

**CITY OF NOGALES, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016**

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**CITY OF NOGALES, ARIZONA
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YEAR ENDED JUNE 30, 2016**

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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 (City), as of and for the year ended June 30, 2016, 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 25%, 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, 2016, 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, 2016, the Nogales Housing Authority, a blended component unit of the City, adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation of GASB Statements No. 68 and No. 71, the City reported a restatement for a change in accounting principle (see Note 3.E.).

Our auditors' opinion was not modified with respect to these restatements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4–13 and the pension schedules and OPEB schedules on pages 74-80 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 February 24, 2017, on our consideration of the City of Nogales, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
February 24, 2017

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Required Supplementary Information

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**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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 \$90.8 million (net position).
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17.5 million, an increase of \$1.5 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$13.3 million or 70.0% of total General Fund expenditures.
- ◆ General Fund revenues were \$0.6 million less than budget for fiscal year 2016. Expenditures were \$3.7 million less than budget with the General Fund contingency comprising \$2.7 million of that \$3.7 million budget savings.
- ◆ General Fund revenues exceeded expenditures by \$1.2 million.
- ◆ During the fiscal year 2016, the Nogales Housing Authority, a blended component unit of the City, implemented the provisions of Governmental Accounting Standards Board Statements No. 68 and 71, resulting in a restatement of net position. See Note 3.E. for a reconciliation of net position to the prior year audited financial statements.

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
FISCAL YEAR ENDED JUNE 30, 2016**

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 16 - 19 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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 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 – 73) 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 74 – 80 of this report.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016 and 2015 showing that assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$90.8 million.

**Condensed Statement of Net Position
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015 (Restated)	2016	2015 (Restated)
Assets						
Current and Other Assets	\$ 21,057,403	\$ 20,220,033	\$ 8,059,892	\$ 7,669,911	\$ 29,117,295	\$ 27,889,944
Capital Assets						
Non-Depreciable	2,288,824	2,579,134	6,404,536	4,409,892	8,693,360	6,989,026
Depreciable (Net)	44,430,325	45,133,020	95,309,067	97,945,081	139,739,392	143,078,101
Total Assets	67,776,552	67,932,187	109,773,495	110,024,884	177,550,047	177,957,071
Deferred Outflows of Resources	6,399,559	6,324,144	1,366,599	1,506,960	7,766,158	7,831,104
Liabilities						
Current Liabilities	1,626,206	1,952,964	2,770,190	2,098,142	4,396,396	4,051,106
Noncurrent Liabilities						
Due Within One Year	1,527,525	1,305,854	1,240,471	900,970	2,767,996	2,206,824
Due in More Than One Year	57,126,170	56,062,544	27,768,842	27,540,511	84,895,012	83,603,055
Total Liabilities	60,279,901	59,321,362	31,779,503	30,539,623	92,059,404	89,860,985
Deferred Inflows of Resources	2,082,744	2,161,996	363,401	461,660	2,446,145	2,623,656
Net Position						
Net Investment in Capital Assets	31,935,562	32,847,510	84,692,530	86,960,477	116,628,092	119,807,987
Restricted	3,804,682	2,944,063	-	-	3,804,682	2,944,063
Unrestricted	(23,926,778)	(23,018,600)	(5,695,340)	(6,429,916)	(29,622,118)	(29,448,516)
Total Net Position	\$ 11,813,466	\$ 12,772,973	\$ 78,997,190	\$ 80,530,561	\$ 90,810,656	\$ 93,303,534

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 (128%) 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
FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015 (Restated)	2016	2015 (Restated)
REVENUES						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 2,575,637	\$ 2,437,056	\$ 8,450,752	\$ 8,440,391	\$ 11,026,389	\$ 10,877,447
Operating Grants and Contributions	4,696,293	5,315,161	1,538,445	1,533,797	6,234,738	6,848,958
Capital Grants and Contributions	125,134	572,625	1,168,383	386,535	1,293,517	959,160
General Revenues:						
Sales Taxes	9,927,507	10,257,913	-	-	9,927,507	10,257,913
Franchise Taxes	695,981	678,814	-	-	695,981	678,814
State Shared Revenues	6,044,188	5,889,859	-	-	6,044,188	5,889,859
Impact Fees	-	-	100,514	70,452	100,514	70,452
Investment Earnings	292	2,604	2,833	2,099	3,125	4,703
Other	312,248	204,751	197,951	432,447	510,199	637,198
Total Revenues	<u>24,377,280</u>	<u>25,358,783</u>	<u>11,458,878</u>	<u>10,865,721</u>	<u>35,836,158</u>	<u>36,224,504</u>
EXPENSES						
General Government	6,326,122	7,238,429	-	-	6,326,122	7,238,429
Public Safety	13,602,563	14,769,234	-	-	13,602,563	14,769,234
Highways and Streets	3,419,876	3,595,040	-	-	3,419,876	3,595,040
Culture and Recreation	1,712,630	1,794,080	-	-	1,712,630	1,794,080
Interest on Long-Term Debt	717,880	640,188	-	-	717,880	640,188
Sewer	-	-	3,860,185	4,862,531	3,860,185	4,862,531
Water	-	-	3,236,869	3,312,011	3,236,869	3,312,011
Sanitation	-	-	2,719,704	2,510,481	2,719,704	2,510,481
NHA	-	-	2,733,207	3,212,178	2,733,207	3,212,178
Total Expenses	<u>25,779,071</u>	<u>28,036,971</u>	<u>12,549,965</u>	<u>13,897,201</u>	<u>38,329,036</u>	<u>41,934,172</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	(1,401,791)	(2,678,188)	(1,091,087)	(3,031,480)	(2,492,878)	(5,709,668)
Transfers	442,284	112,700	(442,284)	(112,700)	-	-
CHANGE IN NET POSITION	<u>(959,507)</u>	<u>(2,565,488)</u>	<u>(1,533,371)</u>	<u>(3,144,180)</u>	<u>(2,492,878)</u>	<u>(5,709,668)</u>
Net Position - Beginning of Year, As Restated	12,772,973	15,338,461	80,530,561	83,674,741	93,303,534	99,013,202
NET POSITION - END OF YEAR	<u>\$ 11,813,466</u>	<u>\$ 12,772,973</u>	<u>\$ 78,997,190</u>	<u>\$ 80,530,561</u>	<u>\$ 90,810,656</u>	<u>\$ 93,303,534</u>

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

Government-Wide Financial Analysis (Continued)

Governmental activities. Total governmental revenues decreased over the prior year with a net decrease of \$1.0 million (3.9%).

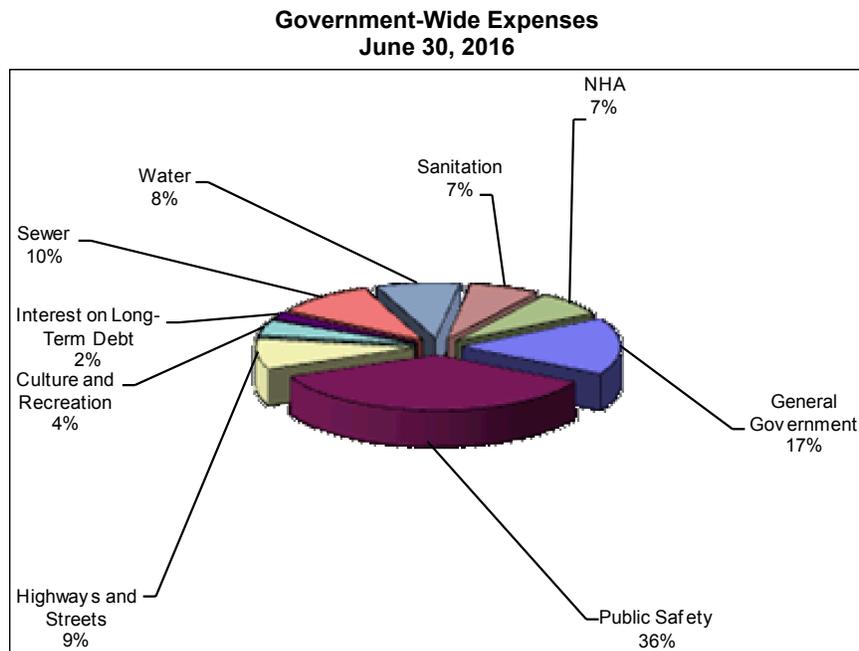
Program revenues decreased in the current year \$0.9 million largely attributable to decreased capital contributions due to prior year contributions for a street sweeper and a new police records management system. General revenues remained consistent with prior year with. Operating grants decreased \$0.6 million largely due to a decrease in state funded programs. An improvement in the State's economic activity resulted in an increase in the City's portion of state-shared revenue (state sales tax and state income tax) offset with a slight decrease in Sales Tax due to the local economy.

Overall, expenses decreased \$2.3 million from the prior year. The decrease was mainly due to decreased public safety expenses (\$1.2 million) and general government expenses (\$0.9 million) attributable to decreased PSRS pension expenses and a decrease in the City's portion of ASRS pension expense.

Business-type activities. Charges for services remained consistent over the prior fiscal year with an increase of less than \$0.1 million, which is not considered significant.

The decrease in expenses (\$1.3 million) was due primarily to a decrease in the Sewer Fund expenses of \$1.0 million. The Sewer fund realized a decrease due to a renegotiation of an intergovernmental agreement for the wastewater treatment facility, resulting in a reduction of expenses in the amount of \$800,000.

