

HOUSING AUTHORITY OF THE CITY OF NOGALES

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED MARCH 31, 2022



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**HOUSING AUTHORITY OF THE CITY OF NOGALES
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YEAR ENDED MARCH 31, 2022**

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Housing Authority of the City of Nogales
Nogales, Arizona

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of Nogales (the Authority), a component unit of the City of Nogales, as of and for the year ended March 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of March 31, 2022, and respective the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Authority's proportionate share of the net pension liability, the Authority pension contribution and the schedules of the Authority's proportionate share of Net OPEB Liability and the OPEB Schedule of Employer contributions to be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Financial Data Schedule in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is also presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the financial data schedule and the schedule of expenditure of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Phoenix, Arizona
May 31, 2023

**HOUSING AUTHORITY OF THE CITY OF NOGALES
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2022**

This section of the Authority's annual financial report presents Management's analysis of the Authority's financial performance during the Fiscal Year Ended March 31, 2022. The operation of the Housing Authority of the City of Nogales is comprised mainly of a Low-Income Public Housing Program, a Housing Choice Vouchers Program and a Capital Fund Program. The Public Housing Program is funded with rental revenue, miscellaneous tenant charges and Department of Housing and Urban Development (HUD) grants. The Housing Choice Vouchers Program is funded with elderly rent revenue and grants from HUD. The Capital Fund Program is funded entirely by grants from HUD.

FINANCIAL HIGHLIGHTS

1. Total net position equals	\$8,029,106
2. Unrestricted net position equals	652,880
3. Total net position increased by	28,250

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Authority report information using the Enterprise Fund accounting methods:

- Statement of Net Position – includes all of the Authority's assets and liabilities and provides information about the amounts and investments in assets and the obligations to Authority creditors. It also provides a basis of assessing the liquidity and financial flexibility of the Authority. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial health of the Authority is improving or deteriorating.
- Statement of Revenues, Expenses and Changes in Net Position - provides information as to the increase or decrease of current year revenues over expenses.
- Statement of Cash Flows – provides information about net cash provided by, or used for operating activities, noncapital financing activities, capital and related financing activities and from investing activities.

**HOUSING AUTHORITY OF THE CITY OF NOGALES
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2022**

FINANCIAL ANALYSIS

STATEMENT OF NET POSITION

	<u>2022</u>	<u>2021</u>	<u>\$ Variance</u>
Assets:			
Current and Restricted Assets	\$ 3,025,004	\$ 2,553,942	\$ 471,062
Capital Assets	7,334,922	7,613,836	(278,914)
Deferred Outflows of Resources	<u>163,028</u>	<u>137,918</u>	<u>25,110</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 10,522,954</u>	<u>\$ 10,305,696</u>	<u>\$ 217,258</u>
Liabilities:			
Current Liabilities	\$ 452,378	\$ 191,364	\$ 261,014
Non Current Liabilities	1,463,487	1,599,186	(135,699)
Deferred Inflows of Resources	<u>577,983</u>	<u>489,142</u>	<u>88,841</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 2,493,848</u>	<u>\$ 2,279,692</u>	<u>\$ 214,156</u>
Net Position:			
Net Investment in Capital Assets	\$ 7,334,922	\$ 7,613,836	\$ (278,914)
Restricted Net Position	39,304	11,054	28,250
Unrestricted Net Position	<u>654,880</u>	<u>401,114</u>	<u>253,766</u>
Total Net Position	<u>\$ 8,029,106</u>	<u>\$ 8,026,004</u>	<u>\$ 3,102</u>

As illustrated, in the Statement of Net Position, the overall net position of the Authority increased by \$3,102. Increases in cash accounted for most of the change in current assets. Deferred Outflows increased due to changes in the pension and OPEB accounts. Depreciation expense exceeding capital additions accounted for the decrease in Capital Assets. Current liabilities increased mainly due to the increases in accounts payable, accrued wages and payroll taxes and unearned revenues. Noncurrent liabilities decreased due to decrease in accrued pension liability. Deferred Inflows increased due to changes in pension and OPEB accounts.

CHANGES IN UNRESTRICTED NET POSITION

Unrestricted Net Position, March 31, 2021	\$ 401,114
Results of Operations	(211,456)
Interest Income	300
Transfer to Restricted Net Position	(28,250)
Depreciation Expense	<u>493,172</u>
Unrestricted Net Position, March 31, 2022	<u>\$ 654,880</u>

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Position provides a clearer change in financial well-being.

**HOUSING AUTHORITY OF THE CITY OF NOGALES
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2022**

FINANCIAL ANALYSIS (continued)

STATEMENT OF REVENUES AND EXPENSES

	<u>2022</u>	<u>2021</u>	<u>\$ Variance</u>
Revenues:			
Tenant Rental Revenue	\$ 657,817	\$ 602,689	\$ 55,128
Operating Grants	1,727,207	1,684,929	42,278
Capital Grants Received	214,258	407,094	(192,836)
Interest Income	300	1,449	(1,149)
Other Income	43,934	83,325	(39,391)
Total Revenues	<u>2,643,516</u>	<u>2,779,486</u>	<u>(135,970)</u>
Expenses:			
Administrative Expenses	453,451	405,812	47,639
Utilities	268,022	252,641	15,381
Maintenance and Operations	607,869	600,844	7,025
Protective Services	300	300	-
General Expense	41,682	89,113	(47,431)
Housing Assistance Payments	775,918	841,847	(65,929)
Depreciation	493,172	474,611	18,561
Total Expenses	<u>2,640,414</u>	<u>2,665,168</u>	<u>(24,754)</u>
Excess (Deficiency) Revenues Over Expenses	<u>\$ 3,102</u>	<u>\$ 114,318</u>	<u>\$ (111,216)</u>

REVENUES

In reviewing the Statement of Revenues, Expenses, and Net Position, you will find that 73% of the Authority's revenue is derived from grants from the Department of Housing and Urban Development, 25% of the Authority's revenue is from dwelling rent and 2% from interest and other income. Decreases in capital grants are in line with the decrease in ongoing capital projects for public housing.

