

HOUSING AUTHORITY OF THE CITY OF NOGALES

FINANCIAL STATEMENTS, SINGLE AUDIT REPORTS,
AND SUPPLEMENTARY INFORMATION

YEAR ENDED MARCH 31, 2023

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HOUSING AUTHORITY OF THE CITY OF NOGALES
ANNUAL FINANCIAL REPORT
YEAR ENDED MARCH 31, 2023

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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

Opinion

We have audited the accompanying financial statements of the business-type activities of Housing Authority of the City of Nogales (the Authority) as of and for year ended March 31, 2023, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Authority, as of March 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's 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 generally accepted auditing standards 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 generally accepted auditing standards 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 and 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and are 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 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 auditing standards generally accepted in the United States of America. In our opinion, the financial data schedule and the schedule of expenditures of federal awards is 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 December 26, 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 Authority's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

December 26, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

HOUSING AUTHORITY OF THE CITY OF NOGALES
MANAGEMENTS DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED MARCH 31, 2023

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, 2023. 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 grants from HUD. The Capital Fund Program is funded entirely by grants from HUD.

FINANCIAL HIGHLIGHTS

1.	Total net position	\$	8,192,720
2.	Unrestricted net position		823,991
3.	Total net position increased by		163,614

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, non-capital financing activities, capital and related financing activities and from investing activities.

HOUSING AUTHORITY OF THE CITY OF NOGALES
MANAGEMENTS DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED MARCH 31, 2023

Financial Analysis

STATEMENT OF NET POSITION

	2023	2022	Variance
Assets:			
Current and other assets	\$ 3,030,176	\$ 3,025,004	\$ 5,172
Capital assets	7,289,329	7,334,922	(45,593)
Deferred outflows of resources	<u>114,788</u>	<u>163,028</u>	<u>(48,240)</u>
Total assets and deferred outflows	<u>10,319,505</u>	<u>10,522,954</u>	<u>(88,661)</u>
Liabilities:			
Current liabilities	274,034	452,378	(178,344)
Noncurrent liabilities	1,573,596	1,463,487	110,109
Deferred inflows of resources	<u>393,943</u>	<u>577,983</u>	<u>(184,040)</u>
Total liabilities and deferred inflows	<u>2,241,573</u>	<u>2,493,848</u>	<u>(252,275)</u>
Net Position:			
Net investment in capital assets	7,289,329	7,334,922	(45,593)
Restricted net position	79,400	39,304	40,096
Unrestricted net position	<u>823,991</u>	<u>654,880</u>	<u>169,111</u>
Total net position	<u>\$ 8,192,720</u>	<u>\$ 8,029,106</u>	<u>\$ 163,614</u>

As illustrated, in the Statement of net position, the overall net position of the Authority increased by \$163,614. An increase in cash offset by decreases in accounts receivable 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 decreased mainly due to the decrease in accrued wages and payroll taxes in accounts payable, and unearned revenues. Noncurrent liabilities increased due to increase in accrued pension liability. Deferred inflows decreased due to changes in the pension and OPEB accounts.

CHANGES IN UNRESTRICTED NET POSITION

Unrestricted net position, March 31, 2022	\$ 654,880
Results of operations	(331,535)
Interest income	15,287
Transfer from restricted net position	(6,097)
Depreciation expense	<u>491,456</u>
Unrestricted net position, March 31, 2023	<u>\$ 823,991</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
MANAGEMENTS DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED MARCH 31, 2023

FINANCIAL ANALYSIS (continued)

STATEMENT OF REVENUES AND EXPENSES

	<u>Governmental Activities</u>		
	<u>2023</u>	<u>2022</u>	<u>Variance</u>
Revenues:			
Tenant rental revenue	\$ 706,922	\$ 657,817	\$ 49,105
Operating grants	1,614,277	1,727,207	(112,930)
Capital grants received	479,862	214,258	265,604
Interest income	15,287	300	14,987
Other income	<u>63,309</u>	<u>43,934</u>	<u>19,375</u>
Total revenues	2,879,657	2,643,516	236,141
Expenses:			
Administrative expenses	447,377	453,451	(6,074)
Utilities	296,929	268,022	28,907
Maintenance & Operations	539,114	607,869	(68,755)
General expense	125,881	41,983	83,898
Housing assistance payments	815,286	775,918	39,368
Depreciation	<u>491,456</u>	<u>493,172</u>	<u>(1,716)</u>
Total Expenses	<u>2,716,043</u>	<u>2,640,415</u>	<u>75,628</u>
Excess (definition) revenues over expenses	<u>\$ 163,614</u>	<u>\$ 3,101</u>	<u>\$ 160,513</u>