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



**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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 \$17.5 million, an increase of \$1.5 million in comparison with the prior year. Approximately 76% of this total amount (\$13.3 million) constitutes General Fund fund balance, which is reported as either nonspendable, restricted, assigned or unassigned fund balance. At the end of fiscal year 2015-16, fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2014-15
General Fund	\$ 13,303,162	\$ 730,723
HURF Fund	2,483,174	932,562
Nonmajor Governmental Funds	1,755,990	(114,640)

The General Fund is the chief operating fund of the City. As a measure of the General Fund's liquidity, it may be useful to compare both the General Fund fund balance and total fund balance to total fund expenditures. The unassigned General Fund fund balance represents 70.0% of total General Fund expenditures. The total unassigned fund balance represents 56.7% of total governmental fund expenditures.

The General Fund fund balance increase of \$0.7 million was the result of lower than anticipated expenditures. The decreased expenditures were primarily due to the City's budget monitoring across all functions.

The HURF Fund fund balance increase of \$0.9 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 \$0.1 million decrease in Nonmajor governmental fund balance in the current year was the result of decreased intergovernmental revenues.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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 \$20.2 million were \$0.6 million less than budget for fiscal year 2016. Expenditures were \$3.7 million less than budget with the General Fund contingency comprising \$2.7 million of that \$3.7 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, 2016 totaled \$46.7 million (net of accumulated depreciation), a decrease from the prior year of 2.1%. Business-type activities capital assets amounted to \$101.7 million (net of accumulated depreciation), a net decrease from the prior year of \$0.6 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 \$2.6 million in current year depreciation expense and \$0.8 million in additions to infrastructure. The City also completed a \$0.4 million project implementing a records management system.

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 \$2.3 million in additions to construction in progress for the Extreme West Pressure Zone project in the Water Fund.

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

Capital Assets (Continued)

The following table provides a breakdown of the capital assets of the City at June 30, 2016 and 2015.

**Capital Assets (Net)
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,279,134	\$ 2,279,134	\$ 3,250,853	\$ 3,250,853	\$ 5,529,987	\$ 5,529,987
Construction in Progress	9,690	300,000	3,153,683	1,159,039	3,163,373	1,459,039
Infrastructure	35,134,090	35,604,734	83,464,112	85,602,003	118,598,202	121,206,737
Buildings	3,890,788	4,035,945	2,922,019	3,089,298	6,812,807	7,125,243
Improvements other than Buildings	2,303,566	2,180,163	418,907	408,766	2,722,473	2,588,929
Vehicles, Machinery and Equipment	3,101,881	3,312,178	1,247,388	1,468,517	4,349,269	4,780,695
Housing Authority	-	-	7,256,641	7,376,497	7,256,641	7,376,497
Total Capital Assets	<u>\$ 46,719,149</u>	<u>\$ 47,712,154</u>	<u>\$ 101,713,603</u>	<u>\$ 102,354,973</u>	<u>\$ 148,432,752</u>	<u>\$ 150,067,127</u>

Long-Term Debt

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$55.9 million. \$34.0 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, 2016 and 2015. Further detail on the City's outstanding debt may be found in Notes 3.C. and 3.D. on pages 49 – 52.

**Outstanding Debt
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue Bonds	\$ 14,180,861	\$ 14,099,574	\$ 18,962,469	\$ 19,282,959	\$ 33,143,330	\$ 33,382,533
Loan Payable	-	-	894,337	-	894,337	-
Capital Leases	1,180,303	1,560,990	1,166,223	1,526,915	2,346,526	3,087,905
Compensated Absences	1,647,129	1,703,642	352,140	337,527	1,999,269	2,041,169
Other Postemployment Benefits	13,349,093	12,760,472	4,167,111	3,807,442	17,516,204	16,567,914
Total Outstanding Debt	<u>\$ 30,357,386</u>	<u>\$ 30,124,678</u>	<u>\$ 25,542,280</u>	<u>\$ 24,954,843</u>	<u>\$ 55,899,666</u>	<u>\$ 55,079,521</u>

**CITY OF NOGALES, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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 2016-17 budget preparation was influenced by the following factors:

- Modest growth in retail sales projected at the local level with dampened expectations due to the ongoing unfavorable exchange rate for our shoppers from Mexico.
- Modest 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.
- Improved cross-border transportation due to the significantly expanded and improved Mariposa Port of Entry.

Financial Contact

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

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

Or visit our website at:

<http://www.Nogalesaz.gov>

Basic Financial Statements

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CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 15,428,197	\$ 6,062,410	\$ 21,490,607
Receivables, Net:			
Accounts	612,040	804,911	1,416,951
Intergovernmental	852,871	26,397	879,268
Taxes	803,979	-	803,979
Interfund Balances	2,911,965	(2,911,965)	-
Prepaid Items	16,895	64,422	81,317
Inventory	22,964	17,391	40,355
Restricted Assets	408,492	3,996,326	4,404,818
Capital Assets:			
Non-Depreciable	2,288,824	6,404,536	8,693,360
Depreciable (Net)	44,430,325	95,309,067	139,739,392
Total Assets	67,776,552	109,773,495	177,550,047
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	169,085	1,000,275	1,169,360
Pension Related Amounts	6,230,474	366,324	6,596,798
Total Deferred Outflows of Resources	6,399,559	1,366,599	7,766,158
LIABILITIES			
Accounts Payable	542,775	1,713,927	2,256,702
Accrued Wages and Benefits	570,385	201,678	772,063
Retainage Payable	-	97,091	97,091
Customer Deposits Payable	52,140	749,226	801,366
Unearned Revenue	50,000	7,329	57,329
Intergovernmental Payable	500	939	1,439
Claims Payable	410,406	-	410,406
Noncurrent Liabilities:			
Due Within One Year	1,527,525	1,240,471	2,767,996
Due in More Than One Year	28,829,861	24,301,809	53,131,670
Net Pension Liability	28,296,309	3,467,033	31,763,342
Total Liabilities	60,279,901	31,779,503	92,059,404
DEFERRED INFLOWS OF RESOURCES			
Pension Related Amounts	2,082,744	363,401	2,446,145
NET POSITION			
Net Investment in Capital Assets	31,935,562	84,692,530	116,628,092
Restricted for:			
Highways and Streets	2,831,627	-	2,831,627
Federal and State Grants	943,127	-	943,127
Impound Fees	29,785	-	29,785
Capital Outlay	143	-	143
Unrestricted	(23,926,778)	(5,695,340)	(29,622,118)
Total Net Position	\$ 11,813,466	\$ 78,997,190	\$ 90,810,656

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 6,326,122	\$ 1,387,657	\$ 27,133	\$ -	\$ (4,911,332)		\$ (4,911,332)
Public Safety	13,602,563	1,122,292	1,414,815	1,900	(11,063,556)		(11,063,556)
Highways and Streets	3,419,876	9,845	3,019,394	123,234	(267,403)		(267,403)
Culture and Recreation	1,712,630	55,843	234,951	-	(1,421,836)		(1,421,836)
Interest on Long-Term Debt	717,880	-	-	-	(717,880)		(717,880)
Total Governmental Activities	<u>25,779,071</u>	<u>2,575,637</u>	<u>4,696,293</u>	<u>125,134</u>	<u>(18,382,007)</u>		<u>(18,382,007)</u>
Business-Type Activities:							
Sewer	3,860,185	2,789,937	-	-		\$ (1,070,248)	(1,070,248)
Water	3,236,869	2,660,858	-	852,516		276,505	276,505
Sanitation	2,719,704	2,437,140	-	-		(282,564)	(282,564)
NHA	2,733,207	562,817	1,538,445	315,867		(316,078)	(316,078)
Total Business-Type Activities	<u>12,549,965</u>	<u>8,450,752</u>	<u>1,538,445</u>	<u>1,168,383</u>		<u>(1,392,385)</u>	<u>(1,392,385)</u>
Total Primary Government	<u>\$ 38,329,036</u>	<u>\$ 11,026,389</u>	<u>\$ 6,234,738</u>	<u>\$ 1,293,517</u>	<u>(18,382,007)</u>	<u>(1,392,385)</u>	<u>(19,774,392)</u>
General Revenues:							
Taxes:							
Sales Taxes					9,927,507	-	9,927,507
Franchise Taxes					695,981	-	695,981
Impact Fees					-	100,514	100,514
State Revenue Sharing					6,044,188	-	6,044,188
Investment Earnings					292	2,833	3,125
Other					312,248	197,951	510,199
Transfers					442,284	(442,284)	-
Total General Revenues and Transfers					<u>17,422,500</u>	<u>(140,986)</u>	<u>17,281,514</u>
Change in Net Position					(959,507)	(1,533,371)	(2,492,878)
Net Position - Beginning (As Restated)					<u>12,772,973</u>	<u>80,530,561</u>	<u>93,303,534</u>
Net Position - Ending					<u>\$ 11,813,466</u>	<u>\$ 78,997,190</u>	<u>\$ 90,810,656</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 9,460,881	\$ 2,301,303	\$ 1,190,393	\$ 12,952,577
Restricted Assets	-	-	408,492	408,492
Receivables, Net:				
Accounts	524,041	-	-	524,041
Intergovernmental	335,758	262,868	254,245	852,871
Taxes	803,979	-	-	803,979
Due from Other Funds	3,158,150	-	-	3,158,150
Prepaid Items	16,895	-	-	16,895
Total Assets	<u>\$ 14,299,704</u>	<u>\$ 2,564,171</u>	<u>\$ 1,853,130</u>	<u>\$ 18,717,005</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 417,045	\$ 63,858	\$ 3,981	\$ 484,884
Accrued Wages and Benefits	527,357	17,139	42,659	587,155
Intergovernmental Payable	-	-	500	500
Unearned Revenue	-	-	50,000	50,000
Customer Deposits Payable	52,140	-	-	52,140
Total Liabilities	<u>996,542</u>	<u>80,997</u>	<u>97,140</u>	<u>1,174,679</u>
Fund Balances:				
Nonspendable:				
Prepaid Items	16,895	-	-	16,895
Restricted	29,785	2,483,174	1,700,072	4,213,031
Assigned	-	-	55,918	55,918
Unassigned	13,256,482	-	-	13,256,482
Total Fund Balances	<u>13,303,162</u>	<u>2,483,174</u>	<u>1,755,990</u>	<u>17,542,326</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,299,704</u>	<u>\$ 2,564,171</u>	<u>\$ 1,853,130</u>	<u>\$ 18,717,005</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, 2016**