EXPENSES

In reviewing the Statement of Revenues, Expenses and Net Position, you will find that 23% of the Authority's expenses are for maintenance, 17% for administrative, 10% for utilities, 19% for depreciation, 29% for Housing Assistance Payments and 2% for general expenses and protective services. Expenses remained relatively consistent year over year and in line with changes in revenue.

**HOUSING AUTHORITY OF THE CITY OF NOGALES
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2022**

FINANCIAL ANALYSIS (continued)

CAPITAL ASSETS

As of year-end, the Authority had \$7,334,922 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of 4% from the end of last year.

	2022	2021	Variance	% Change
Land	\$ 762,476	\$ 762,476	\$ -	- %
Buildings	15,699,274	15,568,325	130,949	1%
Furniture and Equipment	763,693	763,693	-	0%
Construction in Process	541,904	458,595	83,309	18%
Accumulated Depreciation	(10,432,425)	(9,939,253)	(493,172)	5%
Net Capital Assets	<u>\$ 7,334,922</u>	<u>\$ 7,613,836</u>	<u>\$ (278,914)</u>	<u>(4)%</u>

For more detail on the change in Capital Assets see Note L on page 25.

ECONOMIC FACTORS AND EVENTS AFFECTING OPERATIONS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs

CONCLUSION

The Authority's management is committed to staying abreast of regulations and appropriations as well as maintaining an ongoing analysis of all budgets and expenses to ensure that the Authority continues to operate at the highest standards established by the Real Estate Assessment Center and the Department of Housing and Urban Development.

CONTACT

Our financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Housing Authority's finances and to show the Housing Authority's accountability for the money it receives. If you have questions or need further clarification regarding the financial statements, contact Robert Thompson, Interim Executive Director, at Nogales Housing Authority, P.O. Box 777, 951 N Kitchen St, Nogales, AZ 85628-0777, telephone number 520-287-4183.

HOUSING AUTHORITY OF THE CITY OF NOGALES
STATEMENT OF NET POSITION
MARCH 31, 2022

	<u>Enterprise Fund</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 2,622,908
Accounts Receivable - PHA Projects	1,890
Accounts Receivable - HUD	37,082
Tenants Accounts Receivable	30,281
Investments	137,806
Prepaid Costs	51,640
Inventories	7,051
Total Current Assets	<u>2,888,658</u>
RESTRICTED ASSETS	
Cash and Cash Equivalents	116,979
OPEB Assets	19,367
Total Restricted Assets	<u>136,346</u>
CAPITAL ASSETS	
Land	762,476
Buildings and Improvements	15,699,274
Furniture and Equipment	763,693
Construction in Process	541,904
Total	<u>17,767,347</u>
(Less): Accumulated Depreciation	<u>(10,432,425)</u>
Net Capital Assets	<u>7,334,922</u>
Total Assets	10,359,926
DEFERRED OUTFLOWS OF RESOURCES	
Pension	123,904
OPEB	39,124
Total Deferred Outflows of Resources	<u>163,028</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 10,522,954</u></u>

See accompanying Notes to Basic Financial Statements.

HOUSING AUTHORITY OF THE CITY OF NOGALES
STATEMENT OF NET POSITION (CONTINUED)
MARCH 31, 2022

	Enterprise Fund
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
CURRENT LIABILITIES	
Accounts Payable	\$ 149,716
Accrued Wages/Payroll Taxes	140,235
Accrued Compensated Absences	36,436
Tenant Security Deposits	51,425
Unearned Revenues	74,566
Total Current Liabilities	<u>452,378</u>
LONG-TERM LIABILITIES	
Accrued Compensated Absences	4,049
Net Pension Liability	532,513
OPEB Liability	926,925
Total Long-Term Liabilities	<u>1,463,487</u>
Total Liabilities	1,915,865
DEFERRED INFLOWS OF RESOURCES	
Pension	222,818
OPEB	355,165
Total Deferred Inflows of Resources	<u>577,983</u>
NET POSITION	
Net Investment in Capital Assets	7,334,922
Restricted Net Position - Grants	39,304
Unrestricted Net Position	654,880
Total Net Position	<u>\$ 8,029,106</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 10,522,954</u>

See accompanying Notes to Basic Financial Statements.

HOUSING AUTHORITY OF THE CITY OF NOGALES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED MARCH 31, 2022

	Enterprise Fund
OPERATING REVENUES	
Dwelling Rent	\$ 657,817
Operating Grants	1,727,207
Other Income	43,934
Total Operating Revenues	<u>2,428,958</u>
OPERATING EXPENSES	
Administrative	453,451
Utilities	268,022
Maintenance and Operations	607,869
Protective Services	300
General Expense	41,682
Housing Assistance Payments	775,918
Depreciation	493,172
Total Operating Expenses	<u>2,640,414</u>
OPERATING LOSS	(211,456)
NONOPERATING REVENUES (EXPENSES)	
Interest Income	300
Total Nonoperating Revenues (Expenses)	<u>300</u>
DECREASE BEFORE CAPITAL GRANTS	(211,156)
CAPITAL GRANTS	<u>214,258</u>
INCREASE IN NET POSITION	3,102
Net Position - Beginning of Year	<u>8,026,004</u>
NET POSITION - END OF YEAR	<u><u>\$ 8,029,106</u></u>

See accompanying Notes to Basic Financial Statements.

HOUSING AUTHORITY OF THE CITY OF NOGALES
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2022

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Dwelling Rent	\$ 664,014
Cash Received from Operating Grants	1,706,792
Cash Received from Other Sources	43,934
Cash Payments for Salaries and Benefits	(414,975)
Cash Payments to Vendors and Landlords	(1,596,121)
Net Cash Provided by Operating Activities	<u>403,644</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(214,258)
Capital Grants Received	214,258
Net Cash Used by Capital and Related Financing Activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Transfer from (to) Investments	36,122
Interest Paid from Cash and Cash Equivalents	(800)
Net Cash Provided by Investing Activities	<u>35,322</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	438,966
Cash and Cash Equivalents - Beginning of Year	<u>2,300,921</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,739,887</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	\$ (211,456)
Adjustment to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	493,172
Bad Debts	5,120
Change in Tenants Accounts Receivable	(17,537)
Change in Accounts Receivable	(13,592)
Change in Prepaid Insurance	(11,432)
Change in Inventories	(1,171)
Change in OPEB Assets	(19,367)
Change in Accounts Payable	116,685
Change in Accrued Expenses	94,544
Change in Tenant Security Deposits	340
Change in Unearned Revenue	22,031
Change in Net Pension and OPEB Liabilities	(107,184)
Change in Deferred Inflows and Deferred Outflows of Resources	53,491
Net Cash Provided by Operating Activities	<u><u>\$ 403,644</u></u>

See accompanying Notes to Basic Financial Statements.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Housing Authority of the City of Nogales (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is a Special Purpose Government engaged only in business-type activities and therefore, presents only the financial statements required for the enterprise fund, in accordance with GASB Statement 34 paragraph 138.

