

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2022**



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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and the City Council
City of Nogales, Arizona

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Nogales, Arizona and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2021, the City adopted new accounting guidance for leases. The guidance required lessors to recognize a lease receivable and corresponding deferred inflow of resources and lessees to recognize a right to use asset and corresponding lease liability for all leases with lease terms greater than 12 months. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Nogales, Arizona's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Nogales, Arizona's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Nogales, Arizona's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

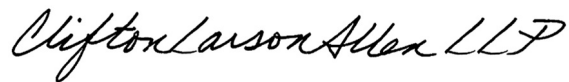
Honorable Mayor and the City Council
City of Nogales, Arizona

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the pension schedules, the other postemployment benefits schedule, and the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 June 28, 2023, on our consideration of the City of Nogales, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Nogales, Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Nogales, Arizona's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
June 28, 2023

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

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, 2022. 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 \$85.2 million (net position).
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$43.8 million, an increase of \$19.0 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$36.4 million or 155.6% of total General Fund expenditures.
- ◆ General Fund revenues were \$4.9 million more than budget for fiscal year 2022. Expenditures were \$12.3 million less than budget.
- ◆ General Fund revenues exceeded expenditures by \$3.7 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, 2022**

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 14-15 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 16-21 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

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 26-63 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, 2022**

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, 2022 and 2021 showing that assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$85.2 million at June 30, 2022.

**Condensed Statement of Net Position
June 30, 2022 and 2021**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
ASSETS						
Current and Other Assets	\$ 49,068,434	\$ 28,888,307	\$ 17,981,767	\$ 18,426,972	\$ 67,050,201	\$ 47,315,279
Capital Assets:						
Nondepreciable	4,429,875	3,104,741	4,991,225	3,753,285	9,421,100	6,858,026
Depreciable (Net)	41,104,042	41,545,074	84,707,501	87,363,339	125,811,543	128,908,413
Total Assets	94,602,351	73,538,122	107,680,493	109,543,596	202,282,844	183,081,718
DEFERRED OUTFLOWS OF RESOURCES	8,085,270	9,372,573	1,903,262	1,917,384	9,988,532	11,289,957
LIABILITIES						
Current Liabilities	2,412,933	2,138,939	7,918,597	7,765,391	10,331,530	9,904,330
Noncurrent Liabilities:						
Due Within One Year	1,300,719	1,593,081	932,038	901,415	2,232,757	2,494,496
Due in More Than One Year	74,317,525	67,148,751	24,577,222	25,835,512	98,894,747	92,984,263
Total Liabilities	78,031,177	70,880,771	33,427,857	34,502,318	111,459,034	105,383,089
DEFERRED INFLOWS OF RESOURCES	12,147,522	6,981,729	3,498,406	2,859,448	15,645,928	9,841,177
NET POSITION						
Net Investment in Capital Assets	33,065,148	32,404,292	73,519,050	73,731,343	106,584,198	106,135,635
Restricted	7,230,600	7,299,904	2,177,320	2,128,737	9,407,920	9,428,641
Unrestricted	(27,786,826)	(34,656,001)	(3,038,878)	(1,760,866)	(30,825,704)	(36,416,867)
Total Net Position	<u>\$ 12,508,922</u>	<u>\$ 5,048,195</u>	<u>\$ 72,657,492</u>	<u>\$ 74,099,214</u>	<u>\$ 85,166,414</u>	<u>\$ 79,147,409</u>

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 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, 2022**

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, 2022 and 2021**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
REVENUES						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 2,260,901	\$ 2,309,805	\$ 13,500,328	\$ 12,510,061	\$ 15,761,229	\$ 14,819,866
Operating Grants and Contributions	9,082,020	4,274,706	-	-	9,082,020	4,274,706
Capital Grants and Contributions	147,941	16,932	12,000	1,042,045	159,941	1,058,977
General Revenues:						
Sales Taxes	12,815,867	10,749,779	-	-	12,815,867	10,749,779
Franchise Taxes	678,577	649,495	-	-	678,577	649,495
State Shared Revenues	7,623,591	7,323,765	-	-	7,623,591	7,323,765
Impact Fees	-	-	339,300	126,025	339,300	126,025
Investment Earnings	(507,641)	21,907	(223,939)	28,977	(731,580)	50,884
Other	406,773	185,485	179,613	64,512	586,386	249,997
Total Revenues	32,508,029	25,531,874	13,807,302	13,771,620	46,315,331	39,303,494
EXPENSES						
General Government	5,277,240	3,852,357	-	-	5,277,240	3,852,357
Public Safety	13,540,694	15,206,942	-	-	13,540,694	15,206,942
Highways and Streets	3,555,707	4,084,107	-	-	3,555,707	4,084,107
Culture and Recreation	1,773,108	1,632,628	-	-	1,773,108	1,632,628
Interest on Long-Term Debt	900,553	446,059	-	-	900,553	446,059
Sewer	-	-	6,158,109	4,545,729	6,158,109	4,545,729
Water	-	-	4,091,759	3,223,903	4,091,759	3,223,903
Sanitation	-	-	2,358,857	2,045,782	2,358,857	2,045,782
NHA	-	-	2,640,299	2,665,053	2,640,299	2,665,053
Total Expenses	25,047,302	25,222,093	15,249,024	12,480,467	40,296,326	37,702,560
CHANGE IN NET POSITION	7,460,727	309,781	(1,441,722)	1,291,153	6,019,005	1,600,934
Net Position - Beginning of Year	5,048,195	4,738,414	74,099,214	72,808,061	79,147,409	77,546,475
NET POSITION - END OF YEAR	\$ 12,508,922	\$ 5,048,195	\$ 72,657,492	\$ 74,099,214	\$ 85,166,414	\$ 79,147,409

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Government-Wide Financial Analysis (Continued)

Governmental activities. Governmental revenues increased over prior year by \$6.9 million (27.3%).

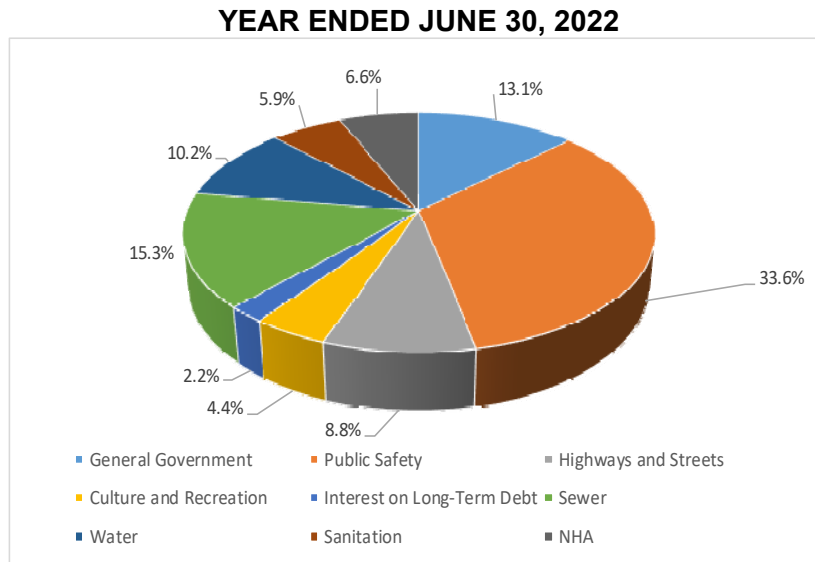
Program revenues increased \$4.9 million over the previous fiscal year and general revenues increased \$2.0 million. Operating grants and contributions increased largely due to \$3.4 million in ARPA Act funding received in fiscal year 2022 from the U.S. Treasury to fund public safety costs during the COVID-19 pandemic. Capital grants and contributions activity was relatively consistent in 2022 as it was in the prior year.

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

Overall, expenses decreased \$175 thousand from the prior year and were relatively unchanged over the prior fiscal year.

Business-type activities. Charges for services increased by \$990 thousand and expenses were relatively unchanged over the prior 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, 2022**

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 \$43.8 million, an increase of \$19.0 million in comparison with the prior year. Approximately 84.8% of this total amount (\$37.1 million) constitutes General Fund balance, which is reported as either nonspendable, restricted, assigned or unassigned fund balance. At the end of fiscal year 2022, fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2021-22
General Fund	\$ 37,139,595	\$ 19,610,205
Streets/HURF Fund	5,298,105	(314,976)
Nonmajor Governmental Funds	1,346,943	(259,018)
Total	<u>\$ 43,784,643</u>	<u>\$ 19,036,211</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 155.6% of total General Fund expenditures. The total unassigned fund balance represents 121.1% of total governmental fund expenditures.

The General Fund balance increase of \$19.6 million was due to an increase of \$1.0 million in sales tax revenues due to an increase in business activity at the border and \$19.4 million of bond proceeds.

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

The Nonmajor governmental fund balance decreased by \$0.3 million in the current year and was not a significant change over the prior year. The fund balance of the nonmajor governmental funds include \$0.3 million restricted for debt service, \$0.3 million restricted for local transportation assistance, \$0.7 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, 2022**

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 20-21. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The City did not amend the budget during the fiscal year.

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

General Fund revenues of \$27.1 million was \$4.9 million more than budget for fiscal year 2022. Expenditures were \$12.3 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, the \$2.2 million variance in public safety, \$1.4 million in culture and recreation and a \$1.6 negative variance in debt service. The reason for the variances in public safety and culture and recreation is due to less expenditures as a result of hard to fill positions due to the pandemic.

