

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018**

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YEAR ENDED JUNE 30, 2018**

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and the City Council
City of Nogales, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nogales, Arizona (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Nogales Housing Authority, a major Enterprise Fund, which represents 100% of the assets, net position and revenues of the Nogales Housing Authority Enterprise Fund and represents 10%, 13%, and 19%, respectively, of the assets, net position, and revenues of the Business-Type Activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nogales Housing Authority Enterprise Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and those standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nogales, Arizona as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison statements for the General and Highway User Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2018, the District reported a restatement of net position for a correction of an error and a change in accounting principle for the adoption of Governmental Accounting Standards Board Statement (GASBS) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (See Note 4.E). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Honorable Mayor and the City Council
City of Nogales, Arizona

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2019, on our consideration of the City of Nogales, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City of Nogales, Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Phoenix, Arizona
January 25, 2019

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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, 2018. 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 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 \$73.6 million (net position).
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17.8 million, a decrease of \$0.3 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$12.2 million or 61.5% of total General Fund expenditures.
- ◆ General Fund revenues were \$1.1 million less than budget for fiscal year 2018. Expenditures were \$3.6 million less than budget with the General Fund contingency comprising \$2.8 million of that \$3.6 million budget savings.
- ◆ General Fund expenditures exceeded revenues by \$0.4 million.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, 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.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Overview of the Financial Statements (Continued)

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

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

The government-wide financial statements can be found on pages 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

The basic governmental fund financial statements can be found on pages 14 – 22 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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 23 - 30 of this report.

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

The basic fiduciary fund financial statement can be found on pages 31 –32 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 33 – 75) 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 on pages 75 – 80 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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, 2018 and 2017 showing that assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$73.6 million.

**Condensed Statement of Net Position
June 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)
Assets						
Current and Other Assets	\$ 22,245,723	\$ 21,608,191	\$ 10,741,842	\$ 8,728,851	\$ 32,987,565	\$ 30,337,042
Capital Assets						
Nondepreciable	2,860,181	2,290,434	3,912,001	4,401,709	6,772,182	6,692,143
Depreciable (Net)	41,983,381	43,201,357	92,311,771	94,812,286	134,295,152	138,013,643
Total Assets	67,089,285	67,099,982	106,965,614	107,942,846	174,054,899	175,042,828
Deferred Outflows of Resources	9,222,613	9,657,235	2,089,794	2,307,647	11,312,407	11,964,882
Liabilities						
Current Liabilities	2,422,813	2,335,124	4,651,065	4,040,159	7,073,878	6,375,283
Noncurrent Liabilities:						
Due Within One Year	1,572,179	1,611,072	1,005,797	1,245,936	2,577,976	2,857,008
Due in More Than One Year	62,747,046	63,091,626	31,895,062	34,175,418	94,642,108	97,267,044
Total Liabilities	66,742,038	67,037,822	37,551,924	39,461,513	104,293,962	106,499,335
Deferred Inflows of Resources	4,616,893	1,895,953	2,812,655	550,537	7,429,548	2,446,490
Net Position						
Net Investment in Capital Assets	31,718,887	31,449,244	80,173,768	82,355,566	111,892,655	113,804,810
Restricted	4,881,180	4,396,998	-	-	4,881,180	4,396,998
Unrestricted	(31,647,100)	(28,022,800)	(11,482,939)	(12,117,123)	(43,130,039)	(40,139,923)
Total Net Position	\$ 4,952,967	\$ 7,823,442	\$ 68,690,829	\$ 70,238,443	\$ 73,643,796	\$ 78,061,885

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 (151%) 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, 2018**

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, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)
REVENUES						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 2,501,727	\$ 2,502,379	\$ 10,638,612	\$ 9,977,615	\$ 13,140,339	\$ 12,479,994
Operating Grants and Contributions	4,734,654	5,396,578	1,518,779	1,538,377	6,253,433	6,934,955
Capital Grants and Contributions	544,982	1,873	606,818	1,096,674	1,151,800	1,098,547
General Revenues:						
Sales Taxes	9,564,690	9,538,379	-	-	9,564,690	9,538,379
Franchise Taxes	501,524	642,958	-	-	501,524	642,958
State Shared Revenues	6,101,072	5,963,326	-	-	6,101,072	5,963,326
Impact Fees	-	-	188,338	75,487	188,338	75,487
Investment Earnings	568	9,502	30,357	10,121	30,925	19,623
Other	144,042	237,150	109,551	124,711	253,593	361,861
Total Revenues	<u>24,093,259</u>	<u>24,292,145</u>	<u>13,092,455</u>	<u>12,822,985</u>	<u>37,185,714</u>	<u>37,115,130</u>
EXPENSES						
General Government	4,623,558	5,126,783	-	-	4,623,558	5,126,783
Public Safety	16,227,838	17,825,107	-	-	16,227,838	17,825,107
Highways and Streets	3,853,143	3,649,012	-	-	3,853,143	3,649,012
Culture and Recreation	1,755,928	1,825,162	-	-	1,755,928	1,825,162
Interest on Long-Term Debt	503,267	541,767	-	-	503,267	541,767
Sewer	-	-	4,903,617	5,775,664	4,903,617	5,775,664
Water	-	-	4,863,479	4,421,759	4,863,479	4,421,759
Sanitation	-	-	2,268,181	2,384,830	2,268,181	2,384,830
NHA	-	-	2,604,792	2,689,255	2,604,792	2,689,255
Total Expenses	<u>26,963,734</u>	<u>28,967,831</u>	<u>14,640,069</u>	<u>15,271,508</u>	<u>41,603,803</u>	<u>44,239,339</u>
CHANGE IN NET POSITION	(2,870,475)	(4,675,686)	(1,547,614)	(2,448,523)	(4,418,089)	(7,124,209)
Net Position - Beginning of Year	7,823,442	11,813,466	70,238,443	78,997,190	78,061,885	90,810,656
Restatement for GASB 75	-	685,662	-	(6,310,224)	-	(5,624,562)
NET POSITION - END OF YEAR	<u>\$ 4,952,967</u>	<u>\$ 7,823,442</u>	<u>\$ 68,690,829</u>	<u>\$ 70,238,443</u>	<u>\$ 73,643,796</u>	<u>\$ 78,061,885</u>

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Government-Wide Financial Analysis (Continued)

Governmental activities. Total governmental revenues decreased over the prior year with a net decrease of \$0.2 million (0.8%).

Program revenues decreased in the current year \$0.1 million largely attributable to a decrease in firefighter grants of approximately \$0.1 million and a decrease in a one-time ACA grant received in the previous year in the amount of \$0.5 million. The decreases were offset by a capital contribution received from the Arizona Department of Transportation in the amount of \$0.5 million in the current year for street improvements. General revenues decreased \$0.1 million from prior year primarily due to franchise fees declining as a result of the local economy.

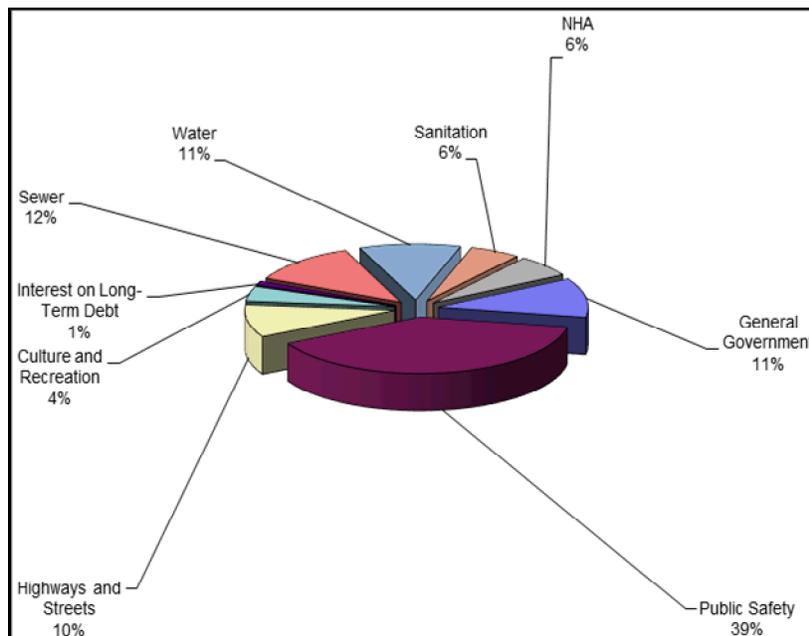
Overall, expenses decreased \$2.0 million from the prior year. The decrease was mainly due to a decrease in public safety expenses (\$1.6 million) attributable to decreased PSPRS pension expenses and a settlement paid on behalf of the pension system in prior year.

Business-type activities. Charges for services increased over the prior fiscal year with an increase of \$0.7 million due to increased water, sewer, and sanitation rates charged to customers.

The decrease in expenses (\$0.6 million) was due primarily to a decrease in Sewer and Sanitation expenses of \$0.9 and \$0.1 million, respectively, offset with a Water increase of \$0.4million. The Sewer Fund realized a decrease in intergovernmental expenses related to the wastewater settlement agreement and an increase in the number of personnel vacancies. Water increased due to an accrued settlement.

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

**Government-Wide Expenses
June 30, 2018**



**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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 \$17.8 million, a decrease of \$0.3 million in comparison with the prior year. Approximately 69% of this total amount (\$12.3 million) constitutes General Fund balance, which is reported as either nonspendable, restricted, assigned or unassigned fund balance. At the end of fiscal year 2017-18, fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2016-17
General Fund	\$ 12,289,212	\$ (945,039)
Streets/HURF Fund	3,674,632	451,814
Nonmajor Governmental Funds	1,822,384	155,713

The General Fund is the chief operating fund of the City. As a measure of the General Fund's liquidity, it may be useful to compare both the General Fund balance and total fund balance to total fund expenditures. The unassigned General Fund fund balance represents 61.5% of total General Fund expenditures. The total unassigned fund balance represents 51.1% of total governmental fund expenditures.

