

**CITY OF NOGALES, ARIZONA
SINGLE AUDIT ACT REPORTS
YEAR ENDED JUNE 30, 2022**



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**CITY OF NOGALES, ARIZONA
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**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**

Honorable Mayor and City Council
City of Nogales, Arizona
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 governmental activities, 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2023. Our audit described below did not include the operations of the Nogales Housing Authority because the component unit engaged its own separate audit in accordance with *Government Auditing Standards*. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001, 2022-002, and 2022-003 that we consider to be material weaknesses.

Honorable Mayor and City Council
City of Nogales, Arizona

Report on Compliance and Other Matters

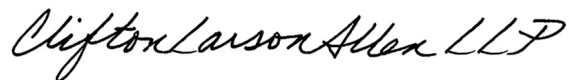
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2022-003.

City of Nogales, Arizona's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City'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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
June 28, 2023



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and City Council
City of Nogales, Arizona
Nogales, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Nogales, Arizona (City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2022. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

The City's basic financial statements include the operations of the Nogales Housing Authority Enterprise Fund, which expended \$1,934,504 in federal awards which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2022. Our audit described below did not include the operations of the Nogales Housing Authority because the component unit engaged its own separate audit in accordance with the Uniform Guidance.

Basis for Opinion on Each 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 City 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 City'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 City's federal programs.

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 City of Nogales, Arizona'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 City of Nogales, Arizona'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 City of Nogales, Arizona'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 City of Nogales, Arizona'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 City of Nogales, Arizona'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 an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-004. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City'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 a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-004, to be a significant deficiency.

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.

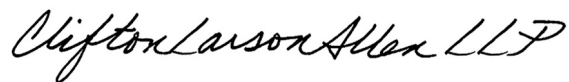
Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other 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.

Honorable Mayor and City Council
City of Nogales, Arizona

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nogales, Arizona as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Nogales, Arizona's basic financial statements. We issued our report thereon dated June 28, 2023, which contained unmodified opinions on those financial statements. Our report included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Phoenix, Arizona
June 28, 2023

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs:

<u>Federal Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Fund (COVID-19)
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

SECTION II – FINANCIAL STATEMENT FINDINGS

2022-001: Preparation of the Financial Statements

Type of Finding: Material Weakness in Internal Controls over Financial Reporting

Condition: The City contracted with the auditors to draft the financial statements based on the records and schedules provided to the auditors. As part of drafting the financial statements, we proposed adjustments to convert the fund financial statements to the government-wide financial statements, as well as draft footnote disclosures.

Criteria or specific requirement: Internal controls would dictate that management have internal controls designed that would allow City management to draft the financial statements and related disclosures to prevent a material misstatement from going undetected and uncorrected.

Effect: Although management performed a review of the draft financial statements and has assumed full responsibility for the preparation of the financial statements, the lack of formal procedures to prepare the required footnote disclosures and record the conversion entries from the fund level financial statements to the government-wide financial statements, could result in a material misstatement going undetected and uncorrected.

Cause: The City experienced turnover in a management position within the finance department. Although the key management positions were in place for most of the fiscal year, certain financial statement adjustments and disclosures required additional time to learn and execute from City management.

Repeat Finding: No

Recommendation: We recommend the City continue to evaluate its internal control processes and procedures to determine if additional internal control procedures and close-out procedures should be implemented to allow the City to prepare the footnote disclosures and schedules and adequately prepare the reconciliation of the fund level financial statements to the government-wide financial statements.

Views of Responsible Officials: The City concurs with this recommendation.

Contact Person: Mr. John Kissinger, Deputy City Manager

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2022-002: Material Audit Adjustments

Type of Finding: Material Weakness in Internal Controls over Financial Reporting

Condition: During the course of performing the audit, we identified material audit adjustments that were proposed and subsequently recorded to properly state account balances and activity of the City.

We proposed and the City subsequently recorded adjustments to: 1) convert the fund financial statements from the modified accrual basis of accounting to the accrual basis of accounting for the government-wide financial statements. 2) adjust investments and related income to properly record the change in fair market value, 3) properly record debt and trustee activity during the year, 4) adjust the pension and other postemployment benefits (OPEB), liability, deferred outflows and inflows of resources and the pension and OPEB expense; and 5) record various correcting entries in the statement of net position/balance sheet and the statement of revenues, expenditures/expenses and changes in fund balance/net position.

Criteria or Specific Requirement: Internal controls would dictate that an adequate review process be put into place to prevent a material misstatement from going undetected and uncorrected.

Effect: Audit adjustments were proposed and subsequently approved and recorded by the City to correct account balances and activity. The lack of proper controls over year-end closing procedures could result in a material misstatement going undetected and uncorrected.

Cause: The City experienced turnover in a management position within the finance department. Although the management position was hired near fiscal year end, certain year-end close procedures and reconciliations of account balances were not completed to detect material misstatements.

Repeat Finding: Yes, See 2021-001

Recommendation: We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to identify year-end closing adjustments. City management should develop procedures with the Finance Director for year-end close-out that can be used as a checklist in closing out June 30, 2022 that are designed to identify material adjustments that are required.

Views of Responsible Officials: The City concurs with this recommendation.