REVENUES

In reviewing the Statement of Revenues, Expenses, and Net Position, you will find that 74% 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 1% from interest and other income.

EXPENSES

In reviewing the Statement of Revenues, Expenses and Net Position, you will find that 16% of the Authority's expenses are for administrative, 20% for maintenance, 11% for utilities, 18% for depreciation, 30% for housing assistance payments and 30% for general expenses and protective services.

HOUSING AUTHORITY OF THE CITY OF NOGALES
MANAGEMENTS DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED MARCH 31, 2023

CAPITAL ASSETS

As of year-end, the Authority had \$7,289,329 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of 1% from the end of last year.

	<u>2023</u>	<u>2022</u>	<u>Variance</u>	<u>% Change</u>
Land	\$ 762,476	\$ 762,476		
Buildings	16,178,793	16,168,570	\$ 10,223	-
Furniture & Equipment	780,670	763,693	16,977	2 %
Construction in progress	491,272	72,608	418,664	577 %
Accumulated depreciation	<u>(10,923,882)</u>	<u>(10,432,425)</u>	<u>(491,457)</u>	<u>5 %</u>
Net Capital Assets	<u>\$ 7,289,329</u>	<u>\$ 7,334,922</u>	<u>(45,593)</u>	<u>(1)%</u>

For more detail on the change in Capital Assets see Note 3 on page 17.

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, reversionary 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 Authority's finances and to show the Authority's accountability for the money it receives. If you have questions or need further clarification regarding the financial statements, contact Maritza Cervantes, Executive Director, at Nogales Housing Authority, P.O. Box 777, 951 N Kitchen St, Nogales, AZ 85628-0777, telephone number 520-287-4183.

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF NOGALES
STATEMENT OF NET POSITION
YEAR ENDED MARCH 31, 2023

	<u>Enterprise Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,894,377
Accounts receivable:	
Accounts receivable - HUD	29,275
Tenants accounts receivable	18,697
Prepaid expenses	60,350
Inventories	3,460
OPEB assets	24,017
Property and equipment, net	<u>7,289,329</u>
Total assets	<u>10,319,505</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension	100,323
OPEB	<u>14,465</u>
Total deferred inflows of resources	<u>114,788</u>
 LIABILITIES	
Accounts payable	57,819
Accrued wages and benefits	108,162
Accrued compensated absences	23,047
Tenant security deposits	53,575
Unearned revenue	31,431
Noncurrent liabilities:	
Accrued compensated absences	6,516
Net pension liability	565,636
Other OPEB liability	<u>1,001,444</u>
Total liabilities	<u>1,847,630</u>
 DEFERRED INFLOWS OF RESOURCES	
Pension	27,971
OPEB	<u>365,972</u>
Total deferred inflows of resources	<u>393,943</u>
 NET POSITION (DEFICIT)	
Net investment in capital assets	7,289,329
Restricted	79,400
Unrestricted (deficit)	<u>823,991</u>
Total net position (deficit)	<u><u>\$ 8,192,720</u></u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF NOGALES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED MARCH 31, 2023