Total Fund Balances for Governmental Funds \$ 17,542,326

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	89,611,199
Less: Accumulated Depreciation	(42,892,050)
Capital Assets Used in Governmental Activities	46,719,149

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	(13,954,823)
Deferred Amount on Refunding	169,085
Bond Premium	(226,038)
Capital Leases	(1,176,367)
Compensated Absences	(1,625,082)
Other Postemployment Benefits	(13,349,093)
Net Pension Liability	(27,874,367)

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	6,184,582
Deferred Inflows of Resources Related to Pensions	(2,040,042)

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	1,630,239
Less: Amount Attributed to the Business-Type Activities	(186,103)
	1,444,136

Total Net Position of Governmental Activities \$ 11,813,466

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	HURF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 9,927,507	\$ -	\$ -	\$ 9,927,507
Franchise Taxes	695,981	-	-	695,981
Intergovernmental	6,671,664	3,016,674	1,054,043	10,742,381
Fines and Forfeitures	267,855	-	-	267,855
Licenses and Permits	995,298	-	-	995,298
Charges for Services	1,312,484	-	-	1,312,484
Contributions and Donations	-	-	123,234	123,234
Investment Earnings	163	2	145	310
Other	311,295	821	132	312,248
Total Revenues	<u>20,182,247</u>	<u>3,017,497</u>	<u>1,177,554</u>	<u>24,377,298</u>
EXPENDITURES				
Current:				
General Government	5,405,255	-	144,602	5,549,857
Public Safety	10,832,905	-	954,529	11,787,434
Highways and Streets	803,764	1,766,213	87,197	2,657,174
Culture and Recreation	1,579,934	-	23,000	1,602,934
Debt Service:				
Principal Retirement	295,894	81,330	85,296	462,520
Interest on Long-Term Debt	33,854	12,776	532,729	579,359
Issuance Costs	-	-	142,184	142,184
Capital Outlay	-	-	615,968	615,968
Total Expenditures	<u>18,951,606</u>	<u>1,860,319</u>	<u>2,585,505</u>	<u>23,397,430</u>
Excess (Deficiency) of Revenues Over Expenditures	1,230,641	1,157,178	(1,407,951)	979,868
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	1,167,493	1,167,493
Transfers Out	(499,918)	(224,616)	-	(724,534)
Issuance of Long-Term Debt	-	-	5,509,550	5,509,550
Premium on the Issuance of Long-Term Debt	-	-	136,341	136,341
Payment to Refunding Escrow Agent	-	-	(5,520,073)	(5,520,073)
Total Other Financing Sources (Uses)	<u>(499,918)</u>	<u>(224,616)</u>	<u>1,293,311</u>	<u>568,777</u>
Net Change in Fund Balances	730,723	932,562	(114,640)	1,548,645
FUND BALANCES				
Beginning of Year	12,572,439	1,550,612	1,870,630	15,993,681
End of Year	<u>\$ 13,303,162</u>	<u>\$ 2,483,174</u>	<u>\$ 1,755,990</u>	<u>\$ 17,542,326</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, 2016

Net Change in Fund Balances of Governmental Funds \$ 1,548,645

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	1,635,455
Less: Current Year Depreciation	(2,628,460)
Excess Depreciation over Capital Expenditures	<u>(993,005)</u>

Some revenues reported in the governmental funds that did not provide current financial resources in prior years were recognized previously in the statement of activities and, therefore, are not reported as revenues in the statement of activities.

Special Assessments Recognized	(11,455)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these items are amortized over the term of the long-term debt in the statement of activities.

Issuance of Long-Term Debt	(5,509,550)
Premium on the Issuance of Long-Term Debt	(136,341)
Principal Payments on Long-Term Revenue Bonds	85,296
Payment to Escrow Agent	5,520,073
Principal Payments on Capital Leases	380,687
Amortization of Bond Premium	11,151
Amortization of Deferred Amount on Refunding	(7,490)

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	2,043,464
Pension Expense	(2,985,812)
Net Adjustment for Pension Expense	<u>(942,348)</u>

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 Decrease in Compensated Absences	48,457
Net Increase in Other Postemployment Benefits	(588,621)

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	(472,809)
Less: Amount Attributable to the Business-Type Activities	107,803
	<u>(365,006)</u>

Change in Net Position of Governmental Activities	<u><u>\$ (959,507)</u></u>
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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
YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 11,502,102	\$ 10,623,488	\$ (878,614)
Intergovernmental	6,913,446	6,671,664	(241,782)
Fines and Forfeitures	304,560	267,855	(36,705)
Licenses and Permits	804,609	995,298	190,689
Charges for Services	1,284,847	1,312,484	27,637
Investment Earnings	-	163	163
Other	10,000	311,295	301,295
Total Revenues	<u>20,819,564</u>	<u>20,182,247</u>	<u>(637,317)</u>
EXPENDITURES			
Current:			
General Government:			
Mayor and Elections	95,787	93,801	1,986
Council	140,732	108,768	31,964
Administration	464,981	626,823	(161,842)
Finance	1,193,330	1,262,041	(68,711)
Human Resources	230,205	190,744	39,461
MIS	492,045	488,078	3,967
Planning and Zoning	252,760	200,396	52,364
City Attorney	675,341	756,491	(81,150)
City Court	421,805	389,277	32,528
Cemetery	125,026	127,635	(2,609)
Nondepartmental	3,905,512	1,161,201	2,744,311
Total General Government	<u>7,997,524</u>	<u>5,405,255</u>	<u>2,592,269</u>
Public Safety:			
Police	6,243,440	5,884,264	359,176
Fire	4,484,762	4,586,545	(101,783)
Animal Control	272,145	253,994	18,151
Building Inspections	108,181	108,102	79
Emergency Response	200,000	-	200,000
Total Public Safety	<u>11,308,528</u>	<u>10,832,905</u>	<u>475,623</u>
Highways and Streets:			
Facilities Maintenance	615,681	590,027	25,654
Engineering	314,716	213,737	100,979
Total Highways and Streets	<u>930,397</u>	<u>803,764</u>	<u>126,633</u>
Culture and Recreation:			
Parks	594,627	638,841	(44,214)
Recreation	481,462	479,293	2,169
Library	494,895	449,939	44,956
Golf Course	37,000	11,861	25,139
Total Culture and Recreation	<u>1,607,984</u>	<u>1,579,934</u>	<u>28,050</u>
Debt Service:			
Principal Retirement	295,894	295,894	-
Interest on Long-Term Debt	488,570	33,854	454,716
Issuance Costs	-	-	-
Total Debt Service	<u>784,464</u>	<u>329,748</u>	<u>454,716</u>
Total Expenditures	<u>22,628,897</u>	<u>18,951,606</u>	<u>3,677,291</u>

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, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,809,333)	\$ 1,230,641	\$ 3,039,974
OTHER FINANCING SOURCES (USES)			
Transfers Out	(219,967)	(499,918)	(279,951)
Net Change in Fund Balance	(2,029,300)	730,723	2,760,023
FUND BALANCE			
Beginning of Year	12,572,439	12,572,439	-
End of Year	<u>\$ 10,543,139</u>	<u>\$ 13,303,162</u>	<u>\$ 2,760,023</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, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 3,547,238	\$ 3,016,674	\$ (530,564)
Investment Earnings	3,600	2	(3,598)
Other	-	821	821
Total Revenues	<u>3,550,838</u>	<u>3,017,497</u>	<u>(533,341)</u>
EXPENDITURES			
Current:			
Highways and Streets	3,173,116	1,766,213	1,406,903
Debt Service:			
Principal Retirement	281,819	81,330	200,489
Interest on Long-Term Debt	45,877	12,776	33,101
Capital Outlay	-	-	-
Total Expenditures	<u>3,500,812</u>	<u>1,860,319</u>	<u>1,640,493</u>
Excess (Deficiency) of Revenues Over Expenditures	50,026	1,157,178	1,107,152
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(50,026)</u>	<u>(224,616)</u>	<u>(174,590)</u>
Net Change in Fund Balance	-	932,562	932,562
FUND BALANCE			
Beginning of Year	1,550,612	1,550,612	-
End of Year	<u>\$ 1,550,612</u>	<u>\$ 2,483,174</u>	<u>\$ 932,562</u>

See accompanying Notes to Basic Financial Statements.