Contact Person: Mr. John Kissinger, Deputy City Manager

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2022-003: Timeliness of Financial Reporting

Type of Finding: Material Weakness in Internal Controls over Financial Reporting and Material Noncompliance

Condition: The June 30, 2022 audit was not completed by February 28, 2023 in accordance with the City's continuing bond disclosure requirements.

Criteria or Specific Requirement: Continuing bond disclosure requirements.

Effect: Although the effect of noncompliance with the continuing bond disclosure requirements is not known, the lack of presenting audited financial statements within 8 months of fiscal year end, could result in a material noncompliance and does not provide timely financial information to those with a vested interest in the City's financial statements.

Cause: An actuarial study for the City's other postemployment benefits was not completed until March 2023 and a number of adjusting journal entries were necessary to properly record financial activity of the City, including debt payments, pension and other postemployment benefits, and City revenues and expenditures/expenses. The delay in the completion of the actuarial study of the City's single employer OPEB plan resulted in a delay of the City's financial statement audit, as well as the separately audited Nogales Housing Authority (audited by other auditors). The City's financial statements could not be prepared until the Nogales Housing Authority audit was completed.

Repeat Finding: No

Recommendation: We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to identify year-end closing adjustments. City management should develop procedures and schedules that detail dates to have third party reports completed, reconciliations of significant account balances and year-end close-out adjustments that can be used as a checklist in closing out June 30, 2022 financial statements.

Views of Responsible Officials: The City concurs with this recommendation.

Contact Person: Mr. John Kissinger, Deputy City Manager

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2022 – 004 – Reporting

Federal Agency: Department of Homeland Security

Federal Program Title: Homeland Security Grant Program

ALN: 97.067

Pass-Through Agency: N/A

Pass-Through Number(s): N/A

Award Number and Period: 200430-01/02
7/1/2021 – 6/30/2022

Statistically Valid Sample: No, and not intended to be a statistically valid sample

Type of Finding: Significant Deficiency in Internal Control over Compliance and Noncompliance

Criteria or specific requirement: Per 2 CFR 200.303(a), the City must establish and maintain effective internal control over the Federal award that provides reasonable assurance that it is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with guidance in the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Per 31 CFR Part 35, the Department of Treasury requires all states, territories, metropolitan cities, counties, and tribal governments to submit one interim report and quarterly project and expenditure reports thereafter. All reports are due 30 days after the close of the reporting period.

Condition: During our testing of four quarterly expenditure reports and five quarterly programmatic reports, we noted the following:

- Three out of four quarterly expenditure reports were submitted after the reporting due date.
- One out of five quarterly programmatic reports were submitted after the reporting due date.

Questioned costs: None.

Context: See “Condition.”

Cause: Current controls are not at the correct precision level to detect and enforce timeliness of report submissions.

Effect: Ineffective internal controls may result in questioned costs and noncompliance with the terms of the grant agreement.

Repeat Finding: No

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

Recommendation: The City should enhance and/or modify existing controls to ensure all required reports are reviewed and approved well in advance of the reporting deadline to allow for timely submission.

Views of responsible officials: See corrective action plan.

Corrective action plan: See corrective action plan.

CITY OF NOGALES, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

Federal Grantor, Pass Through Grantor/Program or Cluster	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing & Urban Development Passed through Arizona Department of Housing Community Development Block Grant	14.228	120-21	\$ 842,583	\$ -
U.S. Department of Interior Water Conservation Field Services	15.530	Direct	-	-
U.S. Department of Justice Immigration and Customs Enforcement	16.Unknown	Direct	11,022	-
Bulletproof Vest Partnership Program	16.607	Direct	6,885	-
COPS Hiring Program	16.710	Direct	229,759	-
SouthWest Border Rural Law Enforcement Assistance	16.738	Direct	140,135	-
Total U.S. Department of Justice			<u>387,801</u>	<u>-</u>
U.S. Department of Transportation Passed through Governors Office of Highway Safety Highway Safety Cluster				
State and Community Highway Safety	20.600	2022-PTS-042	7,457	-
State and Community Highway Safety	20.600	2022-OP-007	5,073	-
Total CFDA Number 20.600			12,530	-
National Priority Safety Programs	20.616	2022-405d-032	2,979	-
Total CFDA Number 20.616			2,979	-
Highway Safety Cluster Total (20.600 and 20.616)			<u>15,509</u>	<u>-</u>
Total U.S. Department of Transportation			<u>15,509</u>	<u>-</u>
U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds (COVID-19)	21.027	Direct	3,357,002	-
Executive Office of the President Passed through City of Tucson				
High Intensity Drug Trafficking Area (HIDTA)	95.001	G21SA0007A	30,468	-
High Intensity Drug Trafficking Area (HIDTA)	95.001	G20SA0007A	55,046	-
Total Executive Office of the President			85,514	-
U.S. Department of Homeland Security Passed through State of Arizona				
Homeland Security Grant Program	97.067	190426-01	255,815	-
Homeland Security Grant Program	97.067	200430-01	304,242	-
Homeland Security Grant Program	97.067	200430-02	445,552	-
Total U.S. Department of Homeland Security			<u>1,005,609</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 5,694,018</u>	<u>\$ -</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF NOGALES, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

NOTE 1 GENERAL

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of Glendale (City) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements for the year ended June 30, 2022. 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.

NOTE 3 INDIRECT COST

The City did not elect the 10 percent de minimus indirect cost rate as covered in 2 CFR 200.414.



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