The General Fund fund balance decrease of \$945,039 was the result of the PSPRS Parker-Hall payout to eligible City public safety personnel.

The HURF Fund fund balance increase of \$0.5 million was the result of an increase in state shared revenue in the current year exceeding increased spending on street projects in the current year.

The \$155,713 increase in Nonmajor governmental fund balance in the current year was the result of increased intergovernmental revenues.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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

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

General Fund revenues of \$19.4 million were \$1.1 million less than budget for fiscal year 2018. Expenditures were \$3.6 million less than budget with the General Fund contingency comprising \$2.8 million of that \$3.6 million budget savings. The expenditure savings were derived from an unspent contingency allocation and vacancy savings.

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2018 totaled \$44.8 million (net of accumulated depreciation), a decrease from the prior year of 1.4%. Business-type activities capital assets amounted to \$96.2 million (net of accumulated depreciation), a net decrease from the prior year of \$3.0 million. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.4. in the Notes to the Basic Financial Statements for further information regarding capital assets.

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

Governmental Activities – The most significant change in capital assets in the Governmental Activities was \$2.4 million in current year depreciation expense and \$0.7 million in additions to infrastructure and \$0.5 million in construction in progress additions for the Crawford street project. The City also purchased \$0.4 million of equipment and vehicles during the fiscal year.

Business-Type Activities – The most significant change in capital assets in the Business-Type Activities was \$3.5 million in current year depreciation expense and \$1.1 million in additions to construction in progress and infrastructure for the Crawford water and sewer projects and Mcnab water project.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Capital Assets (Continued)

The following table provides a breakdown of the capital assets of the City at June 30, 2018 and 2017.

**Capital Assets (Net)
June 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,279,134	\$ 2,279,134	\$ 3,250,853	\$ 3,250,853	\$ 5,529,987	\$ 5,529,987
Construction in Progress	581,047	11,300	661,148	1,150,856	1,242,195	1,162,156
Infrastructure	34,502,036	35,075,311	81,488,422	83,410,032	115,990,458	118,485,343
Buildings	3,474,434	3,682,611	2,640,254	2,769,537	6,114,688	6,452,148
Improvements other than Buildings	2,164,082	2,250,755	380,750	403,805	2,544,832	2,654,560
Vehicles, Machinery and Equipment	1,842,829	2,192,680	603,595	918,562	2,446,424	3,111,242
Housing Authority	-	-	7,198,750	7,310,350	7,198,750	7,310,350
Total Capital Assets	<u>\$ 44,843,562</u>	<u>\$ 45,491,791</u>	<u>\$ 96,223,772</u>	<u>\$ 99,213,995</u>	<u>\$ 141,067,334</u>	<u>\$ 144,705,786</u>

Long-Term Debt

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$36.5 million. \$32.0 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, 2018 and 2017. Further detail on the City's outstanding debt may be found in Notes 3.C. and 3.D.

**Outstanding Debt
June 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue Bonds	\$ 13,745,677	\$ 14,052,626	\$ 18,241,024	\$ 18,916,512	\$ 31,986,701	\$ 32,969,138
Loan Payable	-	-	1,836,178	914,084	1,836,178	914,084
Notes Payable	-	-	-	-	-	-
Capital Leases	378,870	786,068	416,183	795,645	795,053	1,581,713
Compensated Absences	1,659,326	1,664,955	236,752	327,172	1,896,078	1,992,127
Total Outstanding Debt	<u>\$ 15,783,873</u>	<u>\$ 16,503,649</u>	<u>\$ 20,730,137</u>	<u>\$ 20,953,413</u>	<u>\$ 36,514,010</u>	<u>\$ 37,457,062</u>

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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 2018-19 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.

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 STATEMENTS

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CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Investments	\$ 18,783,152	\$ 5,702,929	\$ 24,486,081
Receivables, Net:			
Accounts	619,056	1,218,483	1,837,539
Intergovernmental	751,663	184,579	936,242
Taxes	1,070,521	-	1,070,521
Interfund Balances	250,954	(250,954)	-
Prepaid Items	18,309	46,434	64,743
Inventory	19,843	19,146	38,989
Restricted Assets	695,859	3,821,225	4,517,084
Net OPEB Asset	36,366	-	36,366
Capital Assets:			
Nondepreciable	2,860,181	3,912,001	6,772,182
Depreciable (Net)	41,983,381	92,311,771	134,295,152
Total Assets	<u>67,089,285</u>	<u>106,965,614</u>	<u>174,054,899</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	304,013	1,423,291	1,727,304
Pension Related	8,476,681	360,247	8,836,928
OPEB Related	441,919	306,256	748,175
Total Deferred Outflows of Resources	<u>9,222,613</u>	<u>2,089,794</u>	<u>11,312,407</u>
LIABILITIES			
Accounts Payable	544,562	386,549	931,111
Accrued Wages and Benefits	1,374,134	170,212	1,544,346
Customer Deposits Payable	37,998	801,135	839,133
Unearned Revenue	76,250	4,860	81,110
Intergovernmental Payable	-	2,940,309	2,940,309
Claims Payable	389,869	-	389,869
Judgments Payable	-	348,000	348,000
Noncurrent Liabilities:			
Due Within One Year	1,572,179	1,005,797	2,577,976
Due in More Than One Year	14,211,694	19,724,340	33,936,034
Net Pension Liability	37,515,406	3,305,223	40,820,629
Net OPEB Liability	11,019,946	8,865,499	19,885,445
Total Liabilities	<u>66,742,038</u>	<u>37,551,924</u>	<u>104,293,962</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	1,378,029	296,783	1,674,812
OPEB Related	3,238,864	2,515,872	5,754,736
	<u>4,616,893</u>	<u>2,812,655</u>	<u>7,429,548</u>
NET POSITION			
Net Investment in Capital Assets	31,718,887	80,173,768	111,892,655
Restricted for:			
Highways and Streets	4,022,651	-	4,022,651
Federal and State Grants	776,581	-	776,581
Impound Fees	45,582	-	45,582
Other Postemployment Benefits	36,366	-	36,366
Unrestricted	(31,647,100)	(11,482,939)	(43,130,039)
Total Net Position	<u>\$ 4,952,967</u>	<u>\$ 68,690,829</u>	<u>\$ 73,643,796</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

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	\$ 4,623,558	\$ 1,433,888	\$ 24,236	\$ -	\$ (3,165,434)		\$ (3,165,434)
Public Safety	16,227,838	1,010,331	1,147,039	33,490	(14,036,978)		(14,036,978)
Highways and Streets	3,853,143	11,773	3,312,808	511,492	(17,070)		(17,070)
Culture and Recreation	1,755,928	45,735	250,571	-	(1,459,622)		(1,459,622)
Interest on Long-Term Debt	503,267	-	-	-	(503,267)		(503,267)
Total Governmental Activities	<u>26,963,734</u>	<u>2,501,727</u>	<u>4,734,654</u>	<u>544,982</u>	<u>(19,182,371)</u>		<u>(19,182,371)</u>
Business-Type Activities:							
Sewer	4,903,617	3,565,735	-	220,190		\$ (1,117,692)	(1,117,692)
Water	4,863,479	3,572,359	-	94,891		(1,196,229)	(1,196,229)
Sanitation	2,268,181	2,880,870	-	-		612,689	612,689
NHA	2,604,792	619,648	1,518,779	291,737		(174,628)	(174,628)
Total Business-Type Activities	<u>14,640,069</u>	<u>10,638,612</u>	<u>1,518,779</u>	<u>606,818</u>		<u>(1,875,860)</u>	<u>(1,875,860)</u>
Total Primary Government	<u>\$ 41,603,803</u>	<u>\$ 13,140,339</u>	<u>\$ 6,253,433</u>	<u>\$ 1,151,800</u>	<u>(19,182,371)</u>	<u>(1,875,860)</u>	<u>(21,058,231)</u>
General Revenues:							
Taxes:							
Sales Taxes					9,564,690	-	9,564,690
Franchise Taxes					501,524	-	501,524
Impact Fees					-	188,338	188,338
State Revenue Sharing					6,101,072	-	6,101,072
Investment Earnings					568	30,357	30,925
Other					144,042	109,551	253,593
Total General Revenues					<u>16,311,896</u>	<u>328,246</u>	<u>16,640,142</u>
Change in Net Position					(2,870,475)	(1,547,614)	(4,418,089)
Net Position - Beginning, As Restated					<u>7,823,442</u>	<u>70,238,443</u>	<u>78,061,885</u>
Net Position - Ending					<u>\$ 4,952,967</u>	<u>\$ 68,690,829</u>	<u>\$ 73,643,796</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

ASSETS	<u>General</u>	<u>Streets/HURF</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Investments	\$ 11,669,817	\$ 3,484,051	\$ 1,047,812	\$ 16,201,680
Restricted Assets	-	-	695,859	695,859
Receivables, Net:				
Accounts	507,429	-	-	507,429
Intergovernmental	208,812	338,756	204,095	751,663
Taxes	1,070,521	-	-	1,070,521
Due from Other Funds	552,702	-	-	552,702
Prepaid Items	18,309	-	-	18,309
	<u>\$ 14,027,590</u>	<u>\$ 3,822,807</u>	<u>\$ 1,947,766</u>	<u>\$ 19,798,163</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 361,114	\$ 127,274	\$ 20,752	\$ 509,140
Accrued Wages and Benefits	1,339,266	20,901	28,380	1,388,547
Unearned Revenue	-	-	76,250	76,250
Customer Deposits Payable	37,998	-	-	37,998
Total Liabilities	<u>1,738,378</u>	<u>148,175</u>	<u>125,382</u>	<u>2,011,935</u>
 FUND BALANCES				
Nonspendable:				
Prepaid Items	18,309	-	-	18,309
Restricted	45,582	3,674,632	1,820,459	5,540,673
Assigned	-	-	1,925	1,925
Unassigned	12,225,321	-	-	12,225,321
Total Fund Balances	<u>12,289,212</u>	<u>3,674,632</u>	<u>1,822,384</u>	<u>17,786,228</u>
	<u>\$ 14,027,590</u>	<u>\$ 3,822,807</u>	<u>\$ 1,947,766</u>	<u>\$ 19,798,163</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,027,590</u>	<u>\$ 3,822,807</u>	<u>\$ 1,947,766</u>	<u>\$ 19,798,163</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances for Governmental Funds \$ 17,786,228