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2022 totaled \$45.5 million (net of accumulated depreciation), an increase from the prior year of 2.0%. Business-type activities capital assets amounted to \$89.7 million (net of accumulated depreciation), a net decrease from the prior year of \$1.5 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:

- Noon Street Improvements of \$1.1 million.
- Purchase of laptops of \$0.14 million, nine vehicles for \$0.7 million, and four pieces of heavy machinery of \$0.3 million.

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

- \$1.2 million in various water infrastructure projects.
- Purchase of \$0.6 million of vehicles and other equipment.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Capital Assets (Continued)

The following table provides a breakdown of the capital assets of the City at June 30, 2022 and 2021.

**Capital Assets (Net)
June 30, 2022 and 2021**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 2,317,134	\$ 2,314,134	\$ 3,106,782	\$ 3,103,782	\$ 5,423,916	\$ 5,417,916
Construction in Progress	2,112,741	790,607	1,884,443	649,503	3,997,184	1,440,110
Infrastructure	32,050,744	33,402,019	73,623,449	76,223,349	105,674,193	109,625,368
Buildings	3,021,572	2,911,843	8,532,638	8,972,219	11,554,210	11,884,062
Improvements other than Buildings	2,220,297	2,301,099	687,181	641,020	2,907,478	2,942,119
Vehicles, Machinery, and Equipment	3,811,429	2,930,113	1,864,233	1,526,751	5,675,662	4,456,864
Total Capital Assets	<u>\$ 45,533,917</u>	<u>\$ 44,649,815</u>	<u>\$ 89,698,726</u>	<u>\$ 91,116,624</u>	<u>\$ 135,232,643</u>	<u>\$ 135,766,439</u>

Long-Term Debt

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$46.4 million. \$43.1 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, 2022 and 2021. Further detail on the City's outstanding debt may be found in Notes 3.C. and 3.D.

**Outstanding Debt
June 30, 2022 and 2021**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenue Bonds	\$ 27,142,377	\$ 12,397,402	\$ 15,989,914	\$ 16,687,346	\$ 43,132,291	\$ 29,084,748
Loan Payable	-	-	1,489,481	1,579,084	1,489,481	1,579,084
Capital Leases	-	18,872	-	21,996	-	40,868
Compensated Absences	1,487,778	1,519,604	270,517	266,214	1,758,295	1,785,818
Total Outstanding Debt	<u>\$ 28,630,155</u>	<u>\$ 13,935,878</u>	<u>\$ 17,749,912</u>	<u>\$ 18,554,640</u>	<u>\$ 46,380,067</u>	<u>\$ 32,490,518</u>

The City's revenue bonds, loans payable, and capital leases increased \$13.9 million. The City issued \$16.4 million in new debt during the year proceeds from which will be used to fund the PSPRS retirement liabilities, offset by \$2.4 million decrease due to scheduled principal payments due on the debt. Compensated absences decreased by a net \$0.1 million due to the net effect of earned and used balances by employees.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

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 2022-23 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, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 28,371,725	\$ 11,890,874	\$ 40,262,599
Receivables, Net:			
Accounts	588,527	1,099,660	1,688,187
Intergovernmental	856,101	579,899	1,436,000
Taxes	1,742,745	-	1,742,745
Special Assessments	11,455	-	11,455
Interest	110,569	-	110,569
Lease	-	19,628	19,628
Internal Balances	(250,983)	250,983	-
Prepaid Items	669,472	51,640	721,112
Inventory	47,441	7,051	54,492
Restricted Assets	16,375,349	3,548,524	19,923,873
Net OPEB Asset	546,033	19,367	565,400
Noncurrent Leases Receivable	-	514,141	514,141
Capital Assets:			
Nondepreciable	4,429,875	4,991,225	9,421,100
Depreciable (Net)	41,104,042	84,707,501	125,811,543
Total Assets	<u>94,602,351</u>	<u>107,680,493</u>	<u>202,282,844</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	239,949	1,146,777	1,386,726
Pension Related	7,329,604	539,168	7,868,772
OPEB Related	515,717	217,317	733,034
Total Deferred Outflows of Resources	<u>8,085,270</u>	<u>1,903,262</u>	<u>9,988,532</u>
LIABILITIES			
Accounts Payable	1,206,987	991,622	2,198,609
Accrued Wages and Benefits	563,334	208,073	771,407
Customer Deposits Payable	38,439	967,795	1,006,234
Unearned Revenue	11,455	74,566	86,021
Intergovernmental Payable	-	5,589,589	5,589,589
Claims Payable	592,718	-	592,718
Judgments Payable	-	86,952	86,952
Noncurrent Liabilities:			
Due Within One Year	1,300,719	932,038	2,232,757
Due in More Than One Year:			
Bonds, Notes and Other Long-Term Debt	27,329,436	16,817,874	44,147,310
Net Pension Liability	35,640,602	2,195,174	37,835,776
Net OPEB Liability	11,347,487	5,564,174	16,911,661
Total Liabilities	<u>78,031,177</u>	<u>33,427,857</u>	<u>111,459,034</u>
DEFERRED INFLOWS OF RESOURCES			
Leases	-	530,063	530,063
Pension Related	7,377,498	918,521	8,296,019
OPEB Related	4,770,024	2,049,822	6,819,846
Total Deferred Inflows of Resources	<u>12,147,522</u>	<u>3,498,406</u>	<u>15,645,928</u>
NET POSITION			
Net Investment in Capital Assets	33,065,148	73,519,050	106,584,198
Restricted for:			
Highways and Streets	5,646,123	-	5,646,123
Federal and State Grants	660,091	-	660,091
Impound Fees	41,443	-	41,443
Other Postemployment Benefits	546,033	-	546,033
Debt Service	336,910	2,111,766	2,448,676
Housing	-	65,554	65,554
Unrestricted	(27,786,826)	(3,038,878)	(30,825,704)
Total Net Position	<u>\$ 12,508,922</u>	<u>\$ 72,657,492</u>	<u>\$ 85,166,414</u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

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	\$ 5,277,240	\$ 1,123,675	\$ 173,569	\$ -	\$ (3,979,996)	\$ -	\$ (3,979,996)
Public Safety	13,540,694	1,082,141	4,878,933	147,941	(7,431,679)	-	(7,431,679)
Highways and Streets	3,555,707	6,868	2,842,263	-	(706,576)	-	(706,576)
Culture and Recreation	1,773,108	48,217	1,187,255	-	(537,636)	-	(537,636)
Interest on Long-Term Debt	900,553	-	-	-	(900,553)	-	(900,553)
Total Governmental Activities	25,047,302	2,260,901	9,082,020	147,941	(13,556,440)	-	(13,556,440)
Business-Type Activities:							
Sewer	6,158,109	3,615,510	-	6,000	-	(2,536,599)	(2,536,599)
Water	4,091,759	4,351,077	-	6,000	-	265,318	265,318
Sanitation	2,358,857	2,890,525	-	-	-	531,668	531,668
NHA	2,640,299	2,643,216	-	-	-	2,917	2,917
Total Business-Type Activities	15,249,024	13,500,328	-	12,000	-	(1,736,696)	(1,736,696)
Total Primary Government	<u>\$ 40,296,326</u>	<u>\$ 15,761,229</u>	<u>\$ 9,082,020</u>	<u>\$ 159,941</u>	<u>(13,556,440)</u>	<u>(1,736,696)</u>	<u>(15,293,136)</u>
GENERAL REVENUES							
Taxes:							
Sales Taxes					12,815,867	-	12,815,867
Franchise Taxes					678,577	-	678,577
Impact Fees					-	339,300	339,300
State Revenue Sharing					7,623,591	-	7,623,591
Investment Earnings					(507,641)	(223,939)	(731,580)
Other					406,773	179,613	586,386
Total General Revenues					<u>21,017,167</u>	<u>294,974</u>	<u>21,312,141</u>
CHANGE IN NET POSITION							
					7,460,727	(1,441,722)	6,019,005
Net Position - Beginning					<u>5,048,195</u>	<u>74,099,214</u>	<u>79,147,409</u>
NET POSITION - END					<u>\$ 12,508,922</u>	<u>\$ 72,657,492</u>	<u>\$ 85,166,414</u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022**

ASSETS	General	Streets/HURF	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Investments	\$ 19,279,073	\$ 5,103,858	\$ 873,040	\$ 25,255,971
Restricted Assets	16,038,439	-	336,910	16,375,349
Receivables, Net:				
Accounts	494,429	1,516	-	495,945
Intergovernmental	242,337	289,089	471,112	1,002,538
Taxes	1,742,745	-	-	1,742,745
Leases Receivable	110,569	-	-	110,569
Prepaid Items	669,472	-	-	669,472
Total Assets	<u>\$ 38,577,064</u>	<u>\$ 5,394,463</u>	<u>\$ 1,681,062</u>	<u>\$ 45,652,589</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 790,784	\$ 85,011	\$ 292,543	\$ 1,168,338
Accrued Wages and Benefits	498,467	11,347	41,576	551,390
Customer Deposits Payable	38,439	-	-	38,439
Total Liabilities	1,327,690	96,358	334,119	1,758,167
DEFERRED INFLOWS OF RESOURCES				
Leases Related	109,779	-	-	109,779
FUND BALANCES				
Nonspendable:	669,472	-	-	669,472
Restricted	41,276	5,613,081	1,345,019	6,999,376
Assigned	-	-	1,924	1,924
Unassigned	36,428,847	(314,976)	-	36,113,871
Total Fund Balances	37,139,595	5,298,105	1,346,943	43,784,643
Total Liabilities and Fund Balances	<u>\$ 38,577,064</u>	<u>\$ 5,394,463</u>	<u>\$ 1,681,062</u>	<u>\$ 45,652,589</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, 2022