	<u>Enterprise Fund</u>
REVENUES	
Dwelling rent	\$ 706,922
Operating grants	1,614,277
Other income	<u>63,309</u>
Total revenues	<u>2,384,508</u>
 OPERATING EXPENSES	
Administrative	447,377
Utilities	296,929
Maintenance and operations	539,114
General expenses	125,881
Housing assistance payments	815,286
Depreciation	<u>491,456</u>
Total operating expenses	<u>2,716,043</u>
Operating loss	<u>(331,535)</u>
 NONOPERATING REVENUES	
Interest income	<u>15,287</u>
Total nonoperating revenues in Net P	<u>15,287</u>
 DECREASE IN NET POSITION BEFORE CAPITAL GRANTS	 (316,248)
 CAPITAL GRANTS	 <u>479,862</u>
 INCREASE IN NET POSITION	 163,614
Net position - beginning of year	<u>8,029,106</u>
Net position - end of year	<u><u>\$ 8,192,720</u></u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF NOGALES
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2023

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from dwelling rent	\$ 727,197
Cash received from operating grants	1,615,283
Cash received from other sources	63,309
Cash payments for salaries and benefits	(499,702)
Cash payments for vendors and landlords	(1,939,463)
Net cash provided by operating activities	(33,376)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(445,089)
Capital grants received	479,862
Net cash used by capital and related financing activities	34,773
CASH FLOWS FROM INVESTING ACTIVITIES:	
Transfer from investments	137,806
Interest received from investing activities	15,287
Net cash used by capital and related investing activities	153,093
NET CHANGE IN CASH AND CASH EQUIVALENTS	154,490
Cash and cash equivalents, beginning of year	2,739,887
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,894,377
 RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ (331,535)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	491,456
Bad debts	(774)
Changes in assets and liabilities:	
Tenants accounts receivables	1,006
Accounts receivables	20,275
Prepaid insurance	(8,710)
Inventory	3,591
OPEB assets	(4,650)
Deferred outflows of resources	48,240
Accounts payable	(91,897)
Accrued expenses	(32,073)
Tenant security deposits	2,150
Unearned revenue	(43,135)
Compensated absences	(10,922)
Net pension and OPEB liabilities	107,642
Deferred inflows resources	(184,040)
Net cash provided by operating activities	\$ (33,376)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Housing Authority of the City of Nogales (the 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 Authority. 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 Authority 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.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental 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.

Reporting Entity Definition

The Authority is a separate non-profit corporation with a Board of Commissioners. The Mayor appoints the Board of Commissioners. However, the 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.

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 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 Authority has applied all applicable Governmental Accounting Standards Board pronouncements

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

The 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 Expenses

Prepaid Expenses 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.

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 interprogram 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 & Improvements 15 - 40 years
Furniture & equipment 3 - 7 years

Authority management has assessed the carrying values of capital asset balances as of March 31, 2023. No significant capital asset value impairments exist as of the noted dates.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Post-Employment Benefits

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

Risk Management

The 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 Authority carries commercial insurance for all risks of loss, including workman's compensation and employee health and accident insurance. The Authority has not had any significant reductions in insurance coverage or any claims not reimbursed.

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.

Concentration of Risk

The 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 FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 2 - CASH AND CASH EQUIVALENTS

At March 31, 2023, The Authority's cash and cash equivalents consist of cash held in interest bearing checking and money market accounts totaling \$2,894,377, and the bank balance was \$2,997,164.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Financial institutions accepting governmental monies in the State of Arizona are required to collateralize at 102% all government deposits which exceed the FDIC insurance limit. Amounts in excess of the FDIC limit are collateralized through the Arizona State Treasurer's Office Pooled Collateral Program.

NOTE 3 - CAPITAL ASSETS

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

	<u>Balance</u> <u>April 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>March 31, 2023</u>
Capital assets not being depreciated:				
Land	\$ 762,476			\$ 762,476
Construction in progress	72,608	\$ 175		72,783
Total assets not being depreciated	<u>835,084</u>	<u>175</u>		<u>835,259</u>
Buildings	16,168,570	428,712		16,597,282
Furniture and Equipment	763,693	16,977		780,670
Total capital assets	<u>16,932,263</u>	<u>445,689</u>		<u>17,377,952</u>
Less: accumulated depreciation	<u>(10,432,425)</u>	<u>(491,457)</u>		<u>(10,923,882)</u>
Total capital assets, net	<u>\$ 7,334,922</u>	<u>\$ (45,593)</u>		<u>\$ 7,289,329</u>

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 4 - 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.