The Authority has multiple programs which are accounted for in one enterprise fund, which is presented as the "enterprise fund" in the basic financial statements as follows:

Enterprise Fund – In accordance with the Enterprise Fund Method, activity is recorded using the accrual basis of accounting and the measurement focus is on the flow of economic resources. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This required the Housing Authority to account for operations in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Governmental Accounting Standards – The Housing Authority has applied all applicable Governmental Accounting Standards Board pronouncements.

Cash and Cash Equivalents

The Housing Authority considers cash on hand and cash in checking to be cash equivalents. Cash on hand is not included in calculation of collateral required.

Accounts Receivable

Tenant accounts receivables are carried at the amount considered by management to be collectible. Other accounts receivables consist of amounts due from HUD for Operating Subsidy and Capital Fund grants.

Prepaid Items

Prepaid Items consist of payments made to vendors for services that will benefit future periods.

Unearned Revenue

The Authority recognizes revenues as earned. Amounts received in advance of the period in which it is earned is recorded as a liability under Unearned Revenue.

Inventories

Inventories consist of supplies that have not been used or consumed. Inventory is valued at average cost and recorded as an expense when it is consumed.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Accounting Policies

Dwelling rent income, HUD Grants received for operations, other operating fund grants and operating miscellaneous income are shown as operating income. These financial statements do not contain material inter-program revenues and expenses for internal activity. The policy is to eliminate any material inter-program revenues and expenses for these financial statements.

Capital Assets

Capital Assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The costs of maintenance and repairs are expensed while significant renewals and betterments are capitalized. Small dollar value minor equipment items are expensed. Depreciation has been expensed in the statement of revenues and expenses. Estimated useful lives are as follows:

Buildings and Improvements	15 to 40 Years
Furniture and Equipment	3 to 7 Years

Authority management has assessed the carrying values of capital asset balances as of March 31, 2022. No significant capital asset value impairments exist as of the noted dates.

Deferred Outflows of Resources/Deferred Inflows of Resources

The statement of net position reports a separate financial statement element called deferred outflows of resources. This financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time.

The statement of net position reports a separate financial statement element called deferred inflows of resources. This financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 2 REPORTING ENTITY DEFINITION

The Housing Authority has complete legislative and administrative authority and it recruits and employs personnel. The Authority adopts a budget that is approved by the board of commissioners. Subsidies for operations are received primarily from HUD. The Authority has substantial legal authority to control its affairs without local government approval; therefore, all operations of the Authority are a separate reporting entity as reflected in this report. The Authority has no other component units. The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

NOTE 3 CASH AND CASH EQUIVALENTS

Custodial Credit Risk – The Housing Authority policy is to limit credit risk by adherence to the list of HUD permitted investments, which are backed by the full faith and credit of or a guarantee of principal and interest by the U.S. government.

Interest Rate Risk – The Housing Authority's formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from interest rate volatility.

The U.S. Department of HUD requires housing authorities to invest excess funds in obligations of the U.S., certificates of deposit or any other Federally insured investments.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

The Housing Authority's cash and cash equivalents consist of cash held in interest bearing checking and money market accounts totaling \$2,739,887. Investments consist of a saving account and certificates of deposit totaling \$137,806. The savings account and certificates of deposit bear interest rates ranging from 0.01% to 0.05% with various maturity periods, and penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. Deposits with financial institutions are secured as follows:

	<u>Book Value</u>	<u>Bank Value</u>
Insured by FDIC	\$ 637,806	\$ 637,806
Collateralized with Specific Securities in the Authority Name Which are Held by the Financial Institution	2,239,887	2,262,224
Total	<u>\$ 2,877,693</u>	<u>\$ 2,900,030</u>

All investments are carried at cost plus accrued interest, which approximates market. The Authority had no realized gains or losses on the sale of investments. The calculation of realized gains or losses is independent of a calculation of the net change in the fair value of investments.

NOTE 4 RISK MANAGEMENT

The Housing Authority is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Housing Authority carries commercial insurance for all risks of loss, including workman's compensation and employee health and accident insurance. The Housing Authority has not had any significant reductions in insurance coverage or any claims not reimbursed.

NOTE 5 USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows and inflows, revenues and expenses in the financial statements. Accordingly, actual results could differ from those estimates.

NOTE 6 CONCENTRATION OF RISK

The Housing Authority receives most of its funding from HUD. These funds and grants are subject to modification by HUD depending on the availability of funding.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 7 COMPENSATED ABSENCES

The Authority's policy allows each employee to accumulate up to 240 vacation hours and be paid for them upon separation. Unused sick leave may be accrued and paid upon separation depending on consecutive years of service. Time accrued beyond that is forfeited unless an exception is granted by the Board of Commissioners. The Authority records compensated absences in the period they are earned. A systematic allocation process is used to allocate between short-term and long-term liability classification.

NOTE 8 PENSION PLAN

Plan Description

The Authority has adopted the pension plan used by the City of Nogales. The City is a member of the Arizona State Retirement System (ASRS), a cost-sharing multiple-employer defined benefit pension plan that covers full-time employees of the Authority. 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 website at www.azasrs.gov.

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 noted on the following page.