CITY OF NOGALES, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 3,817,582	\$ -	\$ 2,018,140
Investments	-	-	-	226,688
Prepaid Assets	-	-	-	64,422
Receivables, Net:				
Accounts	286,214	289,105	213,179	16,413
Intergovernmental	-	-	-	26,397
Inventories	-	-	-	17,391
Restricted Assets	1,782,975	2,149,633	14,192	49,526
Total Current Assets	<u>2,069,189</u>	<u>6,256,320</u>	<u>227,371</u>	<u>2,418,977</u>
Noncurrent Assets:				
Advances to Other Funds	49,100	-	-	-
Capital Assets:				
Non-Depreciable	196,555	4,654,130	-	1,553,851
Depreciable (Net)	65,869,358	21,548,315	634,754	7,256,640
Total Noncurrent Assets	<u>66,115,013</u>	<u>26,202,445</u>	<u>634,754</u>	<u>8,810,491</u>
Total Assets	68,184,202	32,458,765	862,125	11,229,468
Deferred Outflows of Resources				
Deferred Amount on Refunding	833,199	161,269	5,807	-
Pension Related Amounts	58,627	126,905	104,823	75,969
Total Deferred Outflows of Resources	<u>891,826</u>	<u>288,174</u>	<u>110,630</u>	<u>75,969</u>
Liabilities				
Current Liabilities:				
Accounts Payable	1,352,678	222,439	56,326	82,484
Accrued Wages and Benefits	13,151	34,351	20,538	133,638
Intergovernmental Payable	-	939	-	-
Retainage Payable	-	97,091	-	-
Unearned Revenue	-	-	-	7,329
Customer Deposits Payable	-	699,700	-	49,526
Claims Payable	-	-	-	-
Due To Other Funds	2,044,915	-	1,053,153	-
Compensated Absences	31,363	45,818	57,443	10,044
Capital Leases Payable	68,034	160,458	142,088	-
Bonds and Notes Payable	340,974	380,355	3,894	-
Total Current Liabilities	<u>3,851,115</u>	<u>1,641,151</u>	<u>1,333,442</u>	<u>283,021</u>
Noncurrent Liabilities:				
Advances from Other Funds	-	-	49,100	-
Compensated Absences	33,839	74,158	9,080	90,395
Capital Leases Payable	132,556	445,721	217,366	-
Other Postemployment Benefits	686,042	957,775	2,092,529	430,765
Bonds and Notes Payable	7,630,252	11,393,070	108,261	-
Net Pension Liability	563,425	1,125,549	1,013,738	764,321
Total Noncurrent Liabilities	<u>9,046,114</u>	<u>13,996,273</u>	<u>3,490,074</u>	<u>1,285,481</u>
Total Liabilities	12,897,229	15,637,424	4,823,516	1,568,502
Deferred Inflows of Resources				
Pension Related Amounts	65,682	112,611	102,822	82,286
Net Position				
Net Investment in Capital Assets	60,264,852	15,434,043	183,144	8,810,491
Unrestricted	(4,151,735)	1,562,861	(4,136,727)	844,158
Total Net Position	<u>\$ 56,113,117</u>	<u>\$ 16,996,904</u>	<u>\$ (3,953,583)</u>	<u>\$ 9,654,649</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	Service Funds
\$ 5,835,722	\$ 2,475,620
226,688	-
64,422	-
804,911	87,999
26,397	-
17,391	22,964
3,996,326	-
<u>10,971,857</u>	<u>2,586,583</u>
49,100	-
6,404,536	-
95,309,067	-
<u>101,762,703</u>	<u>-</u>
112,734,560	2,586,583
1,000,275	-
366,324	45,892
<u>1,366,599</u>	<u>45,892</u>
1,713,927	57,891
201,678	12,292
939	-
97,091	-
7,329	-
749,226	-
-	381,344
3,098,068	60,082
144,668	13,260
370,580	2,013
725,223	-
<u>7,108,729</u>	<u>526,882</u>
49,100	-
207,472	8,787
795,643	1,923
4,167,111	-
19,131,583	-
3,467,033	421,942
<u>27,817,942</u>	<u>432,652</u>
34,926,671	959,534
363,401	42,702
84,692,530	(3,936)
(5,881,443)	1,634,175
78,811,087	<u>\$ 1,630,239</u>
186,103	
<u>\$ 78,997,190</u>	

CITY OF NOGALES, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business-Type Funds - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
OPERATING REVENUES				
Charges for Services	\$ 2,789,937	\$ 2,660,858	\$ 2,437,140	\$ -
Rents and Royalties	-	-	-	562,817
Contributions	-	-	-	-
Operating Grants	-	-	-	1,538,445
Other Income	-	-	-	107,793
Total Operating Revenues	<u>2,789,937</u>	<u>2,660,858</u>	<u>2,437,140</u>	<u>2,209,055</u>
OPERATING EXPENSES				
Cost of Sales and Services	1,385,628	1,924,422	2,482,333	2,259,828
Claims	-	-	-	-
Depreciation	2,026,868	849,342	186,843	453,526
Total Operating Expenses	<u>3,412,496</u>	<u>2,773,764</u>	<u>2,669,176</u>	<u>2,713,354</u>
OPERATING LOSS	(622,559)	(112,906)	(232,036)	(504,299)
NONOPERATING REVENUES (EXPENSES)				
Development Impact Fees	74,822	25,692	-	-
Investment Earnings	-	1,576	-	1,257
Interest Expense	(424,754)	(437,681)	(10,936)	-
Miscellaneous Nonoperating Revenues	72,410	16,279	1,468	-
Total Nonoperating Revenues (Expenses)	<u>(277,522)</u>	<u>(394,134)</u>	<u>(9,468)</u>	<u>1,257</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(900,081)	(507,040)	(241,504)	(503,042)
Capital Contributions	-	852,516	-	315,867
Transfers Out	(52,744)	(389,540)	-	-
CHANGE IN NET POSITION	(952,825)	(44,064)	(241,504)	(187,175)
NET POSITION				
Beginning of Year (As Restated)	57,065,942	17,040,968	(3,712,079)	9,841,824
End of Year	<u>\$ 56,113,117</u>	<u>\$ 16,996,904</u>	<u>\$ (3,953,583)</u>	<u>\$ 9,654,649</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
Change in net position of business-type activities

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Totals</u>	
\$ 7,887,935	\$ 1,640,201
562,817	-
-	2,965,695
1,538,445	-
107,793	-
<u>10,096,990</u>	<u>4,605,896</u>
8,052,211	2,209,142
-	2,868,888
<u>3,516,579</u>	<u>-</u>
<u>11,568,790</u>	<u>5,078,030</u>
(1,471,800)	(472,134)
100,514	-
2,833	-
(873,371)	-
90,157	-
<u>(679,867)</u>	<u>-</u>
(2,151,667)	(472,134)
1,168,383	-
<u>(442,284)</u>	<u>(675)</u>
(1,425,568)	(472,809)
	2,103,048
	<u>\$ 1,630,239</u>
(107,803)	
<u>\$ (1,533,371)</u>	

**CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 2,814,576	\$ 2,675,387	\$ 2,449,395	\$ 559,169
Operating Grants	-	-	-	1,554,971
Payments to Suppliers	(361,686)	(676,994)	(1,461,995)	(1,623,610)
Payments to Employees	(857,020)	(1,104,107)	(634,078)	(436,201)
Payments for Claims	-	-	-	-
Other Receipts	72,410	16,279	1,468	109,673
Customer Deposits Payable	-	20,289	-	-
Net Cash Provided (Used) by Operating Activities	<u>1,668,280</u>	<u>930,854</u>	<u>354,790</u>	<u>164,002</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental Revenues	-	-	-	-
Interfund Borrowing	(763,675)	-	(279,685)	-
Interfund Transfers	(52,744)	(389,540)	-	-
Development Impact Fees	74,822	25,692	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(741,597)</u>	<u>(363,848)</u>	<u>(279,685)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES				
Capital Contributions	-	1,029,929	-	289,470
Purchases of Capital Assets	(163,575)	(2,298,676)	-	(315,867)
Issuance of Refunding Bonds	-	2,295,450	-	-
Premium on Issuance of Refunding Bonds	-	56,804	-	-
Issuance of Notes Payable	-	894,338	-	-
Issuance Costs	-	-	-	-
Payment to Escrow Agent	-	(2,299,837)	-	-
Principal Paid on Capital Debt	(386,091)	(221,281)	(141,792)	-
Interest Paid on Capital Debt	(379,571)	(444,759)	(10,774)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(929,237)</u>	<u>(988,032)</u>	<u>(152,566)</u>	<u>(26,397)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings	-	1,576	-	952
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(2,554)</u>	<u>(419,450)</u>	<u>(77,461)</u>	<u>138,557</u>
Cash and Cash Equivalents - Beginning of Year	<u>1,785,529</u>	<u>6,386,665</u>	<u>91,653</u>	<u>1,929,109</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,782,975</u></u>	<u><u>\$ 5,967,215</u></u>	<u><u>\$ 14,192</u></u>	<u><u>\$ 2,067,666</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents	\$ -	\$ 3,817,582	\$ -	\$ 2,018,140
Restricted Assets	<u>1,782,975</u>	<u>2,149,633</u>	<u>14,192</u>	<u>49,526</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,782,975</u></u>	<u><u>\$ 5,967,215</u></u>	<u><u>\$ 14,192</u></u>	<u><u>\$ 2,067,666</u></u>

See accompanying Notes to Basic Financial Statements.

Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
<u>Total</u>	<u>Service Funds</u>
\$ 8,498,527	\$ 4,598,363
1,554,971	-
(4,124,285)	(1,865,124)
(3,031,406)	(330,969)
-	(2,752,052)
199,830	-
20,289	-
3,117,926	(349,782)
-	-
(1,043,360)	(5,898)
(442,284)	(675)
100,514	-
(1,385,130)	(6,573)
1,319,399	-
(2,778,118)	-
2,295,450	-
56,804	-
894,338	-
-	-
(2,299,837)	-
(749,164)	(3,464)
(835,104)	-
(2,096,232)	(3,464)
2,528	-
(360,908)	(359,819)
10,192,956	2,835,439
\$ 9,832,048	\$ 2,475,620
\$ 5,835,722	\$ 2,475,620
3,996,326	-
\$ 9,832,048	\$ 2,475,620

CITY OF NOGALES, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Sanitation	NHA
RECONCILIATION OF OPERATING INCOME (LOSS) ACTIVITIES				
Operating Loss	\$ (622,559)	\$ (112,906)	\$ (232,036)	\$ (504,299)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	2,026,868	849,342	186,843	453,526
Bad Debt Expense	-	-	-	3,826
Nonoperating Receipts	72,410	16,279	1,468	-
Adjustment for Pension Expense	9,166	(10,675)	1,303	-
Change in Assets/Liabilities:				
Receivables	24,639	14,529	12,255	(10,977)
Intergovernmental Receivables	-	-	-	16,526
Prepaid Items	-	650	-	(19,459)
Inventories	-	-	-	(8,032)
Accounts Payable	382,119	47,972	(19,468)	(17,550)
Accrued Wages and Benefits	453	12,526	4,843	241,232
Unearned Revenue	-	-	-	7,329
Other Postemployment Benefits	(204,987)	80,703	406,787	-
Compensated Absences	(19,829)	12,145	(7,205)	-
Claims Payable	-	-	-	-
Customer Deposits Payable	-	20,289	-	1,880
Net Cash Provided by Operating Activities	<u>\$ 1,668,280</u>	<u>\$ 930,854</u>	<u>\$ 354,790</u>	<u>\$ 164,002</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The amortization of premiums, discounts, and deferred amounts on refundings represent non-cash transactions:

Amortization of Premium (Discount)	\$ 8,820	\$ (8,539)	\$ (116)	\$ -
Amortization of Reacquisition Costs on Refunding	36,363	7,692	278	-

See accompanying Notes to Basic Financial Statements.

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

\$ (1,471,800)	\$ (472,134)
----------------	--------------

3,516,579	-
3,826	-
90,157	-
(206)	(1,818)
40,446	(7,533)
16,526	-
(18,809)	-
(8,032)	484
393,073	12,550
259,054	4,607
7,329	-
282,503	-
(14,889)	(2,774)
-	116,836
22,169	-
<u>\$ 3,117,926</u>	<u>\$ (349,782)</u>

\$ 165	\$ -
44,333	-

**CITY OF NOGALES, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Pension Trust</u>
Assets	
Cash and Cash Equivalents	<u>\$ 15,768</u>
Net Position	
Held In Trust	<u><u>\$ 15,768</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF NOGALES, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	Pension Trust
ADDITIONS	
Investment Loss	\$ (1)
CHANGE IN NET POSITION	(1)
Net Position - Beginning of Year	15,769
NET POSITION - END OF YEAR	\$ 15,768

See accompanying Notes to Basic Financial Statements.

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CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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.

During the year ended June 30, 2016, the financial statements include the impact, if any, of Governmental Accounting Standards Board Statement (GASBS) Number 72 – Fair Value Measurement and Application, GASBS Number 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASBS Number 68 and Amendments to Certain Provisions of GASBS Numbers 67 and 68, GASBS Number 76 – the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and GASBS Number 79 – Certain External Investment Pools and Pool Participants.

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, 2016 fiscal year-end.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables

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

3. Interfund Receivables/Payables

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Restricted Assets

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

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

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.

The City has active construction contracts funded through debt obligations. Interest is capitalized in the proprietary funds on constructed assets based on the estimated percentage of completion.

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

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Deferred Outflows of Resources

The deferred outflows of resources reported in the government-wide financial and proprietary fund financial statements, represent the reacquisition costs related to the refunding of bonded debt and amounts related to pensions. The reacquisition costs are amortized and expensed over the lesser of the maturity of the refunded bonds or the refunding bonds. Reported amounts for pensions are related to the requirements of accounting and financial reporting for pensions under GASBS No. 68.

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Pension Plans

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

11. Deferred Inflows of Resources

The deferred inflows of resources reported on the government-wide and proprietary fund financial statements represent amounts related to pensions which are reported under the requirements of accounting and financial reporting under GASBS No. 68.

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, 2016 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balances.

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

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

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

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

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

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

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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)

At June 30, 2016, the City reported the following fund balance classifications:

	General Fund	HURF Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Prepays	\$ 16,895	\$ -	\$ -	\$ 16,895
Restricted				
Impound Fees	29,785	-	-	29,785
Streets	-	2,483,174	-	2,483,174
Local Transportation Assistance	-	-	348,453	348,453
Federal and State Grants	-	-	943,127	943,127
Unspent Lease Proceeds	-	-	143	143
Debt Service	-	-	408,349	408,349
Assigned				
Capital Outlay	-	-	55,918	55,918
Unassigned	13,256,482	-	-	13,256,482
Total Fund Balance	<u>\$ 13,303,162</u>	<u>\$ 2,483,174</u>	<u>\$ 1,755,990</u>	<u>\$ 17,542,326</u>

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).

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds/departments:

	<u>Amount of Overexpenditure</u>
General Fund:	
Administration	\$ 161,842
Finance	68,711
City Attorney	81,150
Cemetery	2,609
Fire	101,783
Parks	44,214

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

C. Deficit Fund Equity

A deficit net position in the amount of \$3,953,583 was reported in the Sanitation Fund. The City does not expect to recover the deficit in the upcoming fiscal year, but plans to reduce costs in future years to reduce the deficit.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2016 consist of the following:

Deposits:	
Cash on Hand	\$ 4,346
Cash in Bank	21,217,884
Certificates of Deposit	1,278,589
Investments:	
U.S. Government Money Market Securities	3,410,374
Total Deposits and Investments	25,911,193
Less: Restricted Cash and Investments	(4,404,818)
Less: Fiduciary Funds	(15,768)
Total Cash and Cash Equivalents	\$ 21,490,607

Deposits – The carrying value of the City’s deposits at June 30, 2016 was \$22,496,473 including certificates of deposit, and the bank balance was \$22,498,655 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. In accordance with the City’s investment policy, the City manages its exposure to declines in fair values by limiting the City’s investment portfolio to U.S. government securities with maturities of less than six months.

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

Credit risk – The City limits its investments to U.S. Government Securities. The City has invested funds in U.S. Government Money Market Funds to minimize credit risk.

Concentration of Credit Risk – The City’s investment policy does not address concentration of credit risk. However, the City only invests in funds authorized by Arizona State law and only has investments in U.S. Government Money Market at June 30, 2016.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the City at June 30, 2016 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Operation and Maintenance	\$ -	\$ 149,666	\$ 149,666
Repair and Replacement Fund	-	120,838	120,838
Future Debt Service and Construction	408,349	2,846,179	3,254,528
Debt Service Reserve	-	125,427	125,427
Customer Deposits	-	749,226	749,226
Unspent Lease Proceeds	143	4,990	5,133
Total	<u>\$ 408,492</u>	<u>\$ 3,996,326</u>	<u>\$ 4,404,818</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 \$314,082 related to ambulance billings, recorded in the General Fund, and the business-type activities report an allowance of \$366,860.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016 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	300,000	132,924	(423,234)	9,690
Total Capital Assets, Not Being Depreciated	<u>2,579,134</u>	<u>132,924</u>	<u>(423,234)</u>	<u>2,288,824</u>
Capital Assets, Being Depreciated:				
Infrastructure	58,853,578	810,136	-	59,663,714
Buildings	9,730,483	62,710	-	9,793,193
Improvements Other than Buildings	3,705,393	206,603	-	3,911,996
Vehicles, Machinery and Equipment	13,736,598	846,316	(629,442)	13,953,472
Total Capital Assets, Being Depreciated	<u>86,026,052</u>	<u>1,925,765</u>	<u>(629,442)</u>	<u>87,322,375</u>
Accumulated Depreciation for:				
Infrastructure	(23,248,844)	(1,280,780)	-	(24,529,624)
Buildings	(5,694,538)	(207,867)	-	(5,902,405)
Improvements Other than Buildings	(1,525,230)	(83,200)	-	(1,608,430)
Vehicles, Machinery and Equipment	(10,424,420)	(1,056,613)	629,442	(10,851,591)
Total Accumulated Depreciation	<u>(40,893,032)</u>	<u>(2,628,460)</u>	<u>629,442</u>	<u>(42,892,050)</u>
Total Capital Assets, Being Depreciated, Net	<u>45,133,020</u>	<u>(702,695)</u>	<u>-</u>	<u>44,430,325</u>
Governmental Activities Capital Assets, Net	<u>\$ 47,712,154</u>	<u>\$ (569,771)</u>	<u>\$ (423,234)</u>	<u>\$ 46,719,149</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 207,325
Public Safety	877,657
Highways and Streets	1,384,970
Culture and Recreation	158,508
Total Depreciation Expense	<u>\$ 2,628,460</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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	1,159,039	2,296,478	(301,834)	3,153,683
Total Capital Assets, Not Being Depreciated	4,409,892	2,296,478	(301,834)	6,404,536
Capital Assets, Being Depreciated:				
Infrastructure	113,907,399	368,390	-	114,275,789
Buildings	8,130,934	8,526	-	8,139,460
Improvements Other than Buildings	777,019	28,073	-	805,092
Vehicles, Machinery and Equipment	8,716,327	141,906	(186,620)	8,671,613
Housing Authority	14,448,801	333,670	-	14,782,471
Total Capital Assets, Being Depreciated	145,980,480	880,565	(186,620)	146,674,425
Accumulated Depreciation for:				
Infrastructure	(28,305,396)	(2,506,281)	-	(30,811,677)
Buildings	(5,041,636)	(175,805)	-	(5,217,441)
Improvements Other than Buildings	(368,253)	(17,932)	-	(386,185)
Vehicles, Machinery and Equipment	(7,247,810)	(363,035)	186,620	(7,424,225)
Housing Authority	(7,072,304)	(453,526)	-	(7,525,830)
Total Accumulated Depreciation	(48,035,399)	(3,516,579)	186,620	(51,365,358)
Total Capital Assets, Being Depreciated, Net	97,945,081	(2,636,014)	-	95,309,067
Business-Type Activities Capital Assets, Net	\$ 102,354,973	\$ (339,536)	\$ (301,834)	\$ 101,713,603

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Sewer	\$ 2,026,868
Water	849,342
Sanitation	186,843
Nogales Housing Authority	453,526
Total Depreciation Expense	<u>\$ 3,516,579</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The City has active construction projects at June 30, 2016. At fiscal year end the City's commitments with contractors were as follows:

	Governmental Activities	
Project	Spent-to-date	Remaining Commitment
Industrial Park	\$ -	\$ 1,240,247
Business-Type Activities		
Project	Spent-to-date	Remaining Commitment
McNab Street	\$ 72,265	\$ 5,439
SCADA	100,619	2,053
Extreme West Pressure Zone Pump Station	1,609,814	128,591
	\$ 1,782,698	\$ 136,083

B. Interfund Receivables, Payables, and Transfers

As of June 30, 2016 interfund receivable and payables were as follows:

	Due To
Due From	General Fund
Sewer Fund	\$ 2,044,915
Sanitation Fund	1,053,153
Internal Service Fund	60,082
	\$ 3,158,150

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2016 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.

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

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

As of June 30, 2016, transfers were as follows:

Transfers Out	Transfers In Nonmajor Governmental Funds
General Fund	\$ 499,918
HURF Fund	224,616
Internal Service Fund	675
Sewer Fund	52,744
Water Fund	389,540
Total	\$ 1,167,493

The transfer from the General Fund and HURF Fund to the Nonmajor governmental funds was recorded to make the principal and interest payments due on the outstanding revenue bonds. The transfer into nonmajor governmental funds from the Sewer Fund (\$52,744), Water Fund (\$389,540), and Internal Service Fund was recorded for the funding of capital purchases.

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	(2,879,174)	(977,198)
Total	\$ 480,283	\$ 2,142,296

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2016, were as follows:

Year Ending June 30,	Governmental Activities	Business-type Activities
2017	\$ 427,030	\$ 396,974
2018	427,874	397,956
2019	229,106	241,380
2020	73,451	85,534
2021	75,534	87,959
2022	19,033	22,162
Total Minimum Lease Payments	1,252,028	1,231,965
Less: Amount Representing Interest	(71,725)	(65,742)
Present Value of Minimum Lease Payments	\$ 1,180,303	\$ 1,166,223

D. Long-Term Obligations

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

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

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
Municipal Facilities Revenue				
Bonds, Series 2006	1.50-5.25	07/01/19-36	\$ 6,141,330	\$ 744,725
Municipal Facilities Revenue and				
Refunding Bonds, Series 2009	3.75-5.42	10/01/16-39	2,689,490	2,084,646
Municipal Facilities Revenue				
Refunding Bonds, Series 2014	3.00-3.625	6/30/17-30	5,615,902	5,615,902
Municipal Facilities Revenue				
Refunding Bonds, Series 2015	3.25-4.00	6/30/31-36	5,509,550	5,509,550
Total Governmental Activities			\$ 19,956,272	\$ 13,954,823
Business-Type Activities:				
Bonds Payable:				
Municipal Facilities Revenue				
Bonds, Series 2006	1.50-5.25	07/01/19-36	\$ 2,558,670	\$ 310,275
Municipal Facilities Revenue and				
Refunding Bonds, Series 2009	3.75-5.42	10/01/16-39	12,445,511	9,650,354
Municipal Facilities Revenue				
Refunding Bonds, Series 2014	3.00-3.625	6/30/17-30	6,754,098	6,754,098
Municipal Facilities Revenue				
Refunding Bonds, Series 2015	3.25-4.00	6/30/31-36	2,295,450	2,295,450
Total Business-Type Activities			\$ 24,053,729	\$ 19,010,177

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged excise tax revenues of the General Fund to repay \$20.0 million in combined governmental municipal facilities revenue obligation bonds presented on the previous page. 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 \$21,229,087. Principal and interest paid for the current year and total excise taxes were \$618,250 and \$21,229,087 respectively.

The City's Sewer, Water, and Sanitation Funds use operating funds to repay \$24.1 million in combined business-type revenue obligation bonds presented on the table on the previous page. Proceeds of the bonds provided financing for upgrades to the sewer treatment facility, water infrastructure and sanitation infrastructure. The bonds are payable from the applicable Sewer, Water, or Sanitation Fund in proportion to the percent of funds used by the particular funds through 2039. In the event operations of the Water, Sewer, or Sanitation Funds are not sufficient to make the required principal and interest payments, the debt is pledged through City excise tax revenues. Annual principal and interest payments on the bonds are expected to require approximately 20.0% of revenues. The total principal and interest remaining to be paid on the bonds is \$30,320,736.

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 \$894,337 from the total 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 \$853,282.

During fiscal year ended June 30, 2016, the City issued \$7,805,000 of revenue refunding bonds to advance refund \$7,645,000 in Municipal Facilities Revenue and Refunding Bonds, Series 2006. The bonds were issued at a premium of \$193,145. The net proceeds of \$8,021,330, including \$23,186 of accrued interest, were used to pay issuance costs of \$162,444, underwriting fees of \$38,978 and place \$7,819,908 with an escrow agent in a trustee capacity to make all future debt service payments. The refunded bonds are no longer reported as a liability of the City and the refunding resulted in a savings of \$1,480,376 and net present value savings of \$1,124,626 over the life of the refunded bonds.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in governmental long-term obligations for the year ended June 30, 2016 are as follows:

	July 1, 2015	Increases	Decreases	June 30, 2016	Due Within One Year
Governmental Activities					
Bonds:					
Revenue Bonds	\$ 13,927,175	\$ 5,509,550	\$ (5,481,902)	\$ 13,954,823	\$ 284,972
Deferred Amounts:					
Premium	172,399	136,341	(82,702)	226,038	-
Total Bonds	<u>14,099,574</u>	<u>5,645,891</u>	<u>(5,564,604)</u>	<u>14,180,861</u>	<u>284,972</u>
Other Liabilities:					
Capital Leases	1,560,990	-	(380,687)	1,180,303	394,235
Compensated Absences	1,703,642	829,734	(886,247)	1,647,129	848,318
Other Postemployment Benefits	12,760,472	1,113,585	(524,964)	13,349,093	-
Total Other Liabilities	<u>16,025,104</u>	<u>1,943,319</u>	<u>(1,791,898)</u>	<u>16,176,525</u>	<u>1,242,553</u>
Governmental Activities Long-Term Liabilities	<u>\$ 30,124,678</u>	<u>\$ 7,589,210</u>	<u>\$ (7,356,502)</u>	<u>\$ 30,357,386</u>	<u>\$ 1,527,525</u>

Changes in business-type long-term obligations for the year ended June 30, 2016 are as follows:

	July 1, 2015	Increases	Decreases	June 30, 2016	Due Within One Year
Business-Type Activities					
Bonds:					
Revenue Bonds	\$ 19,357,824	\$ 2,295,450	\$ (2,643,097)	\$ 19,010,177	\$ 645,027
Deferred Amounts:					
Premium	144,332	56,804	(38,780)	162,356	-
Discount	(219,197)	-	9,133	(210,064)	-
Total Bonds Payable	<u>19,282,959</u>	<u>2,352,254</u>	<u>(2,672,744)</u>	<u>18,962,469</u>	<u>645,027</u>
Other Liabilities:					
Notes Payable	-	894,337	-	894,337	80,196
Capital Leases	1,526,915	-	(360,692)	1,166,223	370,580
Compensated Absences	337,527	166,968	(152,355)	352,140	144,668
Other Postemployment Benefits	3,807,442	622,125	(262,456)	4,167,111	-
Business-Type Activities Long-Term Liabilities	<u>\$ 24,954,843</u>	<u>\$ 4,035,684</u>	<u>\$ (3,448,247)</u>	<u>\$ 25,542,280</u>	<u>\$ 1,240,471</u>

Debt service requirements on long-term debt at June 30, 2016 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 285,449	\$ 510,873	\$ 724,747	\$ 756,769
2018	294,924	502,324	747,013	739,860
2019	465,343	493,264	643,446	718,215
2020	424,056	479,338	691,628	700,748
2021	436,295	466,018	711,326	680,238
2022-2026	2,396,638	2,115,325	3,917,095	3,069,320
2027-2031	3,182,315	1,683,525	3,839,062	2,406,557
2032-2036	5,359,839	914,754	3,490,161	1,694,128
2037-2039	1,109,964	108,843	5,140,036	503,669
Total	<u>\$ 13,954,823</u>	<u>\$ 7,274,264</u>	<u>\$ 19,904,514</u>	<u>\$ 11,269,504</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Change in Accounting Principle

During the year ended June 30, 2016, the Nogales Housing Authority, presented in the basic financial statements as a blended component unit of the City, adopted Governmental Accounting Standards Board Statement (GASBS) No. 68 *Accounting and Financial Reporting for Pensions* and GASBS No. 71 *Pension Transition for Contributions Subsequent to the Measurement Date- an amendment of GASB Statement No. 68*. These pronouncements require the restatement of the entity's March 31, 2016, net position of the business-type activities and proprietary fund as follows:

	Net Position as Previously Stated	Change in Accounting Principle	Net Position As Restated
Business Type Activities	\$ 81,301,199	\$ (770,638)	\$ 80,530,561
Nogales Housing Authority	10,612,462	(770,638)	9,841,824

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, 2016. In addition, settlements did not exceed insurance coverage for each of the past three fiscal years.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

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, 2016 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, 2016 and 2015 were as follows:

	Claims Liability at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at End of Year
2015-16	\$ 264,508	\$ 2,868,888	\$ (2,752,052)	\$ 381,344
2014-15	261,030	2,123,634	(2,120,156)	264,508

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, 2016, the City has an outstanding liability of \$1,112,951 owed to the third party through an intergovernmental agreement. Of this amount, \$794,157 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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans

Firefighters Relief and Pension Fund

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

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

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

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

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

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.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

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

At June 30, 2016 the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

<u>Statement of Net Position and Statement of Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Pension Liabilities	\$ 28,296,309	\$ 3,467,033	\$ 31,763,342
Deferred Outflows of Resources	6,230,474	366,324	6,596,798
Deferred Inflows of Resources	2,082,744	363,401	2,446,145
Pension Expense	3,050,925	206,227	3,257,152

The City reported accrued payroll and employee benefits of \$91,524 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Additionally, the City reported \$2,043,464 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, 2016. For the year ended March 31, 2016, the Authority recognized pension expense of \$45,583.

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.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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

	Retirement	
	Initial Membership Date	
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 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.

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, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% for retirement and 0.12% for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.47% (10.85% for retirement, 0.50% for the health insurance premium benefit, and 0.12% for long-term disability) of the active members' annual covered payroll.

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.36% (9.30% for retirement and 0.06% for long-term disability) of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the ASRS. The City's contribution to the pension plan for the year ended June 30, 2016 was \$14,017. The City's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	\$ 25,604	\$ 6,145
2015	25,001	7,713
2014	36,262	14,505

During the fiscal year ended June 30, 2016, the City paid for ASRS pension and OPEB contributions as follows: 64% from the General Fund, 6% from the HURF Fund, 25% from major enterprise funds, and 5% from other funds.

Pension Liability – At June 30, 2016, the City reported a liability of \$11,093,764 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015.

The City's reported liability at June 30, 2016, decreased by \$985,054 from the City's prior year liability of \$10,108,710 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 2015 contributions. The City's proportion measured as of June 30, 2015, was 0.071220%, which was a decrease of 0.002246 from its proportion measured as of June 30, 2014.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016, the City recognized pension expense for ASRS of \$676,134. At June 30, 2016, 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	\$ 302,725	\$ 581,324
Net difference between projected and actual earnings on pension plan investments	-	355,531
Changes in proportion and differences between City contributions and proportionate share of contributions	253,870	257,494
City contributions subsequent to the measurement date	681,454	-
Total	<u>\$ 1,238,049</u>	<u>\$ 1,194,349</u>

The \$681,454 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, 2017. 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>	
2017	\$ (157,191)
2018	(456,896)
2019	(280,316)
2020	256,649

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2014
Actuarial Roll Forward Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	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, 2014 valuation were based on the results of an actuarial study for the five-year period ended June 30, 2013.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79% 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:

Asset Class	Target Allocation	Real Return Arithmetic Basis
Equity	58%	6.79%
Fixed Income	25%	3.70%
Real Estate	10%	3.93%
Commodities	2%	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 8.79%. 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, 2016**

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	\$ 14,536,623	\$ 11,093,764	\$ 8,734,279

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 and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-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, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Benefits Provided – The PSPRS provides 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	

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

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Employees Covered by Benefit Terms – At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Police	PSPRS Firefighters
Inactive employees or beneficiaries currently receiving benefits	27	18
Inactive employees entitled to but not yet receiving benefits	5	6
Active employees	51	41
Total	83	65

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for 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, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police	PSPRS Firefighters
Active Members - Pension	7.65%	7.65%
City Pension	26.38%	30.18%
Health Insurance Premium Benefit	0.51%	1.02%

For the agent plans, the City's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

	PSPRS Police	PSPRS Firefighters
Pension Contributions Made	\$ 834,488	\$ 724,491
Health Insurance Premium Benefit Annual OPEB Cost	16,133	24,486
Contributions Made	16,133	24,486

During the fiscal year June 30, 2016, the City paid for PSPRS pension and OPEB contributions 100% from the General Fund.

**CITY OF NOGALES, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Liability – At June 30, 2016, the City reported the following net pension liabilities:

	Net Pension Liability
PSPRS Police	\$ 10,748,941
PSPRS Firefighters	9,920,635

The net pension liabilities were measured as of June 30, 2015, 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, 2015, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis of future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2%. The change in the City's net pension liability as a result of the statutory adjustments is not known.

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

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.85%
Projected Salary Increases	4.50% to 8.50%
Inflation	3.0% - 4.0%
Permanent Benefit Increase	Included
Mortality Rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The long-term expected rate of return on PSPRS 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 geometric 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%	0.75%
Risk Parity	4%	5.13%
Absolute Return	5%	4.11%
Fixed Income	7%	2.92%
Real Assets	8%	4.77%
GTAA	10%	4.38%
Real Estate	10%	4.48%
Private Equity	11%	9.50%
Credit Opportunities	13%	7.08%
Non-U.S. Equity	14%	8.25%
U.S. Equity	16%	6.23%
Total	<u>100%</u>	

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

	PSPRS Police	PSPRS Firefighters
Discount Rates	7.85%	7.85%

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.

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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

PSPRS - Police	Total Pension	Plan Fiduciary	Net Pension
	Liability (Asset)	Net Position	Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at June 30, 2015	\$ 23,001,990	\$ 12,257,964	\$ 10,744,026
Changes for the Year:			
Service Cost	650,848	-	650,848
Interest on the Total Pension Liability	1,796,333	-	1,796,333
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(779,043)	-	(779,043)
Changes of Assumptions or Other Inputs	-	-	-
Contributions - Employer	-	754,068	(754,068)
Contributions - Employee	-	356,974	(356,974)
Net Investment Income	-	457,113	(457,113)
Benefit Payments, Including Refunds of Employee Contributions	(888,380)	(888,380)	-
Administrative Expenses	-	(11,527)	11,527
Other Changes	-	106,595	(106,595)
Net Changes	779,758	774,843	4,915
Balances as of June 30, 2016	<u>\$ 23,781,748</u>	<u>\$ 13,032,807</u>	<u>\$ 10,748,941</u>

PSPRS - Firefighters	Total Pension	Plan Fiduciary	Net Pension
	Liability (Asset)	Net Position	Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at June 30, 2015	\$ 17,992,415	\$ 8,961,400	\$ 9,031,015
Changes for the Year:			
Service Cost	447,535	-	447,535
Interest on the Total Pension Liability	1,402,925	-	1,402,925
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	202,190	-	202,190
Changes of Assumptions or Other Inputs	-	-	-
Contributions - Employer	-	585,262	(585,262)
Contributions - Employee	-	261,083	(261,083)
Net Investment Income	-	331,913	(331,913)
Benefit Payments, Including Refunds of Employee Contributions	(689,053)	(689,053)	-
Administrative Expenses	-	(8,477)	8,477
Other Changes	-	(6,751)	6,751
Net Changes	1,363,597	473,977	889,620
Balances as of June 30, 2016	<u>\$ 19,356,012</u>	<u>\$ 9,435,377</u>	<u>\$ 9,920,635</u>

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Sensitivity of the City's Net Pension Liability to Changes in the Discount Rate – The following table presents the City's net pension liabilities calculated using the discount rates noted above, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net Pension Liability	\$ 13,880,396	\$ 10,748,941	\$ 8,163,375
PSPRS Firefighters			
Rate	6.85%	7.85%	8.85%
Net Pension Liability	12,340,066	9,920,635	7,905,651

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, 2016, the City recognized the pension expense of \$1,401,228 and \$1,195,794 for Police and Fire, respectively.

Pension Deferred Outflows/Inflows of Resources – At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Police	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 273,881	\$ 622,231
Changes of assumptions or other inputs	1,427,139	-
Net difference between projected and actual earnings on pension plan investments	414,086	365,060
City contributions subsequent to the measurement date	834,488	-
Total	<u>\$ 2,949,594</u>	<u>\$ 987,291</u>
PSPRS - Firefighters	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 203,832	\$ -
Changes of assumptions or other inputs	1,179,126	-
Net difference between projected and actual earnings on pension plan investments	301,706	264,505
City contributions subsequent to the measurement date	724,491	-
Total	<u>\$ 2,409,155</u>	<u>\$ 264,505</u>

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	PSPRS Police	PSPRS Firefighters
2017	\$ 371,588	\$ 293,453
2018	371,588	293,453
2019	371,589	293,453
2020	13,050	381,620
2021	-	149,836
Thereafter	-	8,344

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Projections of benefits are based on (1) the plans as understood by the City and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements, are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% market
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4.00%

Agent Plan OPEB Trend Information – The table on the following page presents the annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2016	\$ 16,133	100.00%	\$ -
2015	72,226	100.00	-
2014	66,254	100.00	-
PSPRS Firefighters			
2016	\$ 24,486	100.00%	\$ -
2015	56,205	100.00	-
2014	50,786	100.00	-

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Agent Plan OPEB Funded Status – The funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2016 is as follows:

	PSPRS Police	PSPRS Firefighters
Actuarial Value of Assets (a)	\$ 936,291	\$ 534,074
Actuarial Accrued Liability (b)	999,772	807,303
Unfunded Actuarial Accrued Liability (Funding Excess) (b) - (a)	63,481	273,229
Funded Ratio (a) / (b)	93.65%	66.16%
Annual Covered Payroll (c)	3,273,079	2,405,543
Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage of Covered Payroll (b) - (a) / (c)	1.94%	11.36%

The funded status of the all the PSPRS health insurance premium benefit plans in the June 30, 2016 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

PSPRS - OPEB Funded Status

Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% market
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4.00%

CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits

The City's liability for postemployment healthcare benefits other than pensions as of June 30, 2016 is based on the actuarial performed as of July 1, 2015.

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

Retirees Receiving Benefits	102
Active Employees	<u>240</u>
Total	<u><u>342</u></u>

Benefits Provided – The City provides postretirement insurance (medical and dental) benefits (OPEB), in accordance with the City's Post Employment Benefit Plan, to eligible employees. Currently, 85 retirees meet those eligibility requirements.