NOTE 5 - LONG TERM DEBT

	<u>April 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>March 31, 2023</u>	<u>Due Within One Year</u>
Accrued compensated absences	\$ 40,485		\$ 10,922	\$ 29,563	\$ 26,607
Net pension liability	532,513	33,123		565,636	
Other OPEB	<u>926,925</u>	<u>74,519</u>		<u>1,001,444</u>	
Total debt	<u>\$ 1,499,923</u>	<u>107,642</u>	<u>\$ 10,922</u>	<u>\$ 1,596,643</u>	<u>\$ 26,607</u>

NOTE 6 - 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 ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2 and 2.1. ASRS issues a publicly available financial report that includes 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 follows:

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 6 - PENSION PLAN - CONTINUED

ASRS	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 percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the 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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited services. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above, multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 6 - PENSION PLAN - CONTINUED

Contributions

In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended March 31, 2023, statute required active ASRS members to contribute at the actuarially determined rate of 12.17 percent (12.03 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the Authority to contribute at the actuarially determined rate of 12.17 percent (11.92 percent for retirement, 0.11 percent for health insurance premium benefit, and 0.14 percent 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 9.68 percent (9.62 percent for retirement and 0.06 percent 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 Authority's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended March 31, 2023, were \$47,037.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At March 31, 2023, the Authority reported a net pension liability of \$565,636. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension 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, 2022, the Authority's proportion was 0.00347 percent, which was a decrease of 0.00058 percent from its proportion as of June 30, 2021.

For the year ended March 31, 2023, the Authority recognized pension expense of \$122,013. At March 31, 2023 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 FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 6 - PENSION PLAN - CONTINUED

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual experience	\$ 4,820	\$ -
Change of assumptions	28,074	-
Net difference between projected and actual earnings on plan investments	-	14,900
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,392	13,071
City contributions subsequent to measurement date	<u>47,037</u>	<u>-</u>
Total	<u>\$ 100,323</u>	<u>\$ 27,971</u>

The amount reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date of \$47,037 will be recognized as a reduction of the net pension liability in the year ended March 31, 2024. 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>Pension/OPEB</u>
2024	\$ 24,454
2025	2,882
2026	(25,869)
2027	23,848
2028	-
Thereafter	<u>-</u>
Total	<u>\$ 25,315</u>

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 6 - PENSION PLAN - CONTINUED

Actuarial Assumptions

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

ASRS	
Actuarial valuation date	June 30, 2021
Actuarial roll forward date	June 30, 2022
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9-8.4% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2020.

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 percent 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 and by adding 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:

ASRS		
Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50%	3.90%
Fixed income - credit	20%	5.30%
Fixed income - Interest rate sensitive bonds	10%	(0.20%)
Real estate	20%	6.00%
Total	<u>100%</u>	

HOUSING AUTHORITY OF THE CITY OF NOGALES
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2023

NOTE 6 - PENSION PLAN - CONTINUED

Discount Rate

At June 30, 2022, the discount rate used to measure the total pension liability was 7.0 percent. 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 rate based on the Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following projects the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, 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 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Plan's Net Pension Liability (Asset)	\$ 834,579	\$ 565,636	\$ 341,379

Pension Plan Fiduciary Net Position

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

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

The Authority has adopted the post-employment healthcare benefit plan used by the City. The Authority's and the City's liability for post-employment 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 post-retirement insurance (health and dental) benefits, for certain retirees and their dependents, in accordance with the Post Employment Benefit Plan. The plan is a single employer defined benefit plan administered by the City of Nogales. 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 post-employment medical benefits from the City. OPEB liability and related balances under ASRS were insignificant to the financial statements and not disclosed in the notes.

HOUSING AUTHORITY OF THE CITY OF NOGALES
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2023

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

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. Post-employment 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 post-employment 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.