	Retirement	
	Initial Membership Date	
	Before July 1, 2011	On or After July 1, 2011
Years of Service and Age Required to Receive Benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final Average Salary is Based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit Percentage Per Year of Service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 8 PENSION PLAN (CONTINUED)

Plan Description (Continued)

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. 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 March 31, 2022, state statute required active ASRS members to contribute at the actuarially determined rate of 12.41% (12.22% for retirement and health insurance benefits and 0.19% for long-term disability) of the members' annual covered payroll, and state statute required the Authority to contribute at the actuarially determined rate of 12.41% (12.01% for retirement, 0.21% for health insurance premium benefit, and 0.19% for long-term disability) of the active members' annual covered payroll.

In addition, the Authority was required by statute to contribute at the actuarially determined rate of 10.22% (10.13% for retirement, 0.00% for health insurance premium benefit, and 0.09% for long-term disability) of annual covered payroll of retired members who worked for the Authority in positions that an employee who contributes to the ASRS would typically fill. The Town's contributions to the pension plan for the year ended March 31, 2022, were \$46,476.

Pension Liability – As of March 31, 2022, the Authority reported a net pension liability of \$532,513. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions, actuarially determined. As of June 30, 2021, the Authority's proportion was 0.00405%, which was a decrease of 0.00034% from its proportion as of June 30, 2020.

For the year ended March 31, 2022, the Authority recognized pension expense of \$72,376. At March 31, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 8 PENSION PLAN (CONTINUED)

Plan Description (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Projected and Actual Experience	\$ 8,117	\$ -
Changes of Assumptions	69,311	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	168,705
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	54,113
Authority's Contributions Made Subsequent to the Measurement Date of June 30, 2022	46,476	-
Total	<u>\$ 123,904</u>	<u>\$ 222,818</u>

The amount reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date of \$46,476 will be recognized as a reduction of the net pension liability in the year ended March 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2023	\$ (35,726)
2024	(14,324)
2025	(37,191)
2026	(58,149)
Total	<u>\$ (145,390)</u>

Actuarial Assumptions

The significant actuarial assumptions used to measure the total pension/OPEB liabilities are as follows:

Actuarial Valuation Date	June 30, 2020
Actuarial Roll Forward Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.00%
Projected Salary Increases	2.7% - 8.4%
Inflation	2.3%
Permanent Benefit Increase	Included
Mortality Rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2020.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on ASRS pension plan investments was determined to be 7% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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, excluding any expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class of ASRS are summarized in the following table:

	<u>Target Asset Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
Equity	50.00 %	4.90 %
Fixed Income - Credit	20.00	5.20
Fixed Income - Interest Rate Sensitive	10.00	0.70
Real Estate	20.00	5.70
Total	<u>100.00 %</u>	

Discount Rate

The discount rate used to measure the ASRS total pension liability was 7%. The rate was lowered in the roll forward from 7.5% which was used for the actuarial assumptions at the valuation date. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following projects the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate:

	<u>One Percent Decrease</u>	<u>Current Discount Rate</u>	<u>One Percent Increase</u>
Plan's Net Pension Liability (Asset)	<u>\$ 760,548</u>	<u>\$ 532,513</u>	<u>\$ 278,134</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS

The Authority has adopted the postemployment healthcare benefit plan used by the City. The Authority's and the City's liability for postemployment healthcare benefits other than pensions as of June 30, 2022 is based on the actuarial valuation performed as of June 30, 2021.

Plan Description

The City provides postretirement insurance (health and dental) benefits, for certain retirees and their dependents, in accordance with the Postemployment Benefit Plan. The plan is a single-employer defined benefit plan administered by the City. Employees who are eligible to retire under the Arizona State Retirement System (ASRS) and have completed 20 or more years of service with the City are eligible to receive postemployment medical benefits from the City. OPEB liability and related balances under ASRS were insignificant to the financial statements and not disclosed in the notes.

Benefits Provided

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

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

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

The employee must be participating in one of the City's health plans to be eligible.

Retirees Receiving Benefits	67
Active Employees	246
Total	<u>313</u>

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

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

Total OPEB 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. 75. 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 annual OPEB cost for the current year and related information for the plan is as follows at June 30, 2021:

<u>Total OPEB Obligation</u>	<u>Total</u>
Service Cost	\$ 898,310
Interest	36,671
Changes of Assumptions	98,398
Benefit Payments, Including Refunds of Employee Contributions	(339,711)
Net Change in Total OPEB Liability	693,668
Total OPEB Obligation - Beginning of Year	15,875,628
Total OPEB Obligation - End of Year	<u>\$ 16,569,296</u>

Schedule of Funding Progress

As of June 30, 2021, the most recent valuation date, the Authority held \$-0- in assets and had an actuarial determined accrued liability of \$1,029,185. The plan is underfunded by \$1,029,185, which is 220.82% of annual covered payroll. Contributions to the OPEB plan from the Authority were \$22,211 for the year ended March 31, 2022.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of March 31, 2022, the Authority reported a net OPEB liability of \$926,925. The net OPEB liability was measured as of June 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions, actuarially determined. As of June 30, 2021, the Authority's proportion was 7.36% increased 1.88% from prior year.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

For the year ended March 31, 2022, the Authority recognized pension expense of \$(35,103). At March 31, 2022, the Authority 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 Projected and Actual Experience	\$ 8,864	\$ 128,123
Changes of Assumptions	4,513	210,315
Authority's Contributions Made Subsequent to the Measurement Date	22,211	-
Total	<u>\$ 35,588</u>	<u>\$ 338,438</u>

The \$22,211 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended March 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ (104,441)
2024	(104,441)
2025	(59,466)
2026	(51,629)
Thereafter	(5,084)
Total	<u>\$ (325,061)</u>

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following projects the Authority's proportionate share of the net OPEB liability calculated using the discount rate of 2.16%, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (1.16%) or one- percentage-point higher (3.16%) than the current rate:

	One Percent Decrease	Current Discount Rate	One Percent Increase
Plan's Net OPEB Liability	<u>\$ 1,042,938</u>	<u>\$ 926,925</u>	<u>\$ 825,496</u>

	One Percent Decrease Health Care Cost Trend Rates	Current Health Care Cost Trend Rates	One Percent Increase Health Care Cost Trend Rates
Plan's Net OPEB Liability	<u>\$ 1,042,938</u>	<u>\$ 926,925</u>	<u>\$ 825,496</u>

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate (Continued)

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 show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age, Level Percent of Pay
Asset Valuation Method	No Assets Held in an Irrevocable Trust
Funding Policy	Pay-As-You-Go Basis
Actuarial Assumptions:	
Discount Rate	2.16%, Based on Bond Buyer 20-Bond GO Index
Inflation Rate	2.70%
Health Care Cost Trend Rates:	
Medical	7.00% Graded Down to Ultimate Rate of 4.5% Over 10 Years
Prescription Drugs	8.00% Graded Down to Ultimate Rate of 4.5% Over 14 Years
Dental and Administrative Costs	4.50% and 3.00%, Respectively

NOTE 10 COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from HUD are subject to audit and adjustment by grantor agencies. If expenses are disallowed as a result of these audits, the claims for reimbursement to the grantor agency would become a liability of the Authority. In the opinion of management, any such adjustments would not be significant.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 11 CAPITAL ASSETS

A summary of capital assets is as follows at fiscal year-end.

	April 1, 2021 Balance	Additions	Transfers and Deletions	March 31, 2022 Balance
Land	\$ 762,476	\$ -	\$ -	\$ 762,476
Construction in Process	458,595	214,258	(130,949)	541,904
Total Assets Not Being Depreciated	1,221,071	214,258	(130,949)	1,304,380
Buildings and Improvements	15,568,325	-	130,949	15,699,274
Furniture and Equipment	763,693	-	-	763,693
Total Capital Assets	17,553,089	214,258	-	17,767,347
Less: Accumulated Depreciation - B&I	(9,242,907)	(472,871)	21,372	(9,694,406)
Less: Accumulated Depreciation - F&E	(696,346)	(20,301)	(21,372)	(738,019)
Less: Total Accumulated	(9,939,253)	(493,172)	-	(10,432,425)
Net Book Value	<u>\$ 7,613,836</u>	<u>\$ (278,914)</u>	<u>\$ -</u>	<u>\$ 7,334,922</u>

NOTE 12 LONG-TERM DEBT

	Balance April 1, 2021	Increases	Decreases	Balance March 31, 2022	Due Within One Year
Accrued Compensated Absences	\$ 36,182	\$ 4,303	\$ -	\$ 40,485	\$ 36,436
Total Debt	<u>\$ 36,182</u>	<u>\$ 4,303</u>	<u>\$ -</u>	<u>\$ 40,485</u>	<u>\$ 36,436</u>

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2022

NOTE 13 COMPONENT UNIT OF THE CITY OF NOGALES

The Nogales Housing Authority (a component unit of The City of Nogales) was 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 and 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 City of Nogales may be obtained from the City by writing to The City of Nogales, Finance Department, 777 North Grand Avenue, Nogales, AZ 85621.

NOTE 14 RESTRICTED CASH AND RESTRICTED NET POSITION

	HCVF
HAP Funds	\$ 116,979
Total Restricted Cash	\$ 116,979
	<hr/>
Restricted for HAP	\$ 116,979
Total Restricted Net Position	\$ 116,979
	<hr/>

HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF CHANGES IN PROPORTIONATE SHARE OF NET PENSION LIABILITY
MARCH 31, 2022

	Reporting Fiscal Year (Measurement Date)							
	2022 2021	2021 2020	2020 2019	2019 2018	2018 2017	2017 2016	2016 2015	2015 2014
Nogales Housing Authority's Proportion of the Net Pension Liability	0.00405%	0.00400%	0.00500%	0.00430%	0.00488%	0.00479%	0.00491%	0.00051%
Nogales Housing Authority's Proportionate Share of the Net Pension Liability	\$ 532,513	\$ 692,669	\$ 732,930	\$ 599,434	\$ 759,648	\$ 764,669	\$ 764,321	\$ 748,936
Nogales Housing Authority's Covered-Employee Payroll	\$ 466,066	\$ 466,552	\$ 467,724	\$ 470,365	\$ 408,648	\$ 451,176	\$ 449,352	\$ 449,352
Nogales Housing Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	114.26%	148.47%	156.70%	127.44%	185.89%	171.48%	170.09%	166.67%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%

Note: Information is not required to be presented retroactively. This schedule will NOT present 10 years' worth of information until fiscal year 2024.

HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
MARCH 31, 2022

<u>ASRS</u>	Fiscal Year Ended June 30,							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 46,476	\$ 48,024	\$ 56,112	\$ 54,256	\$ 59,103	\$ 52,892	\$ 56,634	\$ 50,161
Contributions in Relation to the Contractually Required Contribution	<u>46,476</u>	<u>48,024</u>	<u>56,112</u>	<u>54,256</u>	<u>59,103</u>	<u>52,892</u>	<u>56,634</u>	<u>50,161</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered-Employee Payroll Used in Calculation	\$ 466,066	\$ 466,552	\$ 467,724	\$ 470,365	\$ 408,648	\$ 451,176	\$ 449,352	\$ 449,352
Contributions as a Percentage of Covered-Payroll	9.97%	10.29%	12.03%	11.60%	12.57%	12.94%	12.55%	11.16%

Note: Information is not required to be presented retroactively. This schedule will NOT present 10 years' worth of information until fiscal year 2024.

HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
MARCH 31, 2022 AND FOUR YEARS PRIOR

	Reporting Year (Measurement Date)				
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
Total OPEB Liability					
Service Cost	\$ 49,227	\$ 38,146	\$ 40,606	\$ 41,304	\$ 53,460
Interest	20,110	33,339	43,763	39,709	39,143
Differences Between Expected and Actual Experience	-	(65,550)	(137,457)	(10,469)	30,739
Changes of Assumptions	5,392	(43,763)	(107,797)	(30,668)	(355,166)
Benefit Payments	(18,616)	(19,481)	(10,461)	(11,163)	(29,249)
Other	-	3,249	-	(6,735)	-
Net Change in Total OPEB Liability	56,113	(54,061)	(171,347)	21,979	(261,073)
Total OPEB Liability - Beginning	869,984	924,045	1,095,392	1,073,413	1,334,486
Total OPEB Liability - Ending (a)	<u>\$ 1,029,185</u>	<u>\$ 869,984</u>	<u>\$ 924,045</u>	<u>\$ 1,095,392</u>	<u>\$ 1,073,413</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 329,108	\$ 18,035	\$ 16,749	\$ 11,163	\$ 29,249
Benefit Payments	(329,108)	(18,035)	(16,749)	(11,163)	(29,249)
Net Change in Plan Fiduciary Net Position	-	-	-	-	-
Plan Fiduciary Net Position - Beginning	-	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Net OPEB Liability - Ending (a) - (b)	\$ 1,029,185	\$ 869,984	\$ 924,045	\$ 1,095,392	\$ 1,073,413
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%	0.00%	0.00%
Covered Payroll	\$ 466,066	\$ 466,552	\$ 467,724	\$ 470,365	\$ 408,648
City's Net OPEB Liability as a Percentage of Covered Payroll	220.82%	186.47%	197.56%	232.88%	262.67%

NOGALES HOUSING AUTHORITY (AZ023)
FINANCIAL DATA SCHEDULE
MARCH 31, 2022

	Project Total	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$1,566,163	\$1,030,620	\$ -	\$2,596,783		\$2,596,783
113 Cash - Other Restricted	0	1,100	65,554	\$66,654		\$66,654
114 Cash - Tenant Security Deposits	\$50,325	\$0		\$50,325		\$50,325
100 Total Cash	\$1,616,488	\$1,031,720	\$65,554	\$2,713,762		\$2,713,762
121 Accounts Receivable - PHA Projects	\$0	1,890		\$1,890		\$1,890
122 Accounts Receivable - HUD Other Projects	26,985	10,097		\$37,082		\$37,082
126 Accounts Receivable - Tenants	16,054	20,524		\$36,578		\$36,578
126.1 Allowance for Doubtful Accounts - Tenants	(6297.00)	\$0		(6297.00)		(6297.00)
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$36,742	32,511	\$0	\$69,253		\$69,253
131 Investments - Unrestricted	137,806	26,125		\$163,931		\$163,931
142 Prepaid Expenses and Other Assets	\$0	51,640		\$51,640		\$51,640
143 Inventories	7,422	\$0		\$7,422		\$7,422
143.1 Allowance for Obsolete Inventories	(371.00)	\$0		(371.00)		(371.00)
150 Total Current Assets	\$1,798,087	\$1,141,996	\$65,554	\$3,005,637		\$3,005,637
161 Land	762,476	\$0		\$762,476		\$762,476
162 Buildings	15,699,274	\$0		\$15,699,274		\$15,699,274
163 Furniture, Equipment & Machinery - Dwellings	286,463	\$0		\$286,463		\$286,463
164 Furniture, Equipment & Machinery - Administration	477,230	\$0		\$477,230		\$477,230
166 Accumulated Depreciation	(10432425.00)	\$0		(10432425.00)		(10432425.00)
167 Construction in Progress	541,904	\$0		\$541,904		\$541,904
160 Total Capital Assets, Net of Accumulated Depreciation	\$7,334,922	\$0	\$0	\$7,334,922		\$7,334,922
174 Other Assets	13,751	5,616		\$19,367		\$19,367
180 Total Non-Current Assets	\$7,348,673	\$5,616	\$0	\$7,354,289		\$7,354,289
200 Deferred Outflow of Resources	115,750	47,278		\$163,028		\$163,028
290 Total Assets and Deferred Outflow of Resources	\$9,262,510	1,194,890	\$65,554	\$10,522,954		\$10,522,954
311 Bank Overdraft	\$0	\$0		\$0		\$0
312 Accounts Payable <= 90 Days	101,972	47,744		\$149,716		\$149,716
321 Accrued Wage/Payroll Taxes Payable	116,578	23,657		\$140,235		\$140,235
322 Accrued Compensated Absences - Current Portion	3,733	316		\$4,049		\$4,049
341 Tenant Security Deposits	50,325	\$0		\$50,325		\$50,325
342 Unearned Revenue	48,316	\$0	26,250	\$74,566		\$74,566
346 Accrued Liabilities - Other	\$0	1,100		\$1,100		\$1,100
310 Total Current Liabilities	\$320,924	72,817	\$26,250	\$419,991		\$419,991
354 Accrued Compensated Absences - Non Current	33,593	2,843		\$36,436		\$36,436
357 Accrued Pension and OPEB Liabilities	1,036,201	423,237		\$1,459,438		\$1,459,438
350 Total Non-Current Liabilities	\$1,069,794	426,080	\$0	\$1,495,874		\$1,495,874
300 Total Liabilities	\$1,390,718	498,897	\$26,250	\$1,915,865		\$1,915,865
400 Deferred Inflow of Resources	410,368	167,615		\$577,983		\$577,983
508.4 Net Investment in Capital Assets	\$7,334,922	\$0		\$7,334,922		\$7,334,922
511.4 Restricted Net Position	\$0	\$0	\$39,304	\$39,304		\$39,304
512.4 Unrestricted Net Position	\$126,501	528,378	0	\$654,879		\$654,879
513 Total Equity - Net Assets / Position	\$7,461,423	528,378	\$39,304	\$8,029,105		\$8,029,105
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$9,262,509	1,194,890	\$65,554	\$10,522,953		\$10,522,953