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	92,359,854
Less: Accumulated Depreciation	<u>(47,524,834)</u>
Capital Assets Used in Governmental Activities	44,835,020

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	(13,526,854)
Deferred Amount on Refunding	304,013
Bond Premium	(218,823)
Capital Leases	(378,870)
Compensated Absences	(1,638,493)
Net OPEB Asset (Liability)	(10,983,580)
Net Pension Liability	(37,119,802)

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	8,426,783
Deferred Inflows of Resources Related to Pensions	(1,342,076)
Deferred Outflows of Resources Related to OPEB	441,919
Deferred Inflows of Resources Related to OPEB	(3,238,864)

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

Internal Service Fund Net Position	1,843,512
Less: Amount Attributed to the Business-Type Activities	<u>(237,146)</u>
	<u>1,606,366</u>

Total Net Position of Governmental Activities	<u><u>\$ 4,952,967</u></u>
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CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General	Streets/HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 9,564,690	\$ -	\$ -	\$ 9,564,690
Franchise Taxes	501,524	-	-	501,524
Intergovernmental	6,729,752	3,306,971	832,493	10,869,216
Fines and Forfeitures	254,251	-	-	254,251
Licenses and Permits	1,120,668	-	-	1,120,668
Charges for Services	1,126,808	-	-	1,126,808
Investment Earnings	(7,224)	-	7,792	568
Other	135,041	9,001	-	144,042
Total Revenues	<u>19,425,510</u>	<u>3,315,972</u>	<u>840,285</u>	<u>23,581,767</u>
EXPENDITURES				
Current:				
General Government	5,087,902	-	50,453	5,138,355
Public Safety	12,119,200	-	765,398	12,884,598
Highways and Streets	707,822	2,213,562	72,090	2,993,474
Culture and Recreation	1,625,483	-	23,000	1,648,483
Debt Service:				
Principal Retirement	317,930	87,344	293,499	698,773
Interest on Long-Term Debt	13,045	8,724	478,932	500,701
Capital Outlay	-	-	54,895	54,895
Total Expenditures	<u>19,871,382</u>	<u>2,309,630</u>	<u>1,738,267</u>	<u>23,919,279</u>
Excess (Deficiency) of Revenues Over Expenditures	(445,872)	1,006,342	(897,982)	(337,512)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	1,053,695	1,053,695
Transfers Out	(499,167)	(554,528)	-	(1,053,695)
Total Other Financing Sources (Uses)	<u>(499,167)</u>	<u>(554,528)</u>	<u>1,053,695</u>	<u>-</u>
Net Change in Fund Balances	(945,039)	451,814	155,713	(337,512)
FUND BALANCES				
Beginning of Year, As Restated	13,234,251	3,222,818	1,666,671	18,123,740
End of Year	<u>\$ 12,289,212</u>	<u>\$ 3,674,632</u>	<u>\$ 1,822,384</u>	<u>\$ 17,786,228</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances of Governmental Funds \$ (337,512)

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

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

Expenditures for Capital Assets	1,228,850
Capital Contributions	511,492
Less: Current Year Depreciation	<u>(2,388,571)</u>
Excess Depreciation over Capital Expenditures	(648,229)

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

Principal Payments on Long-Term Revenue Bonds	293,499
Principal Payments on Capital Leases	405,274
Amortization of Bond Premium	13,450
Amortization of Deferred Amount on Refunding	(16,016)
Settlement Payable	678,083

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	2,005,587
Pension Expense	(5,130,071)
OPEB Contributions	178,571
OPEB Expense	(521,784)

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

Net Increase in Compensated Absences	9,006
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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	257,125
Less: Amount Attributable to the Business-Type Activities	<u>(57,458)</u>
	<u>199,667</u>
Change in Net Position of Governmental Activities	<u><u>\$ (2,870,475)</u></u>

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2018**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 10,632,261	\$ 10,066,214	\$ (566,047)
Intergovernmental	6,888,519	6,729,752	(158,767)
Fines and Forfeitures	270,000	254,251	(15,749)
Licenses and Permits	1,071,267	1,120,668	49,401
Charges for Services	1,293,017	1,126,808	(166,209)
Investment Earnings (Loss)	200,000	(7,224)	(207,224)
Other	204,804	135,041	(69,763)
Total Revenues	20,559,868	19,425,510	(1,134,358)
EXPENDITURES			
Current:			
General Government:			
Mayor and Elections	98,619	69,374	29,245
Council	137,889	143,807	(5,918)
Administration	453,341	445,591	7,750
Finance	1,184,593	1,111,753	72,840
Human Resources	263,599	206,600	56,999
MIS	540,872	550,235	(9,363)
Planning and Zoning	299,602	272,401	27,201
Elections	1,000	-	1,000
City Attorney	781,791	529,252	252,539
City Court	502,936	465,025	37,911
Cemetery	130,282	136,140	(5,858)
Nondepartmental	3,982,946	1,157,724	2,825,222
Total General Government	8,377,470	5,087,902	3,289,568
Public Safety:			
Police	6,521,846	6,549,417	(27,571)
Fire	5,181,616	5,159,078	22,538
Animal Control	272,145	293,700	(21,555)
Building Inspections	119,342	117,005	2,337
Emergency Response	200,000	-	200,000
Total Public Safety	12,294,949	12,119,200	175,749
Highways and Streets:			
Facilities Maintenance	584,638	555,280	29,358
Engineering	152,986	152,542	444
Total Highways and Streets	737,624	707,822	29,802
Culture and Recreation:			
Parks	657,255	650,498	6,757
Recreation	513,615	461,642	51,973
Library	501,142	480,963	20,179
Golf Course	35,890	32,380	3,510
Total Culture and Recreation	1,707,902	1,625,483	82,419

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	Original and Final Budget	Actual	Variance with Final Budget
EXPENDITURES (CONTINUED)			
Current (Continued):			
Debt Service:			
Principal Retirement	\$ 317,930	\$ 317,930	\$ -
Interest on Long-Term Debt	13,045	13,045	-
Total Debt Service	<u>330,975</u>	<u>330,975</u>	<u>-</u>
Total Expenditures	<u>23,448,920</u>	<u>19,871,382</u>	<u>3,577,538</u>
 Excess (Deficiency) of Revenues Over Expenditures	 (2,889,052)	 (445,872)	 2,443,180
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(297,684)</u>	<u>(499,167)</u>	<u>(201,483)</u>
 Net Change in Fund Balance	 (3,186,736)	 (945,039)	 2,241,697
FUND BALANCE			
Beginning of Year	12,572,439	13,234,251	661,812
End of Year	<u>\$ 9,385,703</u>	<u>\$ 12,289,212</u>	<u>\$ 2,903,509</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2018**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 3,022,757	\$ 3,306,971	\$ 284,214
Other	50,000	9,001	(40,999)
Total Revenues	<u>3,072,757</u>	<u>3,315,972</u>	<u>243,215</u>
EXPENDITURES			
Current:			
Highways and Streets	4,437,323	2,213,562	2,223,761
Debt Service:			
Principal Retirement	419,016	87,344	331,672
Interest on Long-Term Debt	13,450	8,724	4,726
Total Expenditures	<u>4,869,789</u>	<u>2,309,630</u>	<u>2,560,159</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,797,032)	1,006,342	2,803,374
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(120,389)</u>	<u>(554,528)</u>	<u>(434,139)</u>
Net Change in Fund Balance	(1,917,421)	451,814	2,369,235
FUND BALANCE			
Beginning of Year	<u>1,550,612</u>	<u>3,222,818</u>	<u>1,672,206</u>
End of Year	<u>\$ (366,809)</u>	<u>\$ 3,674,632</u>	<u>\$ 4,041,441</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 3,341,800	\$ 177,738	\$ 1,930,533
Investments	-	-	-	252,858
Prepaid Assets	-	-	-	46,434
Receivables, Net:				
Accounts	462,106	437,502	297,214	21,661
Intergovernmental	138,885	-	-	45,694
Inventories	-	-	-	19,146
Restricted Assets	2,025,694	1,733,632	11,564	50,335
Total Current Assets	<u>2,626,685</u>	<u>5,512,934</u>	<u>486,516</u>	<u>2,366,661</u>
Noncurrent Assets:				
Advances to Other Funds	49,100	-	-	-
Capital Assets:				
Nondepreciable	158,202	2,685,333	-	1,068,466
Depreciable (Net)	61,926,710	22,868,005	318,307	7,198,749
Total Noncurrent Assets	<u>62,134,012</u>	<u>25,553,338</u>	<u>318,307</u>	<u>8,267,215</u>
Total Assets	<u>64,760,697</u>	<u>31,066,272</u>	<u>804,823</u>	<u>10,633,876</u>
Deferred Outflows of Resources				
Deferred Amount on Refunding	1,194,928	221,169	7,194	-
Pension Related	49,942	139,064	94,691	76,550
OPEB Related	49,974	95,814	135,946	24,522
Total Deferred Outflows of Resources	<u>1,294,844</u>	<u>456,047</u>	<u>237,831</u>	<u>101,072</u>
Liabilities				
Current Liabilities:				
Accounts Payable	159,743	108,371	45,756	72,679
Accrued Wages and Benefits	15,598	33,724	32,037	88,853
Intergovernmental Payable	2,939,305	1,004	-	-
Unearned Revenue	-	-	-	4,860
Customer Deposits Payable	-	750,800	-	50,335
Claims Payable	-	-	-	-
Judgements Payable	-	348,000	-	-
Due To Other Funds	488,100	-	-	-
Compensated Absences	15,241	79,633	33,076	3,902
Capital Leases Payable	39,951	117,528	73,026	-
Bonds and Notes Payable	30,033	608,282	5,125	-
Total Current Liabilities	<u>3,687,971</u>	<u>2,047,342</u>	<u>189,020</u>	<u>220,629</u>
Noncurrent Liabilities:				
Advances from Other Funds	-	-	49,100	-
Compensated Absences	40,530	367	28,890	35,113
Capital Leases Payable	23,112	162,566	-	-
Other Postemployment Benefits	1,435,758	2,752,727	3,905,715	771,299
Bonds and Notes Payable	7,830,817	11,503,601	99,344	-
Net Pension Liability	544,550	1,033,102	967,923	759,648
Total Noncurrent Liabilities	<u>9,874,767</u>	<u>15,452,363</u>	<u>5,050,972</u>	<u>1,566,060</u>
Total Liabilities	<u>13,562,738</u>	<u>17,499,705</u>	<u>5,239,992</u>	<u>1,786,689</u>
Deferred Inflows of Resources				
Pension Related	39,628	113,556	72,575	71,024
OPEB Related	407,443	781,175	1,108,373	218,881
Total Deferred Inflows of Resources	<u>447,071</u>	<u>894,731</u>	<u>1,180,948</u>	<u>289,905</u>
Net Position				
Net Investment in Capital Assets	57,381,621	14,365,362	159,570	8,267,215
Unrestricted	(5,335,889)	(1,237,479)	(5,537,856)	391,139
Total Net Position	<u>\$ 52,045,732</u>	<u>\$ 13,127,883</u>	<u>\$ (5,378,286)</u>	<u>\$ 8,658,354</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
Net Position of Business-Type Activities