Employees Covered by Benefit Terms - At June 30, 2022, the plan membership consisted of the following:

Active employees	67
Retired employees currently receiving health benefits	<u>246</u>
Total	<u><u>313</u></u>

Funding Policy

For each eligible retiree, the City pays for post-employment 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.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Total OPEB Obligation

The City's annual other post-employment 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, 2022:

<u>Total OPEB Obligation</u>	<u>Total</u>
Service cost	\$ 898,310
Interest	366,971
Change of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	98,398
Benefit payments, including refunds of employee contributions	<u>(339,711)</u>
Net Change in Total OPEB Liability	1,023,968
Total OPEB Obligation - Beginning of Year	<u>15,875,628</u>
Total OPEB Obligation - End of Year	<u>\$ 16,899,596</u>

Schedule of Funding Progress

As of June 30, 2022, the most recent valuation date, the Authority had an actuarial determined accrued liability of \$1,001,444. The plan is underfunded by \$1,001,444, which is 141.44% of annual covered payroll. Contributions to the OPEB plan from the Authority were \$24,017 for the year ended March 31, 2023.

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

As of March 31, 2023, the Authority reported a net OPEB liability of \$1,001,444. The net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022. 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, 2022, the Authority's proportion was 5.36% decreased 1.43% from prior year.

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

For the year ended March 31, 2023 the Authority recognized pension expense of \$(37,959). At March 31, 2023 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual experience	\$ 9,585	\$ 138,546
Changes of assumptions	4,880	227,426
Net difference between projected and actual earnings on plan investments	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Authority's contributions made subsequent to the measurement date	<u>24,017</u>	<u>-</u>
Total	<u>\$ 38,482</u>	<u>\$ 365,972</u>

The \$24,017 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:

Year ending June 30,	<u>OPEB Expense</u>
2024	\$ (112,938)
2025	(112,938)
2026	(64,304)
2027	(55,830)
Thereafter	<u>(5,497)</u>
Total	<u>\$ (351,507)</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 percent, 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 1-percentage-point lower (1.16 percent) or 1-percentage-point higher (3.16 percent) than the current rate:

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Plan's Net OPEB Liability (Asset)	\$ 1,127,790	\$ 1,001,444	\$ 892,657
	1% Decrease Health Care Cost Trend Rates	Current Health Care Cost Trend Rates	1% Increase Health Care Cost Trend Rates
Plan's Net OPEB Liability (Asset)	\$ 1,148,009	\$ 1,001,444	\$ 878,092

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 overtime 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:

ASRS

Actuarial valuation date	June 30, 2021
Actuarial roll forward date	June 20, 2022
Actuarial cost method	Entry age normal
Investment rate of return	7%
Projected salary increases	2.9-8.4% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events and does not know of any additional comments or disclosures that should be made through the date of this report.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITES - COST-SHARING PLANS
MARCH 31, 2023

ASRS	Reporting Fiscal Year (Measurement Date)									
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)
Authority's proportion of the net pension liability	0.00347 %	0.00405 %	0.00400 %	0.00500 %	0.00430 %	0.00488 %	0.00479 %	0.00491 %	0.00051 %	Information not available
Authority's proportionate share of the net pension liability	\$ 565,636	\$ 532,513	\$ 692,669	\$ 732,930	\$ 599,434	\$ 759,648	\$ 764,669	\$ 764,321	\$ 748,936	
Authority's covered payroll	\$ 393,213	\$ 466,066	\$ 466,552	\$ 467,724	\$ 470,365	\$ 408,648	\$ 451,176	\$ 449,352	\$ 449,352	
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	143.85 %	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	74.26 %	78.58 %	69.33 %	73.24 %	73.40 %	69.92 %	67.06 %	68.35 %	69.49 %	

HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF THE AUTHORITY'S PENSION CONTRIBUTIONS
MARCH 31, 2023

ASRS - Pension	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 47,037	\$ 46,476	\$ 48,024	\$ 56,112	\$ 54,256	\$ 59,103	\$ 52,892	\$ 56,634	\$ 50,161	Information not available
Contribution in relation to the statutorily required contribution	<u>47,037</u>	<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>	<u>\$ -</u>	
District's covered payroll	\$ 393,213	\$ 466,066	\$ 466,552	\$ 467,724	\$ 470,365	\$ 408,648	\$ 451,176	\$ 449,352	\$ 449,352	
Contributions as a percentage of covered payroll	11.96 %	9.97 %	10.29 %	12.03 %	11.60 %	12.57 %	12.94 %	12.55 %	11.16 %	