Total Fund Balances for Governmental Funds \$ 43,784,643

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)	101,317,587
Less: Accumulated Depreciation (Less Internal Service Fund)	(55,804,687)
Capital Assets Used in Governmental Activities (Less Internal Service Fund)	45,512,900

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	(26,977,352)
Deferred Amount on Refunding	239,949
Bond Premium	(165,025)
Compensated Absences (Less Internal Service Fund)	(1,481,839)
Net OPEB Asset (Liability)	(10,801,454)
Net Pension Liability (Less Internal Service Fund)	(35,323,189)

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

Deferred Outflows of Resources Related to Pensions (Less Internal Service Fund)	7,249,983
Deferred Inflows of Resources Related to Pensions (Less Internal Service Fund)	(7,244,684)
Deferred Outflows of Resources Related to OPEB	515,717
Deferred Inflows of Resources Related to OPEB	(4,770,024)

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	2,238,282
Less: Amount Attributed to the Business-Type Activities	(268,985)
	1,969,297

Total Net Position of Governmental Activities **\$ 12,508,922**

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

	General	Streets/HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 12,815,867	\$ -	\$ -	\$ 12,815,867
Franchise Taxes	678,577	-	-	678,577
Intergovernmental	11,564,328	2,842,059	2,447,165	16,853,552
Fines and Forfeitures	172,977	-	-	172,977
Licenses and Permits	920,900	-	-	920,900
Charges for Services	1,167,024	-	-	1,167,024
Investment Earnings (Loss)	(508,057)	-	416	(507,641)
Other	340,902	45,431	20,438	406,771
Total Revenues	<u>27,152,518</u>	<u>2,887,490</u>	<u>2,468,019</u>	<u>32,508,027</u>
EXPENDITURES				
Current:				
General Government	5,415,894	-	1,314,629	6,730,523
Public Safety	13,203,257	-	1,387,010	14,590,267
Highways and Streets	1,002,704	2,799,409	-	3,802,113
Culture and Recreation	2,165,460	-	25,000	2,190,460
Debt Service:				
Principal Retirement	1,148,301	10,590	456,575	1,615,466
Interest on Long-Term Debt	115,052	1,472	426,463	542,987
Issuance Costs	355,000	-	-	355,000
Total Expenditures	<u>23,405,668</u>	<u>2,811,471</u>	<u>3,609,677</u>	<u>29,826,816</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,746,850	76,019	(1,141,658)	2,681,211
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	882,640	882,640
Transfers Out	(491,645)	(390,995)	-	(882,640)
Issuance of Long-Term Debt	16,355,000	-	-	16,355,000
Total Other Financing Sources (Uses)	<u>15,863,355</u>	<u>(390,995)</u>	<u>882,640</u>	<u>16,355,000</u>
NET CHANGE IN FUND BALANCE	19,610,205	(314,976)	(259,018)	19,036,211
Fund Balance - Beginning of Year	<u>17,529,390</u>	<u>5,613,081</u>	<u>1,605,961</u>	<u>24,748,432</u>
FUND BALANCE - END OF YEAR	<u>\$ 37,139,595</u>	<u>\$ 5,298,105</u>	<u>\$ 1,346,943</u>	<u>\$ 43,784,643</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, 2022

Net Change in Fund Balances - Total Governmental Funds \$ 19,036,211

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

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

Expenditures for Capital Assets	3,210,484
Less: Current Year Depreciation (Less Internal Service Fund)	(2,312,651)
Excess Depreciation over Capital Expenditures	897,833

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. 41,565

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

Issuance of Long-Term Debt	(16,355,000)
Principal Payments on Long-Term Revenue Bonds	456,575
Principal Payments on Bonds	1,140,000
Principal Payments on Capital Leases	18,872
Amortization of Bond Premium	13,450
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)	4,058,409
Pension Expense (Less Internal Service Fund)	(3,328,958)
OPEB Contributions	315,235
OPEB Expense	802,624

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)	31,826
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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	438,868
Less: Amount Attributable to the Business-Type Activities	(90,767)
Subtotal	348,101

Change in Net Position of Governmental Activities **\$ 7,460,727**

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE — BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2022**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 11,019,738	\$ 13,494,444	\$ 2,474,706
Intergovernmental	7,701,665	11,564,328	3,862,663
Fines and Forfeitures	200,000	172,977	(27,023)
Licenses and Permits	1,098,395	920,900	(177,495)
Charges for Services	1,190,500	1,167,024	(23,476)
Investment Earnings (Loss)	287,000	(508,057)	(795,057)
Other	731,440	340,902	(390,538)
Total Revenues	<u>22,228,738</u>	<u>27,152,518</u>	<u>4,923,780</u>
EXPENDITURES			
Current:			
General Government:			
Mayor and Elections	157,408	91,167	66,241
Council	168,288	98,225	70,063
Administration	560,472	474,062	86,410
Finance	1,237,239	1,174,874	62,365
Human Resources	314,190	291,909	22,281
MIS	775,143	712,297	62,846
Planning and Zoning	486,099	486,789	(690)
City Attorney	635,528	470,869	164,659
City Court	615,924	519,908	96,016
Cemetery	236,545	129,092	107,453
Nondepartmental	10,202,567	966,702	9,235,865
Total General Government	<u>15,389,403</u>	<u>5,415,894</u>	<u>9,973,509</u>
Public Safety:			
Police	8,034,820	6,500,403	1,534,417
Fire	7,052,207	6,291,929	760,278
Animal Control	315,000	410,925	(95,925)
Total Public Safety	<u>15,402,027</u>	<u>13,203,257</u>	<u>2,198,770</u>
Highways and Streets:			
Nogales Rides	54,300	57,337	(3,037)
Facilities Maintenance	990,558	778,037	212,521
Engineering	232,427	167,330	65,097
Total Highways and Streets	<u>1,277,285</u>	<u>1,002,704</u>	<u>274,581</u>
Culture and Recreation:			
Parks	2,289,216	915,618	1,373,598
Recreation	685,564	662,025	23,539
Library	633,042	582,789	50,253
Golf Course	11,000	5,028	5,972
Total Culture and Recreation	<u>3,618,822</u>	<u>2,165,460</u>	<u>1,453,362</u>
Debt Service:			
Principal Retirement	40,155	1,148,301	(1,108,146)
Interest on Long-Term Debt	7	115,052	(115,045)
Issuance Costs	-	355,000	(355,000)
Total Debt Service	<u>40,162</u>	<u>1,618,353</u>	<u>(1,578,191)</u>
Total Expenditures	<u>35,727,699</u>	<u>23,405,668</u>	<u>12,322,031</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,498,961)	3,746,850	17,245,811
OTHER FINANCING SOURCES (USES)			
Transfers Out	(238,119)	(491,645)	(253,526)
Issuance of Long-Term Debt	-	16,355,000	16,355,000
Total Other Financing Sources (Uses)	<u>(238,119)</u>	<u>15,863,355</u>	<u>16,101,474</u>
NET CHANGE IN FUND BALANCE	(13,737,080)	19,610,205	33,347,285
Fund Balance - Beginning of Year	17,529,390	17,529,390	-
FUND BALANCE - END OF YEAR	<u>\$ 3,792,310</u>	<u>\$ 37,139,595</u>	<u>\$ 33,347,285</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, 2022**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 2,464,603	\$ 2,842,059	\$ 377,456
Other	5,000	45,431	40,431
Total Revenues	<u>2,469,603</u>	<u>2,887,490</u>	<u>417,887</u>
EXPENDITURES			
Current:			
Highways and Streets	4,094,306	2,799,409	1,294,897
Debt Service:			
Principal Retirement	295,770	10,590	285,180
Interest on Long-Term Debt	106,383	1,472	104,911
Total Expenditures	<u>4,496,459</u>	<u>2,811,471</u>	<u>1,684,988</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,026,856)	76,019	2,102,875
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(71,338)</u>	<u>(390,995)</u>	<u>(319,657)</u>
NET CHANGE IN FUND BALANCE	(2,098,194)	(314,976)	1,783,218
Fund Balance - Beginning of Year	<u>5,613,081</u>	<u>5,613,081</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 3,514,887</u></u>	<u><u>\$ 5,298,105</u></u>	<u><u>\$ 1,783,218</u></u>