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
Totals	
\$ 5,450,071	\$ 2,581,472
252,858	-
46,434	-
1,218,483	111,627
184,579	-
19,146	19,843
3,821,225	-
<u>10,992,796</u>	<u>2,712,942</u>
49,100	-
3,912,001	-
92,311,771	8,542
<u>96,272,872</u>	<u>8,542</u>
107,265,668	2,721,484
1,423,291	-
360,247	49,898
306,256	-
<u>2,089,794</u>	<u>49,898</u>
386,549	35,422
170,212	14,649
2,940,309	-
4,860	-
801,135	-
-	360,807
348,000	-
488,100	64,602
131,852	15,506
230,505	-
643,440	-
<u>6,144,962</u>	<u>490,986</u>
49,100	-
104,900	5,327
185,678	-
8,865,499	-
19,433,762	-
3,305,223	395,604
<u>31,944,162</u>	<u>400,931</u>
38,089,124	891,917
296,783	35,953
2,515,872	-
<u>2,812,655</u>	<u>35,953</u>
80,173,768	8,542
(11,720,085)	1,834,970
<u>68,453,683</u>	<u>\$ 1,843,512</u>
237,146	
<u>\$ 68,690,829</u>	

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
OPERATING REVENUES				
Charges for Services	\$ 3,565,735	\$ 3,572,359	\$ 2,880,870	\$ -
Rents and Royalties	-	-	-	619,648
Operating Grants	-	-	-	1,518,779
Other Income	-	-	-	79,303
Total Operating Revenues	<u>3,565,735</u>	<u>3,572,359</u>	<u>2,880,870</u>	<u>2,217,730</u>
OPERATING EXPENSES				
Cost of Sales and Services	2,580,052	3,586,838	2,130,728	2,134,835
Claims	-	-	-	-
Depreciation	1,970,744	908,739	154,135	481,248
Total Operating Expenses	<u>4,550,796</u>	<u>4,495,577</u>	<u>2,284,863</u>	<u>2,616,083</u>
OPERATING INCOME (LOSS)	(985,061)	(923,218)	596,007	(398,353)
NONOPERATING REVENUES (EXPENSES)				
Development Impact Fees	102,056	86,282	-	-
Investment Earnings	25,297	3,968	146	946
Interest Expense	(363,150)	(380,684)	(6,374)	-
Miscellaneous Nonoperating Revenues	6,913	23,335	-	-
Total Nonoperating Revenues (Expenses)	<u>(228,884)</u>	<u>(267,099)</u>	<u>(6,228)</u>	<u>946</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,213,945)	(1,190,317)	589,779	(397,407)
Capital Contributions	<u>220,190</u>	<u>94,891</u>	<u>-</u>	<u>291,737</u>
CHANGE IN NET POSITION	(993,755)	(1,095,426)	589,779	(105,670)
NET POSITION				
Beginning of Year, As Restated	<u>53,039,487</u>	<u>14,223,309</u>	<u>(5,968,065)</u>	<u>8,764,024</u>
End of Year	<u>\$ 52,045,732</u>	<u>\$ 13,127,883</u>	<u>\$ (5,378,286)</u>	<u>\$ 8,658,354</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
Change in Net Position of Business-Type Activities

Business-Type Activities - Enterprise Funds <u>Totals</u>	Governmental Activities Internal Service Funds
\$ 10,018,964	\$ 4,230,524
619,648	-
1,518,779	-
79,303	-
<u>12,236,694</u>	<u>4,230,524</u>
10,432,453	1,757,809
-	2,265,500
3,514,866	-
<u>13,947,319</u>	<u>4,023,309</u>
(1,710,625)	207,215
188,338	-
30,357	49,910
(750,208)	-
30,248	-
<u>(501,265)</u>	<u>49,910</u>
(2,211,890)	257,125
606,818	-
(1,605,072)	257,125
	<u>1,586,387</u>
	<u>\$ 1,843,512</u>
<u>57,458</u>	
<u>\$ (1,547,614)</u>	

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 3,497,868	\$ 3,536,629	\$ 2,871,387	\$ 610,015
Operating Grants	-	-	-	1,518,779
Payments to Suppliers	(1,355,379)	(2,846,566)	(1,302,587)	(1,474,845)
Payments to Employees	(335,498)	(1,064,127)	(734,447)	(698,087)
Payments for Claims	-	-	-	-
Other Receipts	6,913	23,335	-	79,833
Customer Deposits Payable	-	25,771	-	-
Net Cash Provided (Used) by Operating Activities	1,813,904	(324,958)	834,353	35,695
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund Borrowing	(1,045,829)	-	(499,387)	-
Development Impact Fees	102,056	86,282	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(943,773)	86,282	(499,387)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Contributions	81,305	593,428	-	264,306
Purchases of Capital Assets	(29,200)	(149,036)	-	(346,407)
Issuance of Notes Payable	-	1,004,031	-	-
Principal Paid on Capital Debt	(398,970)	(580,239)	(148,691)	-
Interest Paid on Capital Debt	(305,844)	(381,632)	(6,075)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(652,709)	486,552	(154,766)	(82,101)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings	25,297	3,968	146	(25,030)
Net Cash Used by Investing Activities	-	-	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	242,719	251,844	180,346	(71,436)
Cash and Cash Equivalents - Beginning of Year	1,782,975	4,823,588	8,956	2,052,304
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,025,694</u>	<u>\$ 5,075,432</u>	<u>\$ 189,302</u>	<u>\$ 1,980,868</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents	\$ -	\$ 3,341,800	\$ 177,738	\$ 1,930,533
Restricted Assets	2,025,694	1,733,632	11,564	50,335
Total Cash and Cash Equivalents	<u>\$ 2,025,694</u>	<u>\$ 5,075,432</u>	<u>\$ 189,302</u>	<u>\$ 1,980,868</u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Total</u>	<u>Service Funds</u>
\$ 10,515,899	\$ 4,199,853
1,518,779	-
(6,979,377)	(1,420,461)
(2,832,159)	(379,057)
-	(2,247,746)
110,081	-
25,771	-
2,358,994	152,589
(1,545,216)	4,922
188,338	-
(1,356,878)	4,922
939,039	-
(524,643)	-
1,004,031	-
(1,127,900)	(1,924)
(693,551)	-
(403,024)	(1,924)
4,381	49,910
603,473	205,497
8,667,823	2,375,975
\$ 9,271,296	\$ 2,581,472
\$ 5,450,071	\$ 2,581,472
3,821,225	-
\$ 9,271,296	\$ 2,581,472

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (985,061)	\$ (923,218)	\$ 596,007	\$ (398,353)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,970,744	908,739	154,135	481,248
Bad Debt Expense	-	-	-	7,930
Nonoperating Receipts	6,913	23,335	-	-
Change in Assets/Liabilities:				
Receivables	(67,867)	(35,730)	(9,483)	(9,973)
Prepaid Items	-	-	-	(18)
Inventories	-	-	-	(12,221)
Deferred Outflows of Resources	(17,960)	(11,191)	(69,891)	-
Accounts Payable	843,879	(649,292)	7,123	29,467
Accrued Wages and Benefits	1,395	(5,784)	3,805	(63,255)
Unearned Revenue	-	-	-	340
Other Postemployment Benefits	(295,807)	(594,505)	(843,515)	-
Net Pension Liability	(22,247)	(68,371)	(36,334)	-
Compensated Absences	8,281	(37,057)	4,775	-
Claims Payable	-	-	-	-
Judgments Payable	-	348,000	-	-
Customer Deposits Payable	-	25,771	-	530
Deferred Inflows of Resources	371,634	694,345	1,027,731	-
Net Cash Provided by Operating Activities	<u>\$ 1,813,904</u>	<u>\$ (324,958)</u>	<u>\$ 834,353</u>	<u>\$ 35,695</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

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

Amortization of Premium (Discount)	\$ 260	\$ (9,177)	\$ (70)	\$ -
Amortization of Reacquisition Costs on Refunding	57,046	11,707	369	-

See accompanying Notes to Basic Financial Statements.

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

\$ (1,710,625)	\$ 207,215
----------------	------------

3,514,866	-
7,930	-
30,248	-

(123,053)	(30,671)
(18)	-

(12,221)	302
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(99,042)	25,545
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231,177	(18,435)
---------	----------

(63,839)	1,261
----------	-------

340	-
-----	---

(1,733,827)	-
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(126,952)	(19,732)
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(24,001)	3,377
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-	17,754
---	--------

348,000	-
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26,301	-
--------	---

2,093,710	(34,027)
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<u>\$ 2,358,994</u>	<u>\$ 152,589</u>
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\$ (8,987)	\$ -
69,122	-

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

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

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

	<u>Pension Trust</u>
Net Position - Beginning of Year	<u>\$ 15,769</u>
NET POSITION - END OF YEAR	<u><u>\$ 15,769</u></u>

See accompanying Notes to Basic Financial Statements.

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CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

For the year ended June 30, 2018, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes measurement and reporting requirements for postemployment benefit plans that are not pension plans and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which amended previously established accounting requirements for interest costs incurred before the end of a construction period.

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, 2018 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, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

The *Internal Service Funds* account for the City's limited risk, self-insurance program for employee and dependent medical care and for the fleet maintenance and inventory warehouse operations provided to the other departments of the City.

The *Fiduciary Fund* accounts for assets held by the City in a trustee capacity and consists of the City's Volunteer Firefighters Relief and Pension Trust.

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

1. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Interfund Receivables/Payables

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

Similarly, funds may borrow from other funds within the pool on a long-term basis. These receivables and payables are classified as "advances to other funds" or "advances from other funds" on the balance sheet of the fund financial statements. Borrowings between governmental funds are eliminated in the preparation of the government-wide financial statements. Borrowings between governmental and business-type activities are reflected on the government-wide financial statements as interfund balances.

4. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method and are recorded as an expenditure/expense in the governmental fund financial statements and the government-wide and proprietary fund financial statements at the time of consumption.

Prepaid items represent goods and/or services paid in advance of receiving the benefit associated with the prepaid item. Expenditure/expenses are recognized in the government-wide and fund financial statements the period in which the goods and/or services are received/rendered.

5. Restricted Assets

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

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Capital Assets

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

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and Improvements	45 Years
Improvements Other than Buildings	20 to 45 Years
Infrastructure	20 to 45 Years
Machinery, Equipment, and Vehicles	7 to 15 Years

7. Deferred Outflows of Resources

The deferred outflows of resources reported in the government-wide financial and proprietary fund financial statements, represent the reacquisition costs related to the refunding of bonded debt and amounts related to pensions and other post-employment 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Pensions and Other Postemployment Benefits

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2018 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.

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.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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)

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, 2018, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepays	\$ 18,309	\$ -	\$ -	\$ 18,309
Restricted:				
Impound Fees	45,482	-	-	45,482
Streets	-	3,674,632	-	3,674,632
Local Transportation				
Assistance	-	-	348,019	348,019
Federal and State Grants	-	-	776,581	776,581
Debt Service	-	-	695,859	695,859
Assigned:				
Capital Outlay	-	-	1,925	1,925
Unassigned	12,225,421	-	-	12,225,421
Total Fund Balance	<u>\$ 12,289,212</u>	<u>\$ 3,674,632</u>	<u>\$ 1,822,384</u>	<u>\$ 17,786,228</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018**

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:	
Council	\$ 5,918
MIS	9,363
Cemetery	5,858
Police	27,571
Animal Control	21,555

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

C. Deficit Fund Equity

A deficit net position in the amount of \$5,378,286 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, 2018 consist of the following:

Deposits	
Cash on Hand	\$ 4,246
Cash in Bank	5,484,621
Investments	
U.S. Agency Securities	6,088,860
Marketable Certificate of Deposits	6,693,060
Money Market Funds	<u>10,748,147</u>
Total Deposits and Investments	29,018,934
Less: Restricted Cash and Investments	(4,517,084)
Less: Fiduciary Funds	<u>(15,769)</u>
Total Deposits and Investments	<u><u>\$ 24,486,081</u></u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Deposits – The carrying value of the City’s deposits at June 30, 2018 was \$5,484,621 including non-marketable certificates of deposit, and the bank balance was \$5,468,950 the full balance of which was covered by federal depository insurance or collateral held under the continuing deposit security agreement.

Investments – All investments of the City are uninsured and unregistered with the securities held by the counterparty’s trust department or agent in the City’s name. The U.S. money market government securities are reported at amortized cost.

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

Investment	Investment Maturities (in Years)		
	Amount	Less than 1	1-5
U.S. Agency Securities	\$ 6,088,860	\$ -	\$ 6,088,860
Marketable Certificate of Deposits	6,693,060	3,241,039	3,452,021
Money Market Funds	10,748,147	10,748,147	-
Total Investments	\$ 23,530,067	\$ 13,989,186	\$ 9,540,881

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City requires a minimum of 35% of the total investment portfolio have maturities of one year or less and no more than 20% of the portfolio may have a maturity of greater than three years.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

Investment Type	Rating	Agency	Amount
U.S. Agency Securities	AA+	Moody's	\$ 6,088,860
Marketable Certificate of Deposits	N/R	N/R	6,693,060
Money Market Funds	N/R	N/R	10,748,147
			<u>\$ 23,530,067</u>

Concentration of Credit Risk – The City policy allows a maximum of 10% of the market value of the portfolio be invested in debt issued by any single entity. The City places an 80% limit on the amount the City may invest in debt backed by the United States Treasury. See table summarizing the City’s investment percentages:

Investment Type	Amount	Percent of City Investments
U.S. Agency Securities	\$ 6,088,860	25.88%
Marketable Certificate of Deposits	6,693,060	28.44%
Money Market Funds	10,748,147	45.68%
	<u>\$ 23,530,067</u>	<u>100.00%</u>

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 III). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

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

The City’s investments were measured as follows at June 30, 2018:

	6/30/2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Observable Inputs (Level III)
Investments by Fair Value Level				
Debt Securities				
U.S. Agency Securities	\$ 6,088,860	\$ -	\$ 6,088,860	\$ -
Marketable Certificate of Deposits	6,693,060	-	6,693,060	-
Total Investments by fair value level	<u>12,781,920</u>	<u>\$ -</u>	<u>\$ 12,781,920</u>	<u>\$ -</u>
Investments Measured at Amortized Cost				
Money Market Funds	10,748,147			
Total Investments:	<u>\$ 23,530,067</u>			

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2018 consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Operation and Maintenance	\$ -	\$ 154,156	\$ 154,156
Repair and Replacement Fund	-	98,626	98,626
Future Debt Service and Construction	695,859	2,616,700	3,312,559
Debt Service Reserve	-	150,608	150,608
Customer Deposits	-	801,135	801,135
Total	<u>\$ 695,859</u>	<u>\$ 3,821,225</u>	<u>\$ 4,517,084</u>

3. Receivables

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

The governmental activities report an allowance of \$980,358 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$572,726.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,279,134	\$ -	\$ -	\$ 2,279,134
Construction in Progress	11,300	699,462	(129,715)	581,047
Total Capital Assets, Not Being Depreciated	2,290,434	699,462	(129,715)	2,860,181
Capital Assets, Being Depreciated:				
Infrastructure	60,907,605	732,064	-	61,639,669
Buildings	9,793,193	-	-	9,793,193
Improvements Other than Buildings	3,946,475	-	-	3,946,475
Vehicles, Machinery and Equipment	14,016,614	438,531	(326,267)	14,128,878
Total Capital Assets, Being Depreciated	88,663,887	1,170,595	(326,267)	89,508,215
Accumulated Depreciation for:				
Infrastructure	(25,832,294)	(1,305,339)	-	(27,137,633)
Buildings	(6,110,582)	(208,177)	-	(6,318,759)
Improvements Other than Buildings	(1,695,720)	(86,673)	-	(1,782,393)
Vehicles, Machinery, and Equipment	(11,823,934)	(788,382)	326,267	(12,286,049)
Total Accumulated Depreciation	(45,462,530)	(2,388,571)	326,267	(47,524,834)
Total Capital Assets, Being Depreciated, Net	43,201,357	(1,217,976)	-	41,983,381
Governmental Activities Capital Assets, Net	<u>\$ 45,491,791</u>	<u>\$ (518,514)</u>	<u>\$ (129,715)</u>	<u>\$ 44,843,562</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 162,698
Public Safety	633,968
Highways and Streets	1,434,051
Culture and Recreation	157,854
Total Depreciation Expense	<u>\$ 2,388,571</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,250,853	\$ -	\$ -	\$ 3,250,853
Construction in Progress	1,150,856	490,663	(980,371)	661,148
Total Capital Assets, Not Being Depreciated	4,401,709	490,663	(980,371)	3,912,001
Capital Assets, Being Depreciated:				
Infrastructure	116,747,213	644,703	-	117,391,916
Buildings	8,139,460	-	-	8,139,460
Improvements Other than Buildings	812,886	-	-	812,886
Vehicles, Machinery and Equipment	8,657,001	-	(61,589)	8,595,412
Housing Authority	15,313,357	369,648	-	15,683,005
Total Capital Assets, Being Depreciated	149,669,917	1,014,351	(61,589)	150,622,679
Accumulated Depreciation for:				
Infrastructure	(33,337,181)	(2,566,313)	-	(35,903,494)
Buildings	(5,369,923)	(129,283)	-	(5,499,206)
Improvements Other than Buildings	(409,081)	(23,055)	-	(432,136)
Vehicles, Machinery and Equipment	(7,738,439)	(314,967)	61,589	(7,991,817)
Housing Authority	(8,003,007)	(481,248)	-	(8,484,255)
Total Accumulated Depreciation	(54,857,631)	(3,514,866)	61,589	(58,310,908)
Total Capital Assets, Being Depreciated, Net	94,812,286	(2,500,515)	-	92,311,771
Business-Type Activities Capital Assets, Net	\$ 99,213,995	\$ (2,009,852)	\$ (980,371)	\$ 96,223,772

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Sewer	\$ 1,970,744
Water	908,739
Sanitation	154,135
Nogales Housing Authority	481,248
Total Depreciation Expense	<u>\$ 3,514,866</u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The City has active construction projects at June 30, 2018. At fiscal year end the City's commitments with contractors were as follows:

<u>Project</u>	Business-Type Activities	
	Spent-to-date	Remaining Commitment
SCADA Phase 2	\$ 215,539	\$ 55,661

B. Interfund Receivables, Payables, and Transfers

As of June 30, 2018 interfund receivable and payables were as follows:

<u>Due From</u>	Due To General Fund
Sewer Fund	\$ 488,100
Internal Service Fund	64,602
	\$ 552,702

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2018 for the Internal Service Fund to cover the deficit. Funds are not expected to be received within the next year for the Sewer or the Sanitation Fund to cover the deficit.