HOUSING AUTHORITY OF THE CITY OF NOGALES
SCHEDULE OF THE AUTHORITY'S CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
MARCH 31, 2023

	Reporting Fiscal Year (Measurement Date)						2017 through 2014
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	
Total OPEB liability:							
Service cost	\$ 53,232	\$ 49,227	\$ 38,146	\$ 40,606	\$ 41,304	\$ 53,460	Information not available
Interest	21,746	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	5,831	5,392	(43,763)	(107,797)	(30,668)	(355,166)	
Benefit payments	(20,131)	(18,616)	(19,481)	(10,461)	(11,163)	(29,249)	
Other	<u>14,669</u>	<u>-</u>	<u>3,249</u>	<u>-</u>	<u>(6,735)</u>	<u>-</u>	
Net change in total OPEB liability	75,347	56,113	(54,060)	(171,346)	21,978	(261,073)	
Total OPEB - beginning	<u>926,097</u>	<u>869,984</u>	<u>924,045</u>	<u>1,095,392</u>	<u>1,073,413</u>	<u>1,334,486</u>	
Total OPEB - ending (a)	<u>\$ 1,001,444</u>	<u>\$ 926,097</u>	<u>\$ 869,985</u>	<u>\$ 924,046</u>	<u>\$ 1,095,391</u>	<u>\$ 1,073,413</u>	
Plan fiduciary net position:							
Contributions—employer	\$ 24,018	\$ 329,108	\$ 18,035	\$ 16,749	\$ 11,163	\$ 29,249	
Net change in plan fiduciary net position	(24,018)	(329,108)	(18,035)	(16,749)	(11,163)	(29,249)	
Plan fiduciary net position - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Plan fiduciary net position - ending (b)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's net OPEB liability - ending (a)-(b)	\$ 1,001,444	\$ 926,097	\$ 869,985	\$ 924,046	\$ 1,095,391	\$ 1,073,413	
Plan fiduciary net position as a percentage of the total OPEB liability	- %	- %	- %	- %	- %	- %	
Covered payroll	\$ 393,213	\$ 466,066	\$ 466,552	\$ 467,724	\$ 470,365	\$ 408,648	
City's net OPEB liability as a percentage of covered payroll	254.68 %	198.71 %	186.47 %	197.56 %	232.88 %	262.67 %	

Nogales Housing Authority (AZ023)
NOGALES, AZ

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 03/31/2023

	Project Total	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	1 Business Activities	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$1,751,266	\$635,556	\$14,727	\$359,497	\$2,761,046		\$2,761,046
112 Cash - Restricted - Modernization and Development	\$0	\$0			\$0		\$0
113 Cash - Other Restricted	\$0	\$18,690	\$35,886		\$54,576		\$54,576
114 Cash - Tenant Security Deposits	\$52,475	\$0			\$52,475		\$52,475
115 Cash - Restricted for Payment of Current Liabilities	\$0	\$0			\$0		\$0
100 Total Cash	\$1,803,741	\$654,246	\$50,613	\$359,497	\$2,868,097		\$2,868,097
121 Accounts Receivable - PHA Projects	\$0	\$0			\$0		\$0
122 Accounts Receivable - HUD Other Projects	\$29,275	\$0			\$29,275		\$29,275
124 Accounts Receivable - Other Government	\$0	\$0			\$0		\$0
125 Accounts Receivable - Miscellaneous	\$0	\$0			\$0		\$0
126 Accounts Receivable - Tenants	\$20,774	\$0			\$20,774		\$20,774
126.1 Allowance for Doubtful Accounts - Tenants	-\$2,077	\$0			-\$2,077		-\$2,077
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0			\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current	\$0	\$0			\$0		\$0
128 Fraud Recovery	\$2,151	\$0			\$2,151		\$2,151
128.1 Allowance for Doubtful Accounts - Fraud	-\$2,151	\$0			-\$2,151		-\$2,151
129 Accrued Interