 AND SEVEN YEARS PRIOR**

Arizona State Retirement System

	Reporting Fiscal Year		
	2021	2020	2019
Statutorily Required Contribution	\$ 710,913	\$ 774,209	\$ 707,531
City's Contribution in Relation to the Statutorily Required Contribution	(710,913)	(774,209)	(707,531)
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 7,662,186	\$ 6,190,828	\$ 6,277,138
City's Contributions as a Percentage of Covered Payroll	9.28%	12.51%	11.27%

PSPRS Police

	Reporting Fiscal Year		
	2021	2020	2019
Actuarially Determined Contribution	\$ 1,509,010	\$ 1,377,516	\$ 1,295,402
City's Contribution in Relation to the Actuarially Determined Contribution	1,509,010	1,377,516	1,295,402
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 3,601,096	\$ 2,358,219	\$ 2,709,332
City's Contributions as a Percentage of Covered Payroll	41.90%	58.41%	47.81%

PSPRS Fire

	Reporting Fiscal Year		
	2021	2020	2019
Actuarially Determined Contribution	\$ 1,395,302	\$ 1,434,097	\$ 1,137,792
City's Contribution in Relation to the Actuarially Determined Contribution	1,395,302	1,434,097	1,137,792
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 3,135,842	\$ 1,942,754	\$ 2,116,247
City's Contributions as a Percentage of Covered Payroll	44.50%	73.82%	53.76%

See accompanying Notes to Pension Schedules.

Reporting Fiscal Year

2018	2017	2016	2015	2014
\$ 689,381	\$ 693,489	\$ 681,454	\$ 699,988	\$ 708,602
(689,381)	(693,489)	(681,454)	(699,988)	(708,602)
\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ 6,324,596</u>	<u>\$ 6,573,355</u>	<u>\$ 6,574,516</u>	<u>\$ 6,427,809</u>	<u>\$ 6,397,985</u>
10.90%	10.55%	10.37%	10.89%	11.08%

Reporting Fiscal Year

2018	2017	2016	2015	2014
\$ 738,864	\$ 991,252	\$ 863,530	\$ 754,068	\$ 709,292
738,864	991,252	863,530	724,491	709,292
\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ 3,021,827</u>	<u>\$ 2,896,219</u>	<u>\$ 3,216,887</u>	<u>\$ 3,096,516</u>	<u>\$ 3,368,193</u>
24.45%	34.23%	26.84%	23.40%	21.06%

Reporting Fiscal Year

2018	2017	2016	2015	2014
\$ 807,385	\$ 997,891	\$ 737,757	\$ 585,262	\$ 614,419
807,385	997,891	737,757	585,262	614,419
\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ 2,570,211</u>	<u>\$ 2,533,205</u>	<u>\$ 2,341,847</u>	<u>\$ 2,268,595</u>	<u>\$ 2,289,386</u>
31.41%	39.39%	31.50%	25.80%	26.84%

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO PENSION SCHEDULES
JUNE 30, 2021**

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) 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, 2021 AND THREE YEARS PRIOR**

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

	June 30 Reporting Year (Measurement Date)			
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
Total OPEB Liability				
Service Cost	\$ 696,096	\$ 740,994	\$ 753,728	\$ 975,550
Interest	608,370	798,588	724,613	714,281
Differences Between Expected and Actual Experience	(1,196,174)	(2,508,344)	(191,032)	560,926
Changes of Assumptions	(798,595)	(1,967,107)	(559,626)	(6,481,128)
Benefit Payments	(355,498)	(190,897)	(203,704)	(533,735)
Other	59,293	-	(122,898)	
Net Change in Total OPEB Liability	(986,508)	(3,126,766)	401,081	(4,764,106)
Total OPEB Liability - Beginning	16,862,136	19,988,902	19,587,821	24,351,927
Total OPEB Liability - Ending (a)	<u>\$ 15,875,628</u>	<u>\$ 16,862,136</u>	<u>\$ 19,988,902</u>	<u>\$ 19,587,821</u>
 Covered Payroll	 \$ 11,233,360	 \$ 12,791,614	 \$ 14,016,534	 \$ 13,426,528
 City's Net OPEB Liability as a Percentage of Covered Payroll	 141.33%	 131.82%	 142.61%	 145.89%

See accompanying Notes to OPEB Schedules.

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO OPEB SCHEDULE
OPEB LIABILITY
JUNE 30, 2021**

NOTE 1 OTHER POSTEMPLOYMENT BENEFITS

The City's OPEB liability is funded on a pay-as-you go basis and funds are not accumulated in a Trust. As a result, the City does not make contributions to the plan.

NOTE 2 INFORMATION PRIOR TO THE MEASUREMENT DATE

Ten years of information is required; however, information prior to the measurement date (June 30, 2017 for OPEB) was not available.

NOTE 3 FACTORS AFFECTING FUTURE TRENDS AND VALUATIONS

The June 30, 2020 actuarial valuation reflected changes in benefits and changes in assumptions:

- 1) Effective January 1, 2020, the plan was amended to provide coverage to surviving spouses of law enforcement officers deceased in the line of duty. The coverage will terminate upon the surviving spouse's Medicare eligibility age.
- 2) The discount rate decreased from 3.50% to 2.21%, based on changes in the Bond Buyer 20 index municipal bond rate from June 30, 2019 to June 30, 2020.
- 3) The 2020-21 per capita health costs and trends on such costs were updated to reflect recent experience and future expectations.

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