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

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

As of June 30, 2018, transfers were as follows:

	Transfers In Nonmajor Governmental Funds
Transfers Out	
General Fund	\$ 499,167
HURF Fund	554,528
Total	\$ 1,053,695

The transfer from the General Fund and HURF Fund to the Nonmajor governmental funds was recorded to make the principal and interest payments due on the outstanding revenue bonds.

C. Obligations Under Capital Leases

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

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Assets:		
Machinery and Equipment	\$ 3,359,457	\$ 3,119,494
Less: Accumulated Depreciation	(2,973,451)	(1,316,261)
Total	\$ 386,006	\$ 1,803,233

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2018, were as follows:

Year Ending June 30,	Governmental Activities	Business-Type Activities
2019	\$ 229,106	\$ 241,380
2020	73,451	85,534
2021	75,534	87,959
2022	19,032	22,162
Total Minimum Lease Payments	397,123	437,035
Less: Amount Representing Interest	(18,253)	(20,852)
Present Value of Minimum Lease Payments	\$ 378,870	\$ 416,183

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. Compensated absences are paid by the applicable fund where each employee is regularly paid.

The City of Nogales, Arizona reports the following outstanding bonds:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
Municipal Facilities Revenue and Refunding Bonds, Series 2009	3.75-5.42	10/01/18-39	\$ 2,689,490	\$ 961,731
Municipal Facilities Revenue Refunding Bonds, Series 2014	3.00-3.625	6/30/19-30	5,615,902	5,214,110
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	6/1/20-39	1,841,463	1,841,463
Total Governmental Activities			<u>\$ 21,797,735</u>	<u>\$ 13,526,854</u>
Business-Type Activities:				
Bonds Payable:				
Municipal Facilities Revenue and Refunding Bonds, Series 2009	3.75-5.42	10/01/18-39	\$ 12,445,511	\$ 4,438,269
Municipal Facilities Revenue Refunding Bonds, Series 2014	3.00-3.625	6/30/19-30	6,754,098	6,270,886
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	6/1/20-39	5,108,537	5,108,537
Total Business-Type Activities			<u>\$ 29,162,266</u>	<u>\$ 18,113,142</u>

The City has pledged excise tax revenues of the General Fund to repay \$13.5 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 \$19,500,380. Principal and interest paid for the current year and total excise taxes were \$772,431 and \$19,203,640, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$18.1 million in combined business-type revenue obligation bonds. Proceeds of the bonds provided financing for upgrades to the sewer treatment facility, water infrastructure, and sanitation infrastructure. The bonds are payable from the applicable Sewer, Water, or Sanitation Fund in proportion to the percent of funds used by the particular funds through 2039. In the event operations of the Water, Sewer, or Sanitation Funds are not sufficient to make the required principal and interest payments, the debt is pledged through City excise tax revenues. Annual principal and interest payments on the bonds are expected to require approximately 25.0% of revenues. The total principal and interest remaining to be paid on the bonds is \$26,601,569.

The City has acquired a loan through the Water Infrastructure Financing Authority of Arizona (WIFA). The City acquired a \$2,000,000 loan from WIFA for the construction of a high pressure water system. The loan is structured where the City draws on the loan as funds are needed. To-date, the City has drawn down the authorized loan of \$2.0 million. The loans are payable from water charges for services through the fiscal year 2036. The remaining principal and interest to be paid on the outstanding balance is \$1,960,562.

Changes in governmental long-term obligations for the year ended June 30, 2018 are as follows:

	July 1, 2017	Increases	Decreases	June 30, 2018	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 13,820,353	\$ -	\$ (293,499)	\$ 13,526,854	\$ 465,350
Deferred Amounts:					
Premium	232,273	-	(13,450)	218,823	-
Total Bonds	14,052,626	-	(306,949)	13,745,677	465,350
Other Liabilities:					
Capital Leases	786,068	-	(407,198)	378,870	219,421
Compensated Absences	1,664,955	887,259	(892,888)	1,659,326	887,408
Total Other Liabilities	2,451,023	887,259	(1,300,086)	2,038,196	1,106,829
Governmental Activities Long-Term Liabilities	<u>\$ 16,503,649</u>	<u>\$ 887,259</u>	<u>\$ (1,607,035)</u>	<u>\$ 15,783,873</u>	<u>\$ 1,572,179</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in business-type long-term obligations for the year ended June 30, 2018 are as follows:

	July 1, 2017	Increases	Decreases	June 30, 2018	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 18,779,643	\$ -	\$ (666,501)	\$ 18,113,142	\$ 559,651
Deferred Amounts:					
Premium	247,309	-	(14,007)	233,302	-
Discount	(110,440)	-	5,020	(105,420)	-
Total Bonds Payable	18,916,512	-	(675,488)	18,241,024	559,651
Other Liabilities:					
Notes Payable	914,084	1,004,031	(81,937)	1,836,178	83,789
Capital Leases	795,645	-	(379,462)	416,183	230,505
Compensated Absences	327,172	138,512	(228,932)	236,752	131,852
Business-Type Activities					
Long-Term Liabilities	<u>\$ 20,953,413</u>	<u>\$ 1,142,543</u>	<u>\$ (1,365,819)</u>	<u>\$ 20,730,137</u>	<u>\$ 1,005,797</u>

Debt service requirements on long-term debt at June 30, 2018 are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 465,350	\$ 469,496	\$ 643,440	\$ 660,353
2020	430,801	455,569	729,883	642,877
2021	444,351	442,965	753,271	623,364
2022	456,575	429,960	773,027	603,187
2023	468,800	416,117	792,829	581,134
2023-2027	2,571,645	1,855,179	4,353,525	2,546,167
2028-2032	3,914,458	1,372,355	4,528,688	1,800,851
2033-2037	4,296,846	514,070	5,762,693	1,087,218
2038-2039	478,028	17,815	1,611,964	67,660
Total	<u>\$ 13,526,854</u>	<u>\$ 5,973,526</u>	<u>\$ 19,949,320</u>	<u>\$ 8,612,811</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION

A. Risk Management

The City of Nogales, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by a private carrier (Arizona Municipal Risk Retention Pool), of which the City is a participating member. The limit for basic coverage is \$5,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The City established the City of Nogales Employee Benefit Trust (an internal service fund reported as the Health Insurance Fund) which accounts for and finances the City's uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. Under this program, the City is self-insured for up to \$75,000 for each insured's health care claim, not to exceed a maximum individual annual stop loss of \$2,000,000 and is self-insured for annual aggregate losses up to \$2,623 per covered employee plus \$4,196 per covered dependent unit per year. The City purchases commercial insurance for claims in excess of coverage provided by the Plan and for all other risks of loss. Settled claims did not exceed the aggregate stop loss for the year ended June 30, 2018. 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, 2018 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, 2018 and 2017 were as follows:

	Claims Liability at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at End of Year
2017-18	\$ 343,053	\$ 2,286,387	\$ (2,268,633)	\$ 360,807
2016-17	381,344	2,446,565	(2,484,856)	343,053

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

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.

The City is currently included in a lawsuit against a third-party stemming from management and operations of the Wastewater Treatment Plant in which the City was awarded summary judgment in eight of nine counts at issue. A second motion of summary judgment has been filed for the remaining count which is still pending. At June 30, 2018, the City has an outstanding liability of \$3,072,904 owed to the third-party through an intergovernmental agreement. Of this amount, \$2,940,309 remains outstanding pending the outcome of the case. The City is seeking reimbursement of alleged errors in calculations within the intergovernmental agreement paid in the past several years. Management believes it is highly unlikely there will be an unfavorable decision for the City.

A lawsuit has also been filed against the City for improper water charges on its City water irrigation account. The plaintiff has filed a claim for \$400,000 and the City management estimates that a full and fair settlement will be in the range of \$348,000 and \$398,000. The minimum amount in the range was accrued as Judgements Payable within the Water Fund and Business-type Activities.

C. Retirement Plans

Firefighters Relief and Pension Fund

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

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

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

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Firefighters Relief and Pension Fund (Continued)

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, 2018 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	\$ 37,515,406	\$ 3,305,223	\$ 40,820,629
Deferred Outflows of Resources	8,476,681	360,247	8,836,928
Deferred Inflows of Resources	1,378,029	296,783	1,674,812
Pension Expense	5,130,071	(60,190)	5,069,881

The City reported accrued payroll and employee benefits of \$837,154 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2018. Additionally, the City reported \$2,005,587 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense recorded in the City's financial statements includes the proportionate share allocated to the Nogales Housing Authority Enterprise Fund. The Nogales Housing Authority issues separately audited financial statements and have a fiscal year end of March 31, 2018. For the year ended March 31, 2018, the Authority recognized pension expense of \$42,492.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System

Plan Descriptions – City employees not covered by the other pension plans described on the following pages 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 Arizona State Retirement System 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 Web site 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 years and age equals 80 10 years age 62 5 year 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 actuarially reduced benefits

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.34% of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 10.90% of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.26% 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, 2018 was \$689,381.

During the fiscal year ended June 30, 2018, the City paid for ASRS pension and OPEB contributions as follows: 59% from the General Fund, 5% from the HURF Fund, 31% from major enterprise funds, and 5% from other funds.

Pension Liability – At June 30, 2018, the City reported a liability of \$10,436,145 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2017. 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, 2016, to the measurement date of June 30, 2017.