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

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligation – The City’s annual other postemployment benefit (OPEB) cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The amortization method is open ended. The City’s annual OPEB cost for the current year and the related information for the plan is as follows at June 30, 2016:

Annual Required Contribution	\$	1,606,089
Interest on Net OPEB Obligation		745,556
Adjustments to Annual Required Contributions		(787,419)
Annual OPEB cost		1,564,226
Contributions Made		615,936
Increase in Net OPEB Obligation		948,290
Net OPEB Obligation - Beginning of Year		16,567,914
Net OPEB Obligation - End of Year	\$	17,516,204

Schedule of Funding Progress – As of July 1, 2015, the most recent actuarial valuation date, the City held \$-0- in assets and had an actuarial determined accrued liability of \$19.7 million. The plan is underfunded by \$19.7 million and annual covered payroll was 177.8%.

The City has underfunded the OPEB obligation and reports the underfunded amount as a liability in the government-wide financial statements. The City’s annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior years are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contributions	Percent Contributed	Net OPEB Obligation
2014	\$ 3,381,026	\$ 603,628	17.85%	\$ 13,599,958
2015	3,633,322	665,366	18.31%	16,567,914
2016	1,564,226	615,936	39.38%	17,516,204

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions for the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF NOGALES, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions – Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used for the current valuation are as follows:

Actuarial Valuation Date	July 1, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	30-year level dollar, closed period
Remaining Amortization Period	23 Years as of July 1, 2015
Asset Valuation Method	No Assets Held in an Irrevocable Trust
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Healthcare Trend Rate	8.00% Pre-65, 5.50% Post-65
Inflation Rate	4.00%

E. Subsequent Events

On July 27, 2016, the Nogales Municipal Development Authority (MDA) issued \$6,950,000 Municipal Facilities Revenue Refunding Bonds, Series 2016 to partially refund \$1,055,000 and \$5,330,000 of the City's Municipal Facilities Revenue Bonds, Series 2006 and 2009, respectively. These new bonds are due in annual principal installments ranging from \$170,000 to \$1,060,000 with semi-annual interest ranging from 2.0% to 3.0% through June 1, 2039. This refunding was undertaken to reduce total debt service payments by the City.

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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, 2016**

Arizona State Retirement System

	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)
	2016 (2015)	2015 (2014)
City's Proportion of the Net Pension Liability	0.071220%	0.073466%
City's Proportionate Share of the Net Pension Liability	\$ 11,093,764	\$ 10,870,471
City's Covered-Employee Payroll	\$ 6,427,809	\$ 6,397,985
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered -Employee Payroll	172.59%	169.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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, 2016

PSPRS Police

	Reporting Year (Measurement Date)	Reporting Year (Measurement Date)
	2016 (2015)	2015 (2014)
Total Pension Liability		
Service Cost	\$ 650,848	\$ 597,019
Interest on the Total Pension Liability	1,796,333	1,449,565
Changes of Benefit Terms	-	426,360
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(779,043)	449,885
Changes of Assumptions or Other Inputs	-	2,344,265
Benefit Payments, Including Refunds of Employee Contributions	(888,380)	(864,781)
Net Change in Total Pension Liability	779,758	4,402,313
Total Pension Liability - Beginning	23,001,990	18,599,677
Total Pension Liability - Ending (a)	23,781,748	23,001,990
Plan Fiduciary Net Position		
Contributions - Employer	754,068	709,292
Contributions - Employee	356,974	349,414
Net Investment Income	457,113	1,488,112
Benefit Payments, Including Refunds of Employee Contributions	(888,380)	(864,781)
Administrative Expenses	(11,527)	(11,984)
Other Changes	106,595	-
Net Change in Plan Fiduciary Net Position	774,843	1,670,053
Plan Fiduciary Net Position - Beginning	12,257,964	10,587,911
Plan Fiduciary Net Position - Ending (b)	13,032,807	12,257,964
City's Net Pension Liability (Asset) - Ending (a) - (b)	\$ 10,748,941	\$ 10,744,026
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.80%	53.29%
Covered-employee Payroll	\$ 3,096,516	\$ 3,368,193
City's Net Pension Liability (Asset) as a Percentage of Covered- Employee Payroll	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, 2016

PSPRS Fire	Reporting Year (Measurement Date) <u>2016</u> (2015)	Reporting Year (Measurement Date) <u>2015</u> (2014)
Total Pension Liability		
Service Cost	\$ 447,535	\$ 461,117
Interest on the Total Pension Liability	1,402,925	1,162,805
Changes of Benefit Terms	-	357,990
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	202,190	49,280
Changes of Assumptions or Other Inputs	-	1,711,570
Benefit Payments, Including Refunds of Employee Contributions	(689,053)	(665,170)
Net Change in Total Pension Liability	<u>1,363,597</u>	<u>3,077,592</u>
Total Pension Liability - Beginning	<u>17,992,415</u>	<u>14,914,823</u>
Total Pension Liability - Ending (a)	<u>19,356,012</u>	<u>17,992,415</u>
Plan Fiduciary Net Position		
Contributions - Employer	585,262	614,419
Contributions - Employee	261,083	237,504
Net Investment Income	331,913	1,078,216
Benefit Payments, Including Refunds of Employee Contributions	(689,053)	(665,170)
Administrative Expenses	(8,477)	(8,683)
Other Changes	(6,751)	-
Net Change in Plan Fiduciary Net Position	<u>473,977</u>	<u>1,256,286</u>
Plan Fiduciary Net Position - Beginning	<u>8,961,400</u>	<u>7,705,114</u>
Plan Fiduciary Net Position - Ending (b)	<u>9,435,377</u>	<u>8,961,400</u>
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 9,920,635</u>	<u>\$ 9,031,015</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.75%	49.81%
Covered-employee Payroll	\$ 2,268,595	\$ 2,289,386
City's Net Pension Liability (Asset) as a Percentage of Covered- Employee Payroll	437.30%	394.47%

See Accompanying Notes to Pension Schedules.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CONTRIBUTIONS
JUNE 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year		
	2016	2015	2014
Statutorily Required Contribution	\$ 681,454	\$ 699,988	\$ 708,602
City's Contribution in Relation to the Statutorily Required Contribution	(681,454)	(699,988)	(708,602)
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered-Employee Payroll	\$ 6,653,918	\$ 6,427,809	\$ 6,397,985
City's Contributions as a Percentage of Covered-Employee Payroll	10.24%	10.89%	11.08%

PSPRS Police

	Reporting Fiscal Year		
	2016	2015	2014
Actuarially Determined Contribution	\$ 834,488	\$ 724,491	\$ 709,292
City's Contribution in Relation to the Actuarially Determined Contribution	834,488	724,491	709,292
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered-Employee Payroll	\$ 3,273,079	\$ 3,096,516	\$ 3,368,193
City's Contributions as a Percentage of Covered-Employee Payroll	25.50%	23.40%	21.06%

PSPRS Fire

	Reporting Fiscal Year		
	2016	2015	2014
Actuarially Determined Contribution	\$ 724,491	\$ 568,273	\$ 614,419
City's Contribution in Relation to the Actuarially Determined Contribution	724,491	568,273	614,419
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered-Employee Payroll	\$ 2,405,543	\$ 2,268,595	\$ 2,289,386
City's Contributions as a Percentage of Covered-Employee Payroll	30.12%	25.05%	26.84%

See Accompanying Notes to Pension Schedules.

**CITY OF NOGALES, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 NOTES TO PENSION SCHEDULES
 JUNE 30, 2016**

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	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 20% corridor
 Actuarial Assumptions:	
Investment Rate of Return	In the 2014 actuarial valuation, the investment rate of return remained at 7.85%
Projected Salary Increases	In the 2014 actuarial valuation, projected salary increases decreased from 4.5%-8.5% to 4.0%-8.0% for PSPRS
Wage Growth	In the 2013 actuarial valuation, wage growth was decreased from 4.5-8.5% to 4.0%-8.0% for PSPRS 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
Retirement Age	
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

NOTE 2 INFORMATION PRIOR TO THE MEASUREMENT DATE

Ten years of data is required to be presented. However, information prior to the measurement date (June 30, 2014) was not available and ten years of data will be presented as it becomes available.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF AGENT OPEB AND CITY PLANS' FUNDING PROGRESS
JUNE 30, 2016

Police

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2014	\$ 868,677	\$ 954,345	91.0%	\$ 85,668	\$ 3,368,196	2.5%
2015	925,154	973,526	95.0%	48,372	3,096,516	1.6%
2016	936,291	999,772	93.7%	63,481	3,273,079	1.9%

Fire

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2014	\$ 490,031	\$ 724,127	67.7%	\$ 234,096	\$ 2,289,390	10.2%
2015	519,571	776,992	66.9%	257,421	2,268,595	11.3%
2016	534,074	807,303	66.2%	273,229	2,405,543	11.4%

Other Post Employment Benefits (Health & Dental Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2014	\$ -	\$ 40,125,844	0.0%	\$ 40,125,844	\$ 11,061,776	362.7%
2015	-	42,825,547	0.0%	42,825,547	11,061,776	387.1%
2016	-	19,664,242	0.0%	19,664,242	9,428,934	208.6%

See Accompanying Notes to Schedule of Agent OPEB and City Plans' Funding Progress.

CITY OF NOGALES, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
JUNE 30, 2016

NOTE 1 FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.

The other postemployment benefits (Health and Dental subsidy) actuarial accrued liability (AAL) was reduced from \$40.1 million to \$19.7 million largely due to a cap on the maximum monthly subsidy per retiree, thus reducing the AAL by almost 50%.

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