NOGALES HOUSING AUTHORITY (AZ023)
FINANCIAL DATA SCHEDULE (CONTINUED)
MARCH 31, 2022

	Project Total	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	657,817	\$0		\$657,817		\$657,817
70400 Tenant Revenue - Other	12,204	\$0		\$12,204		\$12,204
70500 Total Tenant Revenue	\$670,021	\$0	0	\$670,021	\$0	\$670,021
70600 HUD PHA Operating Grants	808,459	879,444	39,304	\$1,727,207		\$1,727,207
70610 Capital Grants	214,258	\$0		\$214,258		\$214,258
70800 Other Government Grants	\$0	\$0		\$0		\$0
71100 Investment Income - Unrestricted	177	123		\$300		\$300
71500 Other Revenue	\$0	31,728		\$31,728		\$31,728
70000 Total Revenue	\$1,692,915	911,295	39,304	\$2,643,514	\$0	\$2,643,514
91100 Administrative Salaries	149,919	79,406		\$229,325		\$229,325
91200 Auditing Fees	14,918	4,973		\$19,891		\$19,891
91500 Employee Benefit contributions - Administrative	66,541	0		\$66,541		\$66,541
91600 Office Expenses	14,719	1,231		\$15,950		\$15,950
91900 Other	111,454	10,290		\$121,744		\$121,744
91000 Total Operating - Administrative	\$357,551	95,900	\$0	\$453,451	\$0	\$453,451
93100 Water	106,251	\$0		\$106,251		\$106,251
93200 Electricity	19,582	\$0		\$19,582		\$19,582
93300 Gas	79,517	\$0		\$79,517		\$79,517
93600 Sewer	62,672	\$0		\$62,672		\$62,672
93000 Total Utilities	\$268,022	\$0	\$0	\$268,022	\$0	\$268,022
94100 Ordinary Maintenance and Operations - Labor	245,242	\$0		\$245,242		\$245,242
94200 Ordinary Maintenance and Operations - Materials and Other	104,129	\$0		\$104,129		\$104,129
94300 Ordinary Maintenance and Operations Contracts	148,983	\$0		\$148,983		\$148,983
94500 Employee Benefit Contributions - Ordinary Maintenance	109,515	\$0		\$109,515		\$109,515
94000 Total Maintenance	\$607,869	\$0	\$0	\$607,869	\$0	\$607,869
95200 Protective Services - Other Contract Costs	300	\$0		\$300		\$300
95000 Total Protective Services	\$300	\$0	\$0	\$300	\$0	\$300
96130 Workmen's Compensation	12,099	\$0		\$12,099		\$12,099
96140 All Other Insurance	29,583	\$0		\$29,583		\$29,583
96100 Total insurance Premiums	\$41,682	\$0	\$0	\$41,682	\$0	\$41,682
96900 Total Operating Expenses	\$1,275,424	95,900	\$0	\$1,371,324	\$0	\$1,371,324
97000 Excess of Operating Revenue over Operating Expenses	\$417,491	815,395	39,304	\$1,272,190	\$0	\$1,272,190
97300 Housing Assistance Payments	\$0	775,918		\$775,918		\$775,918
97400 Depreciation Expense	493,171	\$0		\$493,171		\$493,171
90000 Total Expenses	\$1,768,595	871,818	\$0	\$2,640,413	\$0	\$2,640,413
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(75,680.00)	\$ 39,477	39,304	\$3,101	\$0	\$3,101

NOGALES HOUSING AUTHORITY (AZ023)
FINANCIAL DATA SCHEDULE (CONTINUED)
MARCH 31, 2022

11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0
11030 Beginning Equity	\$7,155,330	\$870,674	\$0	\$8,026,004	\$8,026,004
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	381,773	(381,773.00)		\$0	\$0
11170 Administrative Fee Equity	\$0	\$528,378		\$528,378	\$528,378
11180 Housing Assistance Payments Equity		\$0		\$0	\$0
11190 Unit Months Available	2656	2025		\$4,681	\$4,681
11210 Number of Unit Months Leased	2524	2025		\$4,549	\$4,549
11270 Excess Cash	\$0			\$0	\$0
11610 Land Purchases	\$0			\$0	\$0
11620 Building Purchases	\$0			\$0	\$0
11630 Furniture & Equipment - Dwelling Purchases	\$0			\$0	\$0
11640 Furniture & Equipment - Administrative Purchases	\$0			\$0	\$0
11650 Leasehold Improvements Purchases	\$0			\$0	\$0
11660 Infrastructure Purchases	\$0			\$0	\$0
13510 CFFP Debt Service Payments	\$0			\$0	\$0
13901 Replacement Housing Factor Funds	\$0			\$0	\$0



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Housing Authority of the City of Nogales
Nogales, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Housing Authority of the City of Nogales (the Authority), a component unit of the City of Nogales, as of and for the year ended March 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
May 31, 2023



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Commissioners
Housing Authority of the City of Nogales
Nogales, Arizona

Report on Compliance for The Major Federal Program

Opinion on The Major Federal Program

We have audited the Housing Authority of the City of Nogales's (the Authority), a component unit of the City of Nogales, compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended March 31, 2022. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2022.

Basis for Opinion on The Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's federal program.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003, to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Authority's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
May 31, 2023

HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MARCH 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Section 8 Housing Assistance Payments	14.871	N/A	\$ -	\$ 872,483
Emergency Housing Vouchers	14.EHV	N/A	-	39,304
Total Housing Choice Voucher Cluster			-	911,787
Low Rent Public Housing	14.850	N/A	-	788,184
Public Housing Capital Grant Fund	14.872	N/A	-	234,533
Total HUD Expenditures			-	1,934,504
Total Expenditures of Federal Awards			\$ -	\$ 1,934,504

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Housing Authority of the City of Nogales (the Authority) under programs of the federal government for the year ended March 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, change in net positions, or cash flows of the Authority.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 INDIRECT RATE

The Authority did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR 200.414.

**HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2022**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

4. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
5. Type of auditors’ report issued on compliance for major federal programs: Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes _____ no

Identification of Major Federal Program

Assistance Listing Number(s)

14.850

Name of Federal Program or Cluster

Public and Indian Housing

Dollar threshold used to distinguish between Type A and Type B programs:

\$ \$750,000

Auditee qualified as low-risk auditee?

_____ yes x no

**HOUSING AUTHORITY OF THE CITY OF NOGALES
CORRECTIVE ACTION PLAN
YEAR ENDED MARCH 31, 2022**

Section II – Financial Statement Findings

2022 – 001

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: The Authority does not have a policy in place to provide reasonable assurance that financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented, or detected and corrected, by the organization's internal controls. It was noted during the audit that there were no approvals or reviews by management of the third party fee accountants with regards to recording manual journal entries or preparing reports and schedules. Additionally, the Authority was unable to locate supporting documents for some of the manual entries.