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2022

	Business-Type Funds - Enterprise Funds				Totals	Governmental
	Sewer	Water	Sanitation	NHA		Activities
ASSETS						Service Funds
Current Assets:						
Cash and Cash Equivalents	\$ 2,512,202	\$ 4,234,518	\$ 2,383,440	\$ 2,622,908	\$ 11,753,068	\$ 3,115,754
Investments	-	-	-	137,806	137,806	-
Receivables, Net:						
Accounts	395,213	432,414	241,752	30,281	1,099,660	96,964
Intergovernmental	-	-	-	38,972	38,972	-
Lease	-	19,628	-	-	19,628	-
Inventories	-	-	-	7,051	7,051	47,441
Prepaid Items	-	-	-	51,640	51,640	-
Restricted Assets	2,391,944	1,041,466	(1,865)	116,979	3,548,524	-
OPEB Assets	-	-	-	19,367	19,367	-
Total Current Assets	<u>5,299,359</u>	<u>5,728,026</u>	<u>2,623,327</u>	<u>3,025,004</u>	<u>16,675,716</u>	<u>3,260,159</u>
Noncurrent Assets:						
Advances to Other Funds	49,100	-	-	-	49,100	-
Leases Receivable	-	514,141	-	-	514,141	-
Capital Assets:						
Nondepreciable	410,971	3,275,874	-	1,304,380	4,991,225	-
Depreciable (Net)	56,716,223	21,453,862	506,874	6,030,542	84,707,501	21,017
Total Noncurrent Assets	<u>57,176,294</u>	<u>25,243,877</u>	<u>506,874</u>	<u>7,334,922</u>	<u>90,261,967</u>	<u>21,017</u>
Total Assets	<u>62,475,653</u>	<u>30,971,903</u>	<u>3,130,201</u>	<u>10,359,926</u>	<u>106,937,683</u>	<u>3,281,176</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Amount on Refunding	966,718	174,341	5,718	-	1,146,777	-
Pension Related	78,622	168,298	168,344	123,904	539,168	79,621
OPEB Related	31,820	54,354	92,019	39,124	217,317	-
Total Deferred Outflows of Resources	<u>1,077,160</u>	<u>396,993</u>	<u>266,081</u>	<u>163,028</u>	<u>1,903,262</u>	<u>79,621</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable	154,348	596,784	90,774	149,716	991,622	38,643
Accrued Wages and Benefits	14,044	30,786	23,008	140,235	208,073	11,944
Intergovernmental Payable	5,588,585	1,004	-	-	5,589,589	-
Unearned Revenue	-	-	-	74,566	74,566	-
Customer Deposits Payable	-	916,370	-	51,425	967,795	-
Claims Payable	-	-	-	-	-	592,718
Judgements Payable	-	86,952	-	-	86,952	-
Due To Other Funds	-	-	-	-	-	-
Compensated Absences	16,434	46,387	39,952	36,436	139,209	23,908
Capital Leases Payable	-	-	-	-	-	-
Bonds and Notes Payable	196,985	590,386	5,458	-	792,829	-
Total Current Liabilities	<u>5,970,396</u>	<u>2,268,669</u>	<u>159,192</u>	<u>452,378</u>	<u>8,850,635</u>	<u>667,213</u>
Noncurrent Liabilities:						
Advances from Other Funds	-	-	49,100	-	49,100	-
Compensated Absences	49,655	55,226	22,378	4,049	131,308	5,075
OPEB Liability	828,080	1,414,496	2,394,673	926,925	5,564,174	-
Bonds and Notes Payable	7,208,506	8,875,968	79,167	-	16,163,641	-
Net Pension Liability	321,635	709,187	631,839	532,513	2,195,174	317,413
Total Noncurrent Liabilities	<u>8,407,876</u>	<u>11,054,877</u>	<u>3,177,157</u>	<u>1,463,487</u>	<u>24,103,397</u>	<u>322,488</u>
Total Liabilities	<u>14,378,272</u>	<u>13,323,546</u>	<u>3,336,349</u>	<u>1,915,865</u>	<u>32,954,032</u>	<u>989,701</u>
DEFERRED INFLOWS OF RESOURCES						
Leases	-	530,063	-	-	530,063	-
Pension Related	134,581	296,743	264,379	222,818	918,521	132,814
OPEB Related	302,617	516,920	875,120	355,165	2,049,822	-
Total Deferred Inflows of Resources	<u>437,198</u>	<u>1,343,726</u>	<u>1,139,499</u>	<u>577,983</u>	<u>3,498,406</u>	<u>132,814</u>
NET POSITION						
Net Investment in Capital Assets	50,646,661	15,109,500	427,967	7,334,922	73,519,050	21,017
Restricted for Debt Service	2,139,160	(25,529)	(1,865)	-	2,111,766	-
Restricted for Housing	-	-	-	65,554	65,554	-
Unrestricted	(4,048,478)	1,617,653	(1,505,668)	628,630	(3,307,863)	2,217,265
Total Net Position	<u>\$ 48,737,343</u>	<u>\$ 16,701,624</u>	<u>\$ (1,079,566)</u>	<u>\$ 8,029,106</u>	<u>72,388,507</u>	<u>\$ 2,238,282</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					268,985	
Net Position of Business-Type Activities					<u>\$ 72,657,492</u>	

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2022

	Business-Type Funds - Enterprise Funds					Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA	Totals	
OPERATING REVENUES						
Charges for Services	\$ 3,615,510	\$ 4,351,077	\$ 2,890,525	\$ -	\$ 10,857,112	\$ 4,434,672
Rents and Royalties	-	-	-	657,817	657,817	-
Operating and Capital Grants	-	-	-	1,941,465	1,941,465	-
Other Income	-	23,046	-	43,934	66,980	-
Total Operating Revenues	<u>3,615,510</u>	<u>4,374,123</u>	<u>2,890,525</u>	<u>2,643,216</u>	<u>13,523,374</u>	<u>4,434,672</u>
OPERATING EXPENSES						
Cost of Sales and Services	3,906,366	2,872,665	2,328,510	2,203,985	11,311,526	1,850,642
Claims	-	-	-	-	-	2,087,640
OPEB and Pension Expense	(48,023)	(3,555)	8,358	(56,743)	(99,963)	-
Depreciation	1,987,762	918,255	61,670	493,172	3,460,859	13,731
Total Operating Expenses	<u>5,846,105</u>	<u>3,787,365</u>	<u>2,398,538</u>	<u>2,640,414</u>	<u>14,672,422</u>	<u>3,952,013</u>
OPERATING INCOME (LOSS)	(2,230,595)	586,758	491,987	2,802	(1,149,048)	482,659
NONOPERATING REVENUES (EXPENSES)						
Development Impact Fees	241,556	97,744	-	-	339,300	-
Investment Earnings (Loss)	2,636	(226,883)	8	300	(223,939)	(46,491)
Interest Expense	(320,161)	(317,026)	(11,847)	-	(649,034)	-
Miscellaneous Nonoperating Revenues	133,924	25,083	20,606	-	179,613	2,700
Total Nonoperating Revenues (Expenses)	<u>57,955</u>	<u>(421,082)</u>	<u>8,767</u>	<u>300</u>	<u>(354,060)</u>	<u>(43,791)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(2,172,640)	165,676	500,754	3,102	(1,503,108)	438,868
Capital Contributions	6,000	6,000	-	-	12,000	-
CHANGE IN NET POSITION	(2,166,640)	171,676	500,754	3,102	(1,491,108)	438,868
Net Position - Beginning of Year	50,903,983	16,529,948	(1,580,320)	8,026,004		1,799,414
NET POSITION - END OF YEAR	<u>\$ 48,737,343</u>	<u>\$ 16,701,624</u>	<u>\$ (1,079,566)</u>	<u>\$ 8,029,106</u>		<u>\$ 2,238,282</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					90,767	
Change in Net Position of Business-Type Activities					<u>\$ (1,400,341)</u>	

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022**

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Funds
	Sewer	Water	Sanitation	NHA	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 3,627,085	\$ 4,360,089	\$ 2,888,219	\$ 664,014	\$ 11,539,407	\$ 4,424,598
Operating Grants	-	-	-	1,706,792	1,706,792	-
Payments to Suppliers	(3,142,495)	(2,446,133)	(1,392,940)	(1,596,121)	(8,577,689)	(1,424,663)
Payments to Employees	(452,675)	(744,307)	(1,034,258)	(414,975)	(2,646,215)	(455,464)
Payments for Claims	-	-	-	-	-	(1,964,569)
Other Receipts	133,924	25,083	20,606	43,934	223,547	2,700
Customer Deposits Payable	-	95,557	-	-	95,557	-
Net Cash Provided (Used) by Operating Activities	165,839	1,290,289	481,627	403,644	2,341,399	582,602
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund Borrowing	-	-	-	-	-	(64,318)
Development Impact Fees	241,556	97,744	-	-	339,300	-
Net Cash Provided (Used) by Noncapital Financing Activities	241,556	97,744	-	-	339,300	(64,318)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Intergovernmental Revenues	6,001	106,000	-	-	112,001	-
Purchases of Capital Assets	(928,973)	(1,226,753)	(20,634)	(214,258)	(2,390,618)	-
Capital Grants Received	-	-	-	214,258	214,258	-
Principal Paid on Capital Debt	(337,116)	(975,520)	(5,313)	-	(1,317,949)	-
Interest Paid on Capital Debt	(267,862)	(314,494)	(11,557)	-	(593,913)	-
Net Cash Used by Capital and Related Financing Activities	(1,527,950)	(2,410,767)	(37,504)	-	(3,976,221)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Transfer from Investments	-	-	-	36,122	36,122	-
Investment Earnings	2,636	(226,883)	8	(800)	(225,039)	(46,491)
Net Cash Provided by Investing Activities	2,636	(226,883)	8	35,322	(188,917)	(46,491)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,117,919)	(1,249,617)	444,131	438,966	(1,484,439)	471,793
Cash and Cash Equivalents - Beginning of Year	6,022,065	6,525,601	1,937,444	2,300,921	16,786,031	2,643,961
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,904,146</u>	<u>\$ 5,275,984</u>	<u>\$ 2,381,575</u>	<u>\$ 2,739,887</u>	<u>\$ 15,301,592</u>	<u>\$ 3,115,754</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION						
Cash and Cash Equivalents	\$ 2,512,202	\$ 4,234,518	\$ 2,383,440	\$ 2,622,908	\$ 11,753,068	\$ 3,115,754
Restricted Assets	2,391,944	1,041,466	(1,865)	116,979	3,548,524	-
Total Cash and Cash Equivalents	<u>\$ 4,904,146</u>	<u>\$ 5,275,984</u>	<u>\$ 2,381,575</u>	<u>\$ 2,739,887</u>	<u>\$ 15,301,592</u>	<u>\$ 3,115,754</u>