The City's reported liability at June 30, 2018, decreased by \$515,527 from the City's prior year liability of \$10,951,672 because of changes in the ASRS' net pension liability and the City's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The City's proportion of the net pension liability was based on the City's FY 2017 contributions. The City's proportion measured as of June 30, 2017, was 0.066800%, which was a decrease of 0.001050 from its proportion measured as of June 30, 2016.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, the City recognized pension expense for ASRS of \$60,104. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 312,034
Changes of assumptions or other inputs	451,962	311,162
Net difference between projected and actual earnings on pension plan investments	74,709	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	349,763
City contributions subsequent to the measurement date	689,381	-
Total	\$ 1,216,052	\$ 972,959

The \$689,381 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 ended June 30, 2019. 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>
2019	\$ (668,285)
2020	344,622
2021	116,776
2022	(239,401)

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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

Actuarial Valuation Date	June 30, 2016
Actuarial Roll Forward Date	June 30, 2017
Actuarial Cost Method	Entry age normal
Discount Rate	8%
Projected Salary Increases	3 - 6.75%
Inflation	3%
Permanent Benefit Increase	Included
Mortality Rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial study for the five-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.7% 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>Real Return Arithmetic Basis</u>
Equity	58%	6.73%
Fixed Income	25%	3.70%
Commodities	2%	3.84%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.7%. 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. 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, 2018**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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 8%, 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 (7%) or 1 percentage point higher (9%) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's Proportionate Share of the Net Pension Liability	\$ 13,356,459	\$ 10,436,145	\$ 7,940,892

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 employees and City firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan. 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 their financial statements and required supplementary information. That report is available on the PSPRS Web site at www.psprs.com.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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

PSPRS	Initial Membership Date	
	Before January 1, 2012	On or After January 1, 2012
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 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%	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, 2018

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. The adjustments are based on inflation for PSPRS. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. 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, 2018, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Police	PSPRS Firefighters
Inactive Employees or Beneficiaries		
Currently Receiving Benefits	30	23
Inactive Employees Entitled to but not yet Receiving Benefits	5	2
Active Employees	46	39
Total	<u>81</u>	<u>64</u>

Contributions – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium 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. Contributions rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police	PSPRS Firefighters
Active Members - Pension	7.65% - 9.94%	7.65% - 9.94%
City		
PSPRS Tier 1/2	44.16%	49.43%
PSPRS Tier 3	37.75%	43.40%

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2018**

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, 2018, were:

	PSPRS Police	PSPRS Firefighters
Pension:		
Contributions Made	\$ 738,864	\$ 807,385

During the fiscal year June 30, 2018, the City paid for PSPRS pension and OPEB contributions 100% from the General Fund.

Pension Liability – At June 30, 2018, the City reported the following net pension liabilities:

	Net Pension Liability
PSPRS Police	\$ 15,087,371
PSPRS Firefighters	15,297,113

The net pension liabilities were measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5% to 7.4%, decreasing wage inflation from 4% to 3.5% and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012 and before July 1, 2017, and a court decision that decreased contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the City's PSPRS net pension liabilities as a result of the refunds is not known.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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

Actuarial Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.40%
Projected Salary Increases	3.50%
Inflation	2.5%
Permanent Benefit Increase	Included
Mortality Rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85% 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 arithmetic real rates of return for each major asset class are summarized in the following table:

PSPRS	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Short Term Investments	2.00 %	0.25 %
Absolute Return	2.00	3.75
Risk Parity	4.00	5.00
Fixed Income	5.00	1.25
Real Assets	9.00	4.52
GTAA	10.00	3.96
Private Equity	12.00	6.75
Real Estate	10.00	3.75
Credit Opportunities	16.00	5.83
Non-U.S. Equity	14.00	8.70
U.S. Equity	16.00	7.60
Total	100.00 %	

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

	PSPRS Police	PSPRS Firefighters
Discount Rates	7.40%	7.40%

At June 30, 2017, the discount rate used to measure the PSPRS total pension liabilities was 7.40%, which was a decrease of 0.10 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the PSPRS 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.

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:

PSPRS - Police	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at June 30, 2017	\$ 27,872,606	\$ 13,375,150	\$ 14,497,456
Changes for the Year:			
Service Cost	683,797	-	683,797
Interest on the Total Pension Liability	2,076,189	-	2,076,189
Changes of Benefit Terms	353,971	-	353,971
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(378,290)	-	(378,290)
Changes of Assumptions or Other Inputs	816,680	-	816,680
Contributions - Employer	-	991,252	(991,252)
Contributions - Employee	-	349,723	(349,723)
Net Investment Income	-	1,636,160	(1,636,160)
Benefit Payments, Including Refunds of Employee Contributions	(1,063,974)	(1,063,974)	-
Administrative Expenses	-	(14,877)	14,877
Other Changes	-	174	(174)
Net Changes	<u>2,488,373</u>	<u>1,898,458</u>	<u>589,915</u>
Balances as of June 30, 2018	<u>\$ 30,360,979</u>	<u>\$ 15,273,608</u>	<u>\$ 15,087,371</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

PSPRS - Firefighters	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2017	\$ 21,901,744	\$ 9,530,295	\$ 12,371,449
Changes for the Year:			
Service Cost	604,423	-	604,423
Interest on the Total Pension Liability	1,627,144	-	1,627,144
Changes of Benefit Terms	241,618	-	241,618
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	1,475,451	-	1,475,451
Changes of Assumptions or Other Inputs	1,443,165	-	1,443,165
Contributions - Employer	-	997,891	(997,891)
Contributions - Employee	-	294,838	(294,838)
Net Investment Income	-	1,184,169	(1,184,169)
Benefit Payments, Including Refunds of Employee Contributions	(1,017,406)	(1,017,406)	-
Administrative Expenses	-	(10,878)	10,878
Other Changes	-	117	(117)
Net Changes	4,374,395	1,448,731	2,925,664
Balances as of June 30, 2018	<u>\$ 26,276,139</u>	<u>\$ 10,979,026</u>	<u>\$ 15,297,113</u>

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 rate of 7.50%, 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 or 1 percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.40%	7.40%	8.40%
Net Pension Liability	\$ 19,639,889	\$ 15,087,371	\$ 11,424,333
PSPRS Firefighters			
Rate	6.40%	7.40%	8.40%
Net Pension Liability	19,107,391	15,297,113	12,214,170

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, 2018, the City recognized the pension expense of \$2,595,427 and \$2,414,350 for Police and Fire, respectively.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Deferred Outflows/Inflows of Resources – At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Police	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 277,789	\$ 600,541
Changes of assumptions or other inputs	1,783,031	-
Net difference between projected and actual earnings on pension plan investments	161,122	-
City contributions subsequent to the measurement date	738,864	-
Total	<u><u>\$ 2,960,806</u></u>	<u><u>\$ 600,541</u></u>

PSPRS - Firefighters	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,346,683	\$ 101,312
Changes of assumptions or other inputs	2,398,363	-
Net difference between projected and actual earnings on pension plan investments	107,639	-
City contributions subsequent to the measurement date	807,385	-
Total	<u><u>\$ 4,660,070</u></u>	<u><u>\$ 101,312</u></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 ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
2019	\$ 829,463	\$ 949,937
2020	470,924	1,038,102
2021	407,560	806,317
2022	(86,546)	527,311
2023	-	429,706

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

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 also offers a single employer plan administered by the City to eligible City employees. At June 30, 2018, the City reported aggregate amounts related to the other postemployment benefits 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	\$ 36,366	\$ -	\$ -	\$ 36,366
OPEB Liability	24,159	273,465	19,587,821	19,885,445
Deferred Outflows of Resources	28,686	40,021	679,468	748,175
Deferred Inflows of Resources	44,607	151,450	5,558,679	5,754,736
OPEB Expense	34,160	23,861	544,722	602,743

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.

The cost of postemployment healthcare benefits, from an accrual accounting perspective, similar to the cost of pension benefits, should be associated with the period in which the cost occurs, rather than in the future year when it will be paid. The City implemented the provisions of GASB Statement No. 75 during the fiscal year ended June 30, 2018 and is recognizing the cost of postemployment healthcare in the year the employee services are received, the accumulated liability from prior years, and is providing information useful in assessing potential demands on the City's future cash flows.

The City's liability for postemployment healthcare benefits other than pensions as of June 30, 2018 is based on the actuarial performed as of June 30, 2017.

Plan Description – The City provides postretirement insurance (health and dental) benefits, for certain retirees and their dependents, in accordance with the Post Employment Benefit Plan. The plan is a single-employer defined benefit plan administered by the City. Employees hired prior to July 1, 2004, with a minimum of 15 years of full-time service to the City, and have retired prior to June 30, 2014, will receive medical insurance provided by the City at no cost to the retiree until the retiree reaches age 65. Employees employed by the City after July 1, 2004, who retire and have attained age 50 and completed a minimum of 20 years of full-time service to the City, will receive a medical insurance subsidy provided by the City until the retiree is eligible for Medicare. The employee must be participating in one of the City's health plans to be eligible.

Benefits Provided – The City provides postretirement insurance (medical and dental) benefits (OPEB), in accordance with the City's Post Employment Benefit Plan, to eligible employees. Currently, 102 retirees meet those eligibility requirements.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$19,587,821 had a measurement date through June 30, 2017, and an actuarial valuation date of June 30, 2017.

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

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

The total OPEB liability as of June 30, 2018, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions:	
Actuarial Cost Method	Entry Age, level % of pay
Salary Increases	4.00% annual increases.
Discount Rate	3.58%, based on 20 year AA Bond Index
Health Care Trend Rates	8.0% decreasing to 4.25% over 17 years

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table with generational mortality improvements in accordance with MP-2016 scales projected from the year 2006. Post-retirement mortality rates were based on RP-2014 at 2006 Healthy annuitant with generational projections from the MP-2016 scale.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

Changes in OPEB Liability

Balances at June 30, 2017, as Restated	\$ 24,351,927
Changes for the Year:	
Service Cost	975,550
Interest	714,281
Differences Between Expected and Actual Experience	560,926
Change in Assumptions	(6,481,128)
Benefit Payments	(533,735)
Net Changes	<u>(4,764,106)</u>
Balances at June 30, 2018	<u>\$ 19,587,821</u>

Discount Rate – The discount rate used to measure the OPEB liability was 3.58%. The single rate of return, that when applied to all projected benefit payments results in an actuarial present value that is the sum of the actuarial present value of the projected benefit payments projected to be funded by plan assets using a long-term rate of return and the actuarial present value of the projected benefit payments using a yield or index rate for 20 year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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 (4.58%)	Discount Rate (3.58%)	1% Increase (2.58%)
Net OPEB Liability	\$ 17,083,221	\$ 19,587,821	\$ 22,584,772

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:

	Healthcare Cost		
	1% Decrease (5% decreasing to 3.5% over 9 years)	Current Trend Rates (5% decreasing to 4.5% over 9 years)	1% Increase (5% decreasing to 5.5% over 9 years)
Net OPEB Liability	\$ 17,406,528	\$ 19,587,821	\$ 22,116,150

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, the City recognized OPEB expense of \$544,722. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ -	\$ 5,558,679
Differences Between Expected and Actual Experience	481,090	-
Contributions Subsequent to the Measurement Date	198,378	-
Total	<u>\$ 679,468</u>	<u>\$ 5,558,679</u>

The \$198,378 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. 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>
2019	\$ (842,613)
2020	(842,613)
2021	(842,613)
2022	(842,613)
2023	(842,613)
Thereafter	(864,524)

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Change in Accounting Principle and Correction of an Error

During the year ended June 30, 2018, the District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Adoption of the provisions of this statement requires the restatement of the June 30, 2017 net position in the Governmental Activities, Business-Type Activities, Sewer Fund, Water Fund, Sanitation Fund and the NHA Fund.

The City also recorded a restatement for a correction of an error. In the previous fiscal year, \$409,527 of reimbursable expenses were incurred related to a construction progress. The related revenue was not accrued in the previous fiscal year, resulting in a restatement of net position.

The net effect of the restatements on net position are as follows:

	Governmental Activities	Business-Type Activities
Net Position (Deficit), July 1, 2017, as Previously Reported	\$ 7,137,780	\$ 76,139,140
Restatements:		
Correction of an Error		409,527
Implementation of GASB Statement No. 75	685,662	(6,310,224)
Net Position, July 1, 2017, as Restated	<u>\$ 7,823,442</u>	<u>\$ 70,238,443</u>

	Sewer Fund	Water Fund	Sanitation Fund	NHA Fund
Proprietary Funds:				
Net Position (Deficit), July 1, 2017, as Previously Reported	\$ 53,732,486	\$ 16,442,494	\$ (3,483,135)	\$ 9,267,607
Restatements:				
Correction of an Error	-	409,527	-	-
Implementation of GASB Statement No. 75	(692,999)	(2,628,712)	(2,484,930)	(503,583)
Net Position, July 1, 2017, as Restated	<u>\$ 53,039,487</u>	<u>\$ 14,223,309</u>	<u>\$ (5,968,065)</u>	<u>\$ 8,764,024</u>

F. Subsequent Events

Subsequent to June 30, 2018, the City issued \$5.975 million in Municipal Facilities Revenue Refunding Bonds to refund \$5.5 million in outstanding revenue bonds to obtain a future economic gain on the interest due over the life of the new bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
COST SHARING PENSION PLANS
JUNE 30, 2018**

Arizona State Retirement System	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
City's Proportion of the Net Pension Liability	0.066800%	0.067850%	0.071220%	0.073466%
City's Proportionate Share of the Net Pension Liability	\$ 10,436,145	\$ 10,951,672	\$ 11,093,764	\$ 10,870,471
City's Covered Payroll	\$ 6,573,355	\$ 6,574,516	\$ 6,427,809	\$ 6,397,985
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	158.76%	166.58%	172.59%	169.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.92%	67.06%	68.35%	69.49%

See Accompanying Notes to Pension Schedules.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CHANGES IN THE CITY'S
NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS
JUNE 30, 2018

PSPRS Police	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total Pension Liability				
Service Cost	\$ 683,797	\$ 632,118	\$ 650,848	\$ 597,019
Interest on the Total Pension Liability	2,076,189	1,851,701	1,796,333	1,449,565
Changes of Benefit Terms	353,971	1,220,887	-	426,360
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(378,290)	307,190	(779,043)	449,885
Changes of Assumptions or Other Inputs	816,680	1,097,489	-	2,344,265
Benefit Payments, Including Refunds of Employee Contributions	(1,063,974)	(1,018,527)	(888,380)	(864,781)
Net Change in Total Pension Liability	2,488,373	4,090,858	779,758	4,402,313
Total Pension Liability - Beginning	27,872,606	23,781,748	23,001,990	18,599,677
Total Pension Liability - Ending (a)	30,360,979	27,872,606	23,781,748	23,001,990
Plan Fiduciary Net Position				
Contributions - Employer	991,252	863,530	754,068	709,292
Contributions - Employee	349,723	381,314	356,974	349,414
Net Investment Income	1,636,160	76,325	457,113	1,488,112
Benefit Payments, Including Refunds of Employee Contributions	(1,063,974)	(1,018,527)	(888,380)	(864,781)
Administrative Expenses	(14,877)	(11,383)	(11,527)	(11,984)
Other Changes	174	51,084	106,595	-
Net Change in Plan Fiduciary Net Position	1,898,458	342,343	774,843	1,670,053
Plan Fiduciary Net Position - Beginning	13,375,150	13,032,807	12,257,964	10,587,911
Plan Fiduciary Net Position - Ending (b)	15,273,608	13,375,150	13,032,807	12,257,964
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 15,087,371</u>	<u>\$ 14,497,456</u>	<u>\$ 10,748,941</u>	<u>\$ 10,744,026</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	50.31%	47.99%	54.80%	53.29%
Covered Payroll	\$ 2,896,219	\$ 3,216,887	\$ 3,096,516	\$ 3,368,193
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	520.93%	450.67%	347.13%	318.98%

See accompanying Notes to Pension Schedules.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CHANGES IN THE CITY'S
NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS (CONTINUED)
JUNE 30, 2018

PSPRS Fire	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total Pension Liability				
Service Cost	\$ 604,423	\$ 461,578	\$ 447,535	\$ 461,117
Interest on the Total Pension Liability	1,627,144	1,497,706	1,402,925	1,162,805
Changes of Benefit Terms	241,618	925,436	-	357,990
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	1,475,451	(150,856)	202,190	49,280
Changes of Assumptions or Other Inputs	1,443,165	827,356	-	1,711,570
Benefit Payments, Including Refunds of Employee Contributions	(1,017,406)	(1,015,488)	(689,053)	(665,170)
Net Change in Total Pension Liability	4,374,395	2,545,732	1,363,597	3,077,592
Total Pension Liability - Beginning	21,901,744	19,356,012	17,992,415	14,914,823
Total Pension Liability - Ending (a)	26,276,139	21,901,744	19,356,012	17,992,415
Plan Fiduciary Net Position				
Contributions - Employer	997,891	737,757	585,262	614,419
Contributions - Employee	294,838	279,990	261,083	237,504
Net Investment Income	1,184,169	54,697	331,913	1,078,216
Benefit Payments, Including Refunds of Employee Contributions	(1,017,406)	(1,015,488)	(689,053)	(665,170)
Administrative Expenses	(10,878)	(8,271)	(8,477)	(8,683)
Other Changes	117	46,233	(6,751)	-
Net Change in Plan Fiduciary Net Position	1,448,731	94,918	473,977	1,256,286
Plan Fiduciary Net Position - Beginning	9,530,295	9,435,377	8,961,400	7,705,114
Plan Fiduciary Net Position - Ending (b)	10,979,026	9,530,295	9,435,377	8,961,400
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 15,297,113</u>	<u>\$ 12,371,449</u>	<u>\$ 9,920,635</u>	<u>\$ 9,031,015</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	41.78%	43.51%	48.75%	49.81%
Covered Payroll	\$ 2,533,205	\$ 2,341,847	\$ 2,268,595	\$ 2,289,386
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	603.86%	528.28%	437.30%	394.47%

See accompanying Notes to Pension Schedules.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CITY PENSION AND OPEB CONTRIBUTIONS
JUNE 30, 2018

Arizona State Retirement System

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

PSPRS Police

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

PSPRS Fire

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

City OPEB Plan

	2018
Actuarially Determined Contribution	\$ 533,735
City's Contribution in Relation to the Actuarially Determined Contribution	533,735
City's Contribution Deficiency (Excess)	\$ -
City's Covered Payroll	\$ 2,570,211
City's Contributions as a Percentage of Covered Payroll	20.77%

See accompanying Notes to Pension Schedules.

**CITY OF NOGALES, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 NOTES TO PENSION SCHEDULES
 JUNE 30, 2018**

NOTE 1 ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

Actuarial Cost Method	Entry age normal
Amortization Level	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period as of the 2013 Actuarial Valuation	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% corridor
Actuarial Assumptions:	
Investment Rate of Return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected Salary Increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS
Wage Growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS
Retirement Age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006–June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

NOTE 2 INFORMATION PRIOR TO THE MEASUREMENT DATE

Ten years of information is required; however, information prior to the measurement date (June 30, 2014 for pensions and June 30, 2017 for OPEB) was not available.

**CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF SINGLE EMPLOYER OPEB FUNDING PROGRESS
JUNE 30, 2018**

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

	June 30 (Measurement Date)
	2018
	(2017)
Total OPEB Liability	
Service Cost	\$ 975,550
Interest	714,281
Differences between expected and actual experience	560,926
Changes of Assumptions	(6,481,128)
Benefit Payments	(533,735)
Net Change in Total OPEB Liability	(4,764,106)
Total OPEB Liability - beginning	24,351,927
Total OPEB Liability - ending (a)	\$ 19,587,821
Plan Fiduciary Net Position	
Contributions - Employer	\$ 533,735
Benefit Payments	(533,735)
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - beginning	-
Plan Fiduciary Net Position - ending (b)	-
District's Net OPEB Liability - ending (a) - (b)	\$ 19,587,821
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%
Covered-employee Payroll	\$ 13,426,528
District's Net OPEB Liability as a Percentage of Covered-employee Payroll	145.89%

Note: The District implemented GASB Statement No. 75 for fiscal year ended June 30, 2018. Information prior to fiscal year 2018 is not available.