Criteria or specific requirement: Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

Effect: The lack of controls in place over the financial reporting function increases the risk of misstatements, fraud, or errors occurring and not being detected and corrected.

Cause: The organization has not adopted a policy to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP; however, management has reviewed and approved the annual financial statements and related notes, as prepared by the audit firm, and has accepted responsibility for those financial statements.

Recommendation: The organization should evaluate their financial reporting processes and controls, including the expertise of its internal staff, to determine whether additional controls over the preparation of annual financial statements can be implemented to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP. We recommend that management establish and implement a separate, authorized approver and reviewer of manual journal entries, reports and schedules, and improved control over custody of supporting documentation.

Views of responsible officials and planned corrective actions: The Authority agrees with this recommendation. We will establish closing procedures that includes reconciliation and review of yearend closing balances.

**HOUSING AUTHORITY OF THE CITY OF NOGALES
CORRECTIVE ACTION PLAN
YEAR ENDED MARCH 31, 2022**

Section III – Findings and Questioned Costs – Major Federal Program

2022 – 002

Federal Agency: Department of Housing and Urban Development

Federal Program Name: Public and Indian Housing

Assistance Listing Number: 14.850

Federal Award Identification Number and Year: AZ023 and 2022

Award Period: April 1, 2021 – March 31, 2022

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: A current Declaration of Trust/Declaration of Restrictive Covenants, in a form acceptable to HUD, must be recorded against all public housing property owned by public housing authorities (or private entities for public housing developed under 24 CFR Part 905, Subpart F) that has been acquired, developed, maintained, or assisted with funds from the US Housing Act of 1937. In addition, CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of special provision. The Authority should have internal controls designed to ensure compliance with those provisions.

Condition: During our testing, we noted the Authority did not have adequate internal controls designed to ensure declaration of trust/declaration of restrictive covenants were recorded against the Authority's properties. The Authority was either unable to locate the declaration of trust or noted that the declaration of trust was on the wrong form for the properties.

Questioned costs: None

Context: During our testing, it was noted that the Authority did not retain or submit the required declaration of trust in a form acceptable to HUD for 86 of the 90 projects. A declaration of trust was able to be located for project numbers AZ20P023010, AZ023003, AZ16P023004, AZ20P023904Z.

Cause: The Authority was aware of the requirement and was notified by HUD. However, subsequent actions were not taken to ensure the Authority filed the required forms.

Effect: The lack of internal controls over the compliance requirements resulted in the Authority's noncompliance over specific requirement mentioned above.

Recommendation: We recommend the Authority design and implement controls to declaration of trust were prepared and recorded against all public housing properties owned by the Authority.

Views of responsible officials: There is no disagreement with the audit finding.

**HOUSING AUTHORITY OF THE CITY OF NOGALES
CORRECTIVE ACTION PLAN
YEAR ENDED MARCH 31, 2022**

Section III – Findings and Questioned Costs – Major Federal Program

2022 – 003

Federal Agency: Department of Housing and Urban Development

Federal Program Name: Public and Indian Housing

Assistance Listing Number: 14.850

Federal Award Identification Number and Year: AZ023 and 2022

Award Period: April 1, 2021 – March 31, 2022

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: PHAs are required to enter into General Depository Agreements with their financial institution using the HUD-51999 (OMB No. 2577-0075) or a form as required by HUD in the ACC. The agreements serve as safeguards for federal funds and provide third party rights to HUD (Section 9 of the ACC). In addition, CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of special provision. The Authority should have internal controls designed to ensure compliance with those provisions.

Condition: During our testing, we noted the Authority did not have adequate internal controls designed to ensure the HUD-approved form 51999 was executed and submitted as required by HUD in the ACC.

Questioned costs: None

Context: During our testing, it was noted that the Authority did not complete or submit the required general depository agreement in a form approved by HUD.

Cause: Lack of management oversight in following HUD guidelines for the completion and submission of the HUD-51999 for all federal grant bank accounts.

Effect: The lack of internal controls over the compliance requirements resulted in the Authority's noncompliance over specific requirement mentioned above.

Recommendation: We recommend the Authority design and implement controls to ensure the required general depository agreements are executed and submitted to HUD utilizing the HUD-51999 form.

Views of responsible officials: There is no disagreement with the audit finding.



HOUSING AUTHORITY OF THE CITY OF NOGALES

May 31, 2023

CORRECTIVE ACTION PLAN

Housing Authority of the City of Nogales respectfully submits the following corrective action plan for the fiscal year ended March 31, 2022.

Audit period: April 1, 2021 – March 31, 2022

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2022-001 Significant Deficiency in Internal Control over Financial Reporting

Recommendation: The organization should evaluate their financial reporting processes and controls, including the expertise of its internal staff, to determine whether additional controls over the preparation of annual financial statements can be implemented to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP. We recommend that management establish and implement a separate, authorized approver and reviewer of manual journal entries, reports and schedules, and improved control over custody of supporting documentation.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action planned/taken in response to finding: We have established an updated monthly closing procedure that includes reconciliation, review and analysis of intercompany and related party transactions and balances. Adequate staffing has been assigned and financial results for these related parties are now reported and included in our monthly financial reports.

Name(s) of the contact person(s) responsible for corrective action: Terry Ybarra

Planned completion date for corrective action plan: June 30, 2023.

FEDERAL AWARD FINDINGS

Department of Housing and Urban Development

2022-002 Public and Indian Housing – Assistance Listing No. 14.850

Recommendation: We recommend the Authority design and implement controls to declaration of trust were prepared and recorded against all public housing properties owned by the Authority.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Authority will file the declaration of trust for each property using the acceptable form under HUD guidance.

Name(s) of the contact person(s) responsible for corrective action: Terry Ybarra

Planned completion date for corrective action plan: June 30, 2023.

2022-003 Public and Indian Housing – Assistance Listing No. 14.850

Recommendation: We recommend the Authority design and implement controls to ensure the required general depository agreements are executed and submitted to HUD utilizing the HUD-51999 form.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Authority will file the declaration of trust for each property using the acceptable form under HUD guidance.

Name(s) of the contact person(s) responsible for corrective action: Terry Ybarra

Planned completion date for corrective action plan: June 30, 2023.



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