See accompanying Notes to Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

	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)	\$ (2,230,595)	\$ 586,758	\$ 491,987	\$ (211,456)	\$ (1,363,306)	\$ 482,659
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	1,987,762	918,255	61,670	493,172	3,460,859	13,731
Bad Debt Expense	-	-	-	5,120	5,120	-
Nonoperating Receipts	133,924	25,083	20,606	-	179,613	2,700
Change in Assets/Liabilities:						
Receivables	11,575	(10,328)	(2,306)	(31,129)	(32,188)	(10,074)
Leases Receivable	-	(533,769)	-	-	(533,769)	-
Prepaid Items	-	-	-	(11,432)	(11,432)	-
Inventories	-	-	-	(1,171)	(1,171)	(17,938)
Deferred Outflows of Resources Accounts and Intergovernmental Payable	906	(939)	(29,863)	-	(29,896)	(1,740)
Accrued Wages and Benefits	361,170	(115,085)	31,428	116,685	394,198	1,778
Unearned Revenue	1,741	3,524	2,615	94,544	102,424	1,445
Other Postemployment Benefits	-	-	-	22,031	22,031	-
Net Pension Liability	50,174	86,500	145,890	(19,367)	263,197	-
Claims Payable	(160,208)	(262,019)	(176,092)	(107,184)	(705,503)	(121,172)
Customer Deposits Payable	-	-	-	-	-	123,071
Deferred Inflows of Resources	-	95,557	-	340	95,897	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,390</u>	<u>\$ 605,035</u>	<u>\$ (64,308)</u>	<u>\$ 53,491</u>	<u>\$ 603,608</u>	<u>\$ 108,142</u>
	<u>\$ 165,839</u>	<u>\$ 1,290,289</u>	<u>\$ 481,627</u>	<u>\$ 403,644</u>	<u>\$ 2,341,399</u>	<u>\$ 582,602</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	<u>\$ (57,052)</u>	<u>\$ (11,707)</u>	<u>\$ (369)</u>	<u>\$ -</u>	<u>\$ (69,128)</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022 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, 2022

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, 2022

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, 2022

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

New Accounting Pronouncements

GASB Statement No. 87, *Leases*, provides new guidance for recognition of operating leases and the related assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The City implemented this Statement in fiscal year 2022.

GASB Statement No. 91, *Conduit Debt Obligations*. This Statement defines conduit debt obligations for accounting and financial reporting purposes and establishes related standards for recognition, measurement, and disclosure for issuers. The requirements of this Statement will take effect for reporting periods beginning after December 31, 2020. The City implemented this Statement in fiscal year 2022, with no effect.

Implementation Guide No. 2020-1, *Implementation Guidance Update – 2020*, provides guidance that clarifies, explains or elaborates on GASB Statements and Interpretations. The requirements of this Implementation Guide are effective for reporting periods beginning after June 15, 2021. The requirements of this Implementation Guide was implemented in fiscal year 2022, with no effect.

GASB Statement No. 96 *Subscription-Based Information Technology* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The City will implement this Statement in fiscal year 2023. Although expected to be significant, the City has not fully determined the effects that implementation of Statement No. 96 will have on the City's financial statements.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables

Receivables include all trade receivables, intergovernmental receivables for earned, but not yet received sales tax, state shared revenues, federal and state grants, and interest revenue, 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.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 and the public safety retirement plan contributions.

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.

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2022

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, 2022 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, 2022

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, 2022, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Nonspendable:				
Prepays	\$ 669,472	\$ -	\$ -	\$ 669,472
Restricted:				
Impound Fees	41,276	-	-	41,276
Streets	-	5,613,081	-	5,613,081
Local Transportation				
Assistance	-	-	348,018	348,018
Federal and State Grants	-	-	660,091	660,091
Debt Service	-	-	336,910	336,910
Assigned:				
Capital Outlay	-	-	1,924	1,924
Unassigned	36,428,847	(314,976)	-	36,113,871
Total Fund Balance	<u>\$ 37,139,595</u>	<u>\$ 5,298,105</u>	<u>\$ 1,346,943</u>	<u>\$ 43,784,643</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds/departments:

	<u>Amount of Overexpenditure</u>
General Fund:	
Planning And Zoning	\$ 690
Animal Control	\$ 95,925
Nogales Rides	\$ 3,037

Cash was available to meet all the overexpenditures listed above.

C. Deficit Fund Equity

A deficit net position in the amount of \$1,079,566 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, 2022 consist of the following:

Deposits:	
Cash on Hand	\$ 4,246
Cash in Bank	13,337,807
Investments:	
Government Money Market Funds	4,941,695
U.S. Agency Securities	12,854,234
Marketable Certificate of Deposits	12,910,684
Housing Certificate of Deposit	137,806
Total Deposits and Investments	<u>44,186,472</u>
Less: Restricted Cash and Investments	<u>(19,923,873)</u>
Total Deposits and Investments	<u><u>\$ 24,262,599</u></u>

Deposits – The carrying value of the City’s deposits at June 30, 2022 was \$13,337,807 and the bank balance was \$13,404,720 of which \$1,137,806 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, 2022

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	\$ 12,854,234	\$ 12,854,234	\$ -
Marketable Certificate of Deposits	13,048,490	2,880,984	10,167,506
Money Market Funds	4,941,695	4,941,695	-
Total Investments	<u>\$ 30,844,419</u>	<u>\$ 20,676,913</u>	<u>\$ 10,167,506</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	\$ 11,853,996
Federal Home Loan	AA+	Moody's	1,000,238
Marketable Certificate of Deposits	N/R	N/R	13,048,490
Money Market Funds	N/R	N/R	4,941,695
Total			<u>\$ 30,844,419</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

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

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

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

The City's investments were measured as follows at June 30, 2022:

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities:				
U.S. Agency Securities	\$ 12,854,234	\$ -	\$ 12,854,234	\$ -
Marketable Certificate of Deposits	13,048,490	-	13,048,490	-
Total Investments by Fair Value Level	25,902,724	<u>\$ -</u>	<u>\$ 25,902,724</u>	<u>\$ -</u>
 Investments Measured at Amortized Cost				
Money Market Funds	4,941,695			
Total Investments	<u>\$ 30,844,419</u>			

2. Restricted Assets

Restricted assets of the City at June 30, 2022 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	336,910	2,111,766	2,448,676
Debt Service Reserve	-	150,625	150,625
Future PSPRS Contributions	16,000,000	-	16,000,000
Customer Deposits	38,439	916,370	954,809
NHA Grant and Housing Funds	-	116,979	116,979
Total	<u>\$ 16,375,349</u>	<u>\$ 3,548,524</u>	<u>\$ 19,923,873</u>

The \$16 million in bond proceeds, further described in Note 3D, was invested in a trust account with \$12.3 million invested in a government money market fund and \$3.7 million in equity mutual funds.

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 \$1,871,750 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$861,406 for utility billings.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,314,134	\$ 3,000	\$ -	\$ 2,317,134
Construction in Progress	790,607	1,363,699	(41,565)	2,112,741
Total Capital Assets, Not Being Depreciated	3,104,741	1,366,699	(41,565)	4,429,875
Capital Assets, Being Depreciated:				
Infrastructure	64,462,796	11,345	-	64,474,141
Buildings	9,840,411	309,246	-	10,149,657
Improvements Other than Buildings	4,380,295	27,005	-	4,407,300
Vehicles, Machinery and Equipment	16,758,706	1,496,189	(363,533)	17,891,362
Total Capital Assets, Being Depreciated	95,442,208	1,843,785	(363,533)	96,922,460
Accumulated Depreciation for:				
Infrastructure	(31,060,777)	(1,362,620)	-	(32,423,397)
Buildings	(6,928,568)	(199,517)	-	(7,128,085)
Improvements Other than Buildings	(2,079,196)	(107,807)	-	(2,187,003)
Vehicles, Machinery, and Equipment	(13,828,593)	(656,438)	405,098	(14,079,933)
Total Accumulated Depreciation	(53,897,134)	(2,326,382)	405,098	(55,818,418)
Total Capital Assets, Being Depreciated, Net	41,545,074	(482,597)	41,565	41,104,042
Governmental Activities Capital Assets, Net	<u>\$ 44,649,815</u>	<u>\$ 884,102</u>	<u>\$ -</u>	<u>\$ 45,533,917</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 181,428
Public Safety	473,798
Highways and Streets	1,500,115
Culture and Recreation	171,041
Total Depreciation Expense	<u>\$ 2,326,382</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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	\$ 3,000	\$ -	\$ 3,106,782
Construction in Progress	649,503	1,365,889	(130,949)	1,884,443
Total Capital Assets, Not Being Depreciated	3,753,285	1,368,889	(130,949)	4,991,225
Capital Assets, Being Depreciated:				
Infrastructure	119,846,710	-	-	119,846,710
Buildings	24,083,336	-	130,949	24,214,285
Improvements Other than Buildings	1,157,792	79,865	-	1,237,657
Vehicles, Machinery and Equipment	10,455,190	599,682	(204,548)	10,850,324
Total Capital Assets, Being Depreciated	155,543,028	679,547	(73,599)	156,148,976
Accumulated Depreciation for:				
Infrastructure	(43,623,361)	(2,599,900)	-	(46,223,261)
Buildings	(15,111,117)	(591,902)	21,372	(15,681,647)
Improvements Other than Buildings	(516,772)	(33,704)	-	(550,476)
Vehicles, Machinery and Equipment	(8,928,439)	(240,828)	183,176	(8,986,091)
Total Accumulated Depreciation	(68,179,689)	(3,466,334)	204,548	(71,441,475)
Total Capital Assets, Being Depreciated, Net	87,363,339	(2,786,787)	130,949	84,707,501
Business-Type Activities Capital Assets, Net	<u>\$ 91,116,624</u>	<u>\$ (1,417,898)</u>	<u>\$ -</u>	<u>\$ 89,698,726</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:

Sewer	\$ 1,987,762
Water	923,730
Sanitation	61,670
Nogales Housing Authority	493,172
Total Depreciation Expense	<u>\$ 3,466,334</u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The City has active construction projects at June 30, 2022. 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, 2022 interfund receivable and payables were as follows:

	Due To General Fund
Due From Internal Service Fund	\$ -

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, 2022 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, 2022, transfers were as follows:

	Transfers In Nonmajor Governmental Funds
Transfers Out General Fund	\$ 491,645
HURF Fund	390,995
Total	\$ 882,640

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, 2022

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	\$ 3,604,679
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	1,703,663
Municipal Facilities Revenue				
Refunding Bonds, Series 2019	3.50-4.00	6/1/21-39	1,005,675	944,460
Municipal Facilities Revenue				
Pledged Revenue Obligation, Series 2022			16,355,000	15,215,000
	1.83-3.88	6/1/22-38		
Total Governmental Activities			<u>\$ 30,327,590</u>	<u>\$ 26,977,352</u>
Business-Type Activities:				
Municipal Facilities Revenue				
Refunding Bonds, Series 2014	3.00-3.625	6/30/21-30	\$ 6,754,098	\$ 4,335,314
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	4,726,337
Municipal Facilities Revenue				
Refunding Bonds, Series 2019	3.50-4.00	6/1/21-39	4,744,325	4,455,540
Total Business-Type Activities			<u>\$ 18,902,410</u>	<u>\$ 15,812,641</u>

The City has pledged excise tax revenues of the General Fund to repay \$11.8 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 \$15,871,285. Principal and interest paid for the current year and total excise taxes were \$882,719 and \$23,402,660, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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 \$21,528,701.

During the fiscal year ended June 30, 2022, 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. 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 \$20,060,306.

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 \$1,567,270.

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, 2022.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in governmental long-term obligations for the year ended June 30, 2022 are as follows:

	July 1, 2021	Increases	Decreases	June 30, 2022	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 12,218,927	\$ 16,355,000	\$ (1,596,575)	\$ 26,977,352	\$ 468,800
Deferred Amounts:					
Premium	178,475	-	(13,450)	165,025	-
Total Bonds	<u>12,397,402</u>	<u>16,355,000</u>	<u>(1,610,025)</u>	<u>27,142,377</u>	<u>468,800</u>
Other Liabilities:					
Capital Leases	18,872	-	(18,872)	-	-
Compensated Absences	1,519,604	797,344	(829,170)	1,487,778	831,919
Total Other Liabilities	<u>1,538,476</u>	<u>797,344</u>	<u>(848,042)</u>	<u>1,487,778</u>	<u>831,919</u>
Governmental Activities Long-Term Liabilities	<u>\$ 13,935,878</u>	<u>\$ 17,152,344</u>	<u>\$ (2,458,067)</u>	<u>\$ 28,630,155</u>	<u>\$ 1,300,719</u>

Changes in business-type long-term obligations for the year ended June 30, 2022 are as follows:

	July 1, 2021	Increases	Decreases	June 30, 2022	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 16,496,066	\$ -	\$ (683,425)	\$ 15,812,641	\$ 701,201
Premium	191,280	-	(14,007)	177,273	-
Total Bonds Payable	<u>16,687,346</u>	<u>-</u>	<u>(697,432)</u>	<u>15,989,914</u>	<u>701,201</u>
Other Liabilities:					
Notes Payable - Direct Borrowing	1,579,084	-	(89,603)	1,489,481	91,628
Capital Leases	21,996	-	(21,996)	-	-
Compensated Absences	266,214	118,225	(113,922)	270,517	139,209
Business-Type Activities Long-Term Liabilities	<u>\$ 18,554,640</u>	<u>\$ 118,225</u>	<u>\$ (922,953)</u>	<u>\$ 17,749,912</u>	<u>\$ 932,038</u>

Debt service requirements on long-term debt at June 30, 2022 are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 1,238,800	\$ 896,372	\$ 701,201	\$ 552,905
2024	1,268,674	867,154	726,326	531,407
2025	1,298,169	835,334	746,832	507,771
2026	1,334,863	800,818	775,138	483,437
2027	1,374,737	763,177	800,263	457,421
2028-2032	8,011,204	3,149,135	4,178,797	1,841,141
2033-2037	10,302,320	1,546,911	4,507,681	1,161,462
2038-2039	2,148,585	95,338	3,376,403	180,516
Total	<u>\$ 26,977,352</u>	<u>\$ 8,954,239</u>	<u>\$ 15,812,641</u>	<u>\$ 5,716,060</u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

<u>Year Ending June 30,</u>	Direct Borrowings Business-Type Activities	
	Principal	Interest
2023	\$ 91,628	\$ 10,638
2024	93,700	9,925
2025	95,818	9,195
2026	97,985	8,450
2027	100,200	7,687
2028-2032	536,027	26,381
2033-2037	474,123	5,513
Total	\$ 1,489,481	\$ 77,789

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, 2022, the City reported \$86,952 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

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, 2022. 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, 2022 is based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount for the years ended June 30, 2022 and 2021 were as follows:

	Claims Liability at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at End of Year
2021-22	\$ 469,647	\$ 1,964,569	\$ (1,964,569)	\$ 469,647
2020-21	\$ 369,544	\$ 1,953,570	\$ (1,853,467)	\$ 469,647

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.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Firefighters Relief and Pension Fund (Continued)

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.

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, 2022 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	\$ 35,640,602	\$ 2,195,174	\$ 37,835,776
Deferred Outflows of Resources	7,329,604	539,168	7,868,772
Deferred Inflows of Resources	7,377,498	918,521	8,296,019
Pension Expense	3,347,659	60,177	3,407,836

The City reported accrued payroll and employee benefits of \$59,854 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2022. Additionally, the City reported \$3,347,659 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Cost-Sharing and Agent Multiple-Employer Pension Plans (Continued)

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, 2022. For the year ended March 31, 2022, the Authority recognized pension expense of \$72,376, 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.

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 ears 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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, 2022, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.41% (12.22 pension plus 0.19% long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 12.01% of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 10.22% (10.13% pension plus, 0.09% long-term disability) 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.

The City's contribution to the pension plan for the year ended June 30, 2022 was \$784,289.

During the fiscal year ended June 30, 2022, the City paid for ASRS pension contributions as follows: 60% from the General Fund, 5% from the HURF Fund, 23% from major enterprise funds, and 12% from other funds.

Pension Liability – At June 30, 2022, the City reported a liability of \$7,234,640 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2021. 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, 2020, to the measurement date of June 30, 2021. 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, 2021, and the change from its proportions measured as of June 30, 2020. The City's proportion measured as of June 30, 2021, was 0.05506%, which was a decrease of 0.00458 from its proportion measured as of June 30, 2020.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2022, the City recognized pension expense for ASRS of \$106,284. At June 30, 2022, 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>
Differences Between Expected and Actual Experience	\$ 110,285	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,292,188
Changes of Assumptions or Other Inputs	941,646	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	734,982
City Contributions Subsequent to the Measurement Date	<u>784,289</u>	<u>-</u>
Total	<u><u>\$ 1,836,220</u></u>	<u><u>\$ 3,027,170</u></u>

The \$784,289 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>
2023	\$ (485,408)
2024	(194,616)
2025	(505,310)
2026	(789,905)

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

Actuarial Valuation Date	June 30, 2020
Actuarial Roll Forward Date	June 30, 2021
Actuarial Cost Method	Entry age normal
Discount Rate	7.0%
Projected Salary Increases	2.9 - 8.4%
Inflation	2.3%
Permanent Benefit Increase	Included
Mortality Rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.00% 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 Geometric Real Rate of Return</u>
Equity	50 %	4.90 %
Fixed Income - Credit	20	5.20
Real Estate	20	5.70
Fixed Income - Interest Rate Sensitive	10	0.70
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 7.0%. The rate has been lowered in the roll forward from 7.5% which was used for the actuarial assumptions at the valuation date. 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 7.0%, 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 (6.0%) or 1 percentage point higher (8.0%) than the current rate.

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
City's Proportionate Share of the Net Pension Liability	\$ 11,379,482	\$ 7,234,640	\$ 3,778,988

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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.

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		

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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.

Employees Covered by Benefit Terms – At June 30, 2022, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Police	PSPRS Firefighters
Inactive Employees or Beneficiaries Currently Receiving Benefits	39	36
Inactive Employees Entitled to But Not Yet Receiving Benefits	10	2
Active Employees	32	25
Total	<u>81</u>	<u>63</u>

Contributions – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2022, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police	PSPRS Firefighters
Active Members - Pension	<u>7.65% - 9.94%</u>	<u>7.65% - 9.94%</u>
City		
PSPRS Tier 1/2	66.81%	70.83%
PSPRS Tier 3	9.05%	9.05%

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	<u>55.37%</u>	<u>56.55%</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022, were:

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Pension:		
Contributions Made	\$ 1,754,525	\$ 1,773,049

During the fiscal year June 30, 2022, the City paid for PSPRS pension contributions 100% from the General Fund.

Pension Liability – At June 30, 2022, the City reported the following net pension liabilities:

	<u>Net Pension Liability</u>
PSPRS Police	\$ 14,500,551
PSPRS Firefighters	16,100,585

The net assets and net liabilities were measured as of June 30, 2021, 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, 2021
Measurement Date	June 30, 2021
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, 2021, 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, 2022

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 Geometric Real Rate of Return</u>
U.S. Public Equity	24.00 %	4.08 %
International Public Equity	16.00	5.20
Global Private Equity	20.00	7.67
Other Assets (Capital Appreciation)	7.00	5.43
Core Bonds	2.00	0.42
Private Credit	20.00	5.74
Diversifying Strategies	10.00	3.99
Cash - Mellon	1.00	(0.31)
Total	<u>100.00 %</u>	

Pension Discount Rates – 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, 2022

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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

	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
<u>PSPRS - Police</u>			
Balance at June 30, 2020	\$ 36,273,076	\$ 17,116,452	\$ 19,156,624
Adjustment to Beginning of Year	-	-	-
Changes for the Year:			
Service Cost	468,242	-	468,242
Interest on the Total Pension Liability	2,614,605	-	2,614,605
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(1,031,630)	-	(1,031,630)
Contributions - Employer	-	1,526,732	(1,526,732)
Contributions - Employee	-	188,314	(188,314)
Net Investment Income	-	5,015,600	(5,015,600)
Benefit Payments, Including Refunds of Employee Contributions	(1,849,628)	(1,849,628)	-
Administrative Expenses	-	(23,356)	23,356
Net Changes	<u>201,589</u>	<u>4,857,662</u>	<u>(4,656,073)</u>
Balances as of June 30, 2021	<u>\$ 36,474,665</u>	<u>\$ 21,974,114</u>	<u>\$ 14,500,551</u>
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
<u>PSPRS - Firefighters</u>			
Balance at June 30, 2020	\$ 30,422,500	\$ 13,029,716	\$ 17,392,784
Adjustment to Beginning of Year	-	-	-
Changes for the Year:			
Service Cost	451,068	-	451,068
Interest on the Total Pension Liability	2,185,260	-	2,185,260
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	1,676,612	-	1,676,612
Contributions - Employer	-	1,643,181	(1,643,181)
Contributions - Employee	-	130,790	(130,790)
Net Investment Income	-	3,849,014	(3,849,014)
Benefit Payments, Including Refunds of Employee Contributions	(1,876,999)	(1,876,999)	-
Administrative Expenses	-	(17,846)	17,846
Net Changes	<u>2,435,941</u>	<u>3,728,140</u>	<u>(1,292,199)</u>
Balances as of June 30, 2021	<u>\$ 32,858,441</u>	<u>\$ 16,757,856</u>	<u>\$ 16,100,585</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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	\$ 19,561,854	\$ 14,500,551	\$ 10,402,492
PSPRS Firefighters:			
Rate	6.30 %	7.30 %	8.30 %
Net Pension Liability	\$ 20,692,835	\$ 16,100,585	\$ 12,376,152

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, 2022, the City recognized the pension expense as follows:

	<u>Pension Expense</u>
PSPRS Police	\$ 1,222,293
PSPRS Firefighters	2,224,584

Pension Deferred Outflows/Inflows of Resources – At June 30, 2022, 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	\$ 145,346	\$ 951,790
Changes of Assumptions or Other Inputs	158,321	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,259,079
City Contributions Subsequent to the Measurement Date	1,754,525	-
Total	<u>\$ 2,058,192</u>	<u>\$ 3,210,869</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

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	\$ 1,800,636	\$ 314,284
Changes of Assumptions or Other Inputs	400,675	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,743,696
City Contributions Subsequent to the Measurement Date	1,773,049	-
Total	<u>\$ 3,974,360</u>	<u>\$ 2,057,980</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
2023	\$ (513,175)	\$ 550,354
2024	(830,892)	179,428
2025	(808,762)	(6,000)
2026	(754,373)	(580,451)

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, 2022, 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	\$ 251,903	\$ 282,892	\$ -	\$ 534,795
OPEB Liability	-	-	16,899,596	16,899,596
Deferred Outflows of Resources	21,936	14,810	649,394	686,140
Deferred Inflows of Resources	227,281	399,973	6,175,865	6,803,119
OPEB Expense	(22,264)	(115,198)	(640,571)	(778,033)

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, 2022

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, 2022 is based on the actuarial valuation performed as of June 30, 2021.

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, 2022, 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, 2022

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

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

Total OPEB Liability – The City’s total OPEB liability of \$16,899,596 had a measurement date through June 30, 2021, and an actuarial valuation date of June 30, 2021.

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, 2021 actuarial valuation reflected changes in benefits and changes in assumptions: 1) there were no benefit changes; 2) the discount rate decreased from 2.21% to 2.16%, based on changes in the Bond Buyer 20 index municipal bond rate from June 30, 2020 to June 30, 2021; 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, 2022, 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, 2021
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age, level % of pay
Salary Increases	2.7% - 7.5%
Discount Rate	2.16%
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, 2022

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, 2021	\$ 15,875,628
Changes for the Year:	
Service Cost	898,310
Interest	366,971
Differences Between Expected and Actual Experience	-
Change in Assumptions	98,398
Benefit Payments	(339,711)
Other	-
Net Changes	<u>1,023,968</u>
Balances at June 30, 2022	<u><u>\$ 16,899,596</u></u>

Discount Rate – The discount rate used to measure the OPEB liability was 2.16% (a decrease of .05 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, 2021.

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 (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Net OPEB Liability	<u>\$ 19,031,720</u>	<u>\$ 16,899,596</u>	<u>\$ 15,063,792</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>\$ 14,818,001</u>	<u>\$ 16,899,596</u>	<u>\$ 19,372,914</u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

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, 2022, the City recognized a negative OPEB expense of \$640,571. At June 30, 2022, 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	\$ 82,346	\$ 3,837,862
Differences Between Expected and Actual Experience	161,746	2,338,003
Benefit Payments Subsequent to the Measurement Date	405,302	-
Total	<u>\$ 649,394</u>	<u>\$ 6,175,865</u>

The \$405,302 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>	<u>Future Recognition</u>
2022	N/A
2023	(1,905,852)
2024	(1,905,852)
2025	(1,085,150)
2026	(942,139)
Thereafter	(92,780)

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY —
COST SHARING PENSION PLANS
JUNE 30, 2022 AND SEVEN YEARS PRIOR**

Arizona State Retirement System

	Reporting Year (Measurement Date)		
	2022 (2021)	2021 (2020)	2020 (2019)
City's Proportion of the Net Pension Liability	0.055060%	0.059640%	0.065360%
City's Proportionate Share of the Net Pension Liability	\$ 7,234,640	\$ 10,333,537	\$ 9,510,639
City's Covered Payroll	\$ 7,662,186	\$ 6,190,828	\$ 6,277,138
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	94.42%	166.92%	151.51%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.58%	69.33%	73.24%

See accompanying Notes to Pension Schedules.

Reporting Year
(Measurement Date)

2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
0.065630%	0.066800%	0.067850%	0.071220%	0.073466%
\$ 8,947,711	\$ 10,436,145	\$ 10,951,672	\$ 11,093,764	\$ 10,870,471
\$ 6,324,596	\$ 6,573,355	\$ 6,574,516	\$ 6,427,809	\$ 6,397,985
141.47%	158.76%	166.58%	172.59%	169.90%
73.00%	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, 2022 AND SEVEN YEARS PRIOR

PSPRS Police

	Reporting Year (Measurement Date)		
	2022 (2021)	2021 (2020)	2020 (2019)
Total Pension Liability			
Service Cost	\$ 468,242	\$ 559,992	\$ 620,720
Interest on the Total Pension Liability	2,614,605	2,545,588	2,384,281
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(1,031,630)	(356,133)	581,382
Changes of Assumptions or Other Inputs	-	-	633,282
Benefit Payments, Including Refunds of Employee Contributions	(1,849,628)	(1,574,894)	(1,440,860)
Net Change in Total Pension Liability	201,589	1,174,553	2,778,805
Total Pension Liability - Beginning	36,273,076	35,098,523	32,319,718
Total Pension Liability - Ending (a)	36,474,665	36,273,076	35,098,523
Plan Fiduciary Net Position			
Contributions - Employer	1,526,732	1,394,294	1,571,338
Contributions - Employee	188,314	213,986	244,244
Net Investment Income	5,015,600	215,598	846,862
Benefit Payments, Including Refunds of Employee Contributions	(1,849,628)	(1,574,894)	(1,440,860)
Hall/Parker Settlement	-	-	-
Administrative Expenses	(23,356)	(17,779)	(15,725)
Other Changes	-	-	-
Net Change in Plan Fiduciary Net Position	4,857,662	231,205	1,205,859
Plan Fiduciary Net Position - Beginning	17,116,452	16,979,520	15,785,069
Adjustments Beginning of Year	-	(94,273)	(11,408)
Plan Fiduciary Net Position - Ending (b)	21,974,114	17,116,452	16,979,520
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 14,500,551</u>	<u>\$ 19,156,624</u>	<u>\$ 18,119,003</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.24%	47.19%	48.38%
Covered Payroll	\$ 1,972,200	\$ 2,358,219	\$ 2,709,332
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	735.25%	812.33%	668.76%

See accompanying Notes to Pension Schedules.

Reporting Year
(Measurement Date)

2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
\$ 612,644	\$ 683,797	\$ 632,118	\$ 650,848	\$ 597,019
2,213,586	2,076,189	1,851,701	1,796,333	1,449,565
-	353,971	1,220,887	-	426,360
640,449	(378,290)	307,190	(779,043)	449,885
-	816,680	1,097,489	-	2,344,265
<u>(1,507,940)</u>	<u>(1,063,974)</u>	<u>(1,018,527)</u>	<u>(888,380)</u>	<u>(864,781)</u>
1,958,739	2,488,373	4,090,858	779,758	4,402,313
<u>30,360,979</u>	<u>27,872,606</u>	<u>23,781,748</u>	<u>23,001,990</u>	<u>18,599,677</u>
<u>32,319,718</u>	<u>30,360,979</u>	<u>27,872,606</u>	<u>23,781,748</u>	<u>23,001,990</u>
1,337,972	991,252	863,530	754,068	709,292
245,054	349,723	381,314	356,974	349,414
1,040,425	1,636,160	76,325	457,113	1,488,112
(1,507,940)	(1,063,974)	(1,018,527)	(888,380)	(864,781)
(587,700)	-	-	-	-
(16,535)	(14,877)	(11,383)	(11,527)	(11,984)
185	174	51,084	106,595	-
<u>511,461</u>	<u>1,898,458</u>	<u>342,343</u>	<u>774,843</u>	<u>1,670,053</u>
15,273,608	13,375,150	13,032,807	12,257,964	10,587,911
-	-	-	-	-
<u>15,785,069</u>	<u>15,273,608</u>	<u>13,375,150</u>	<u>13,032,807</u>	<u>12,257,964</u>
<u>\$ 16,534,649</u>	<u>\$ 15,087,371</u>	<u>\$ 14,497,456</u>	<u>\$ 10,748,941</u>	<u>\$ 10,744,026</u>
48.84%	50.31%	47.99%	54.80%	53.29%
\$ 3,021,827	\$ 2,896,219	\$ 3,216,887	\$ 3,096,516	\$ 3,368,193
547.17%	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, 2022 AND SEVEN YEARS PRIOR

PSPRS Fire

	Reporting Year (Measurement Date)		
	2022 (2021)	2021 (2020)	2020 (2019)
Total Pension Liability			
Service Cost	\$ 451,068	\$ 492,443	\$ 524,342
Interest on the Total Pension Liability	2,185,260	2,076,645	2,023,916
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	1,676,612	661,992	(601,854)
Changes of Assumptions or Other Inputs	-	-	452,317
Benefit Payments, Including Refunds of Employee Contributions	(1,876,999)	(1,526,669)	(1,013,004)
Net Change in Total Pension Liability	2,435,941	1,704,411	1,385,717
Total Pension Liability - Beginning	30,422,500	28,718,089	27,332,372
Total Pension Liability - Ending (a)	32,858,441	30,422,500	28,718,089
Plan Fiduciary Net Position			
Contributions - Employer	1,643,181	1,390,561	1,432,593
Contributions - Employee	130,790	170,805	173,583
Net Investment Income	3,849,014	162,070	636,622
Benefit Payments, Including Refunds of Employee Contributions	(1,876,999)	(1,526,669)	(1,013,004)
Administrative Expenses	(17,846)	(13,411)	(12,062)
Hall/Parker Settlement	-	-	-
Other Changes	-	-	-
Net Change in Plan Fiduciary Net Position	3,728,140	183,356	1,217,732
Plan Fiduciary Net Position - Beginning	13,029,716	12,928,643	11,731,270
Adjustments Beginning of Year	-	(82,283)	(20,359)
Plan Fiduciary Net Position - Ending (b)	16,757,856	13,029,716	12,928,643
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 16,100,585</u>	<u>\$ 17,392,784</u>	<u>\$ 15,789,446</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.00%	42.83%	45.02%
Covered Payroll	\$ 1,805,864	\$ 1,942,754	\$ 2,116,247
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	891.57%	895.26%	746.11%

See accompanying Notes to Pension Schedules.

Reporting Year (Measurement Date)				
2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
\$ 533,550	\$ 604,423	\$ 461,578	\$ 447,535	\$ 461,117
1,925,358	1,627,144	1,497,706	1,402,925	1,162,805
-	241,618	925,436	-	357,990
(353,546)	1,475,451	(150,856)	202,190	49,280
-	1,443,165	827,356	-	1,711,570
<u>(1,049,129)</u>	<u>(1,017,406)</u>	<u>(1,015,488)</u>	<u>(689,053)</u>	<u>(665,170)</u>
1,056,233	4,374,395	2,545,732	1,363,597	3,077,592
26,276,139	21,901,744	19,356,012	17,992,415	14,914,823
<u>27,332,372</u>	<u>26,276,139</u>	<u>21,901,744</u>	<u>19,356,012</u>	<u>17,992,415</u>
1,272,970	997,891	737,757	585,262	614,419
205,058	294,838	279,990	261,083	237,504
757,185	1,184,169	54,697	331,913	1,078,216
(1,049,129)	(1,017,406)	(1,015,488)	(689,053)	(665,170)
(12,224)	(10,878)	(8,271)	(8,477)	(8,683)
(421,742)	-	-	-	-
126	117	46,233	(6,751)	-
<u>752,244</u>	<u>1,448,731</u>	<u>94,918</u>	<u>473,977</u>	<u>1,256,286</u>
10,979,026	9,530,295	9,435,377	8,961,400	7,705,114
-	-	-	-	-
<u>11,731,270</u>	<u>10,979,026</u>	<u>9,530,295</u>	<u>9,435,377</u>	<u>8,961,400</u>
<u>\$ 15,601,102</u>	<u>\$ 15,297,113</u>	<u>\$ 12,371,449</u>	<u>\$ 9,920,635</u>	<u>\$ 9,031,015</u>
42.92%	41.78%	43.51%	48.75%	49.81%
\$ 2,570,211	\$ 2,533,205	\$ 2,341,847	\$ 2,268,595	\$ 2,289,386
607.00%	603.86%	528.28%	437.30%	394.47%

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS
JUNE 30, 2022 AND SEVEN YEARS PRIOR**

Arizona State Retirement System

	Reporting Fiscal Year		
	2022	2021	2020
Statutorily Required Contribution	\$ 784,289	\$ 710,913	\$ 774,209
City's Contribution in Relation to the Statutorily Required Contribution	(784,289)	(710,913)	(774,209)
City's Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 6,124,133	\$ 7,662,186	\$ 6,190,828
City's Contributions as a Percentage of Covered Payroll	12.81%	9.28%	12.51%

PSPRS Police

	Reporting Fiscal Year		
	2022	2021	2020
Actuarially Determined Contribution	\$ 1,754,525	\$ 1,509,010	\$ 1,377,516
City's Contribution in Relation to the Actuarially Determined Contribution	1,754,525	1,509,010	1,377,516
City's Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 3,137,002	\$ 1,972,200	\$ 2,358,219
City's Contributions as a Percentage of Covered Payroll	55.93%	76.51%	58.41%

PSPRS Fire

	Reporting Fiscal Year		
	2022	2021	2020
Actuarially Determined Contribution	\$ 1,773,049	\$ 1,395,302	\$ 1,434,097
City's Contribution in Relation to the Actuarially Determined Contribution	1,773,049	1,395,302	1,434,097
City's Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,544,840	\$ 1,805,864	\$ 1,942,754
City's Contributions as a Percentage of Covered Payroll	69.67%	77.27%	73.82%

See accompanying Notes to Pension Schedules.

Reporting Fiscal Year					
2019	2018	2017	2016	2015	2014
\$ 707,531	\$ 689,381	\$ 693,489	\$ 681,454	\$ 699,988	\$ 708,602
(707,531)	(689,381)	(693,489)	(681,454)	(699,988)	(708,602)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 6,277,138	\$ 6,324,596	\$ 6,573,355	\$ 6,574,516	\$ 6,427,809	\$ 6,397,985
11.27%	10.90%	10.55%	10.37%	10.89%	11.08%

Reporting Fiscal Year					
2019	2018	2017	2016	2015	2014
\$ 1,295,402	\$ 738,864	\$ 991,252	\$ 863,530	\$ 754,068	\$ 709,292
1,295,402	738,864	991,252	863,530	724,491	709,292
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 2,709,332	\$ 3,021,827	\$ 2,896,219	\$ 3,216,887	\$ 3,096,516	\$ 3,368,193
47.81%	24.45%	34.23%	26.84%	23.40%	21.06%

Reporting Fiscal Year					
2019	2018	2017	2016	2015	2014
\$ 1,137,792	\$ 807,385	\$ 997,891	\$ 737,757	\$ 585,262	\$ 614,419
1,137,792	807,385	997,891	737,757	585,262	614,419
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 2,116,247	\$ 2,570,211	\$ 2,533,205	\$ 2,341,847	\$ 2,268,595	\$ 2,289,386
53.76%	31.41%	39.39%	31.50%	25.80%	26.84%

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO PENSION SCHEDULES
JUNE 30, 2022**

NOTE 1 ACTUARIALY 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, 2022 AND FOUR YEARS PRIOR

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

	June 30 Reporting Year (Measurement Date)				
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
Total OPEB Liability					
Service Cost	\$ 898,310	\$ 696,096	\$ 740,994	\$ 753,728	\$ 975,550
Interest	366,971	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	98,398	(798,595)	(1,967,107)	(559,626)	(6,481,128)
Benefit Payments	(339,711)	(355,498)	(190,897)	(203,704)	(533,735)
Other	-	59,293	-	(122,898)	
Net Change in Total OPEB Liability	1,023,968	(986,508)	(3,126,766)	401,081	(4,764,106)
Total OPEB Liability - Beginning	15,875,628	16,862,136	19,988,902	19,587,821	24,351,927
Total OPEB Liability - Ending (a)	<u>\$ 16,899,596</u>	<u>\$ 15,875,628</u>	<u>\$ 16,862,136</u>	<u>\$ 19,988,902</u>	<u>\$ 19,587,821</u>
Covered Payroll	\$ 11,948,426	\$ 11,233,360	\$ 12,791,614	\$ 14,016,534	\$ 13,426,528
City's Net OPEB Liability as a Percentage of Covered Payroll	141.44%	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, 2022**

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, 2021 actuarial valuation reflected changes in benefits and changes in assumptions:

- 1) There were no benefit changes.
- 2) The discount rate decreased from 2.21% to 2.16%, based on changes in the Bond Buyer 20 index municipal bond rate from June 30, 2020 to June 30, 2021.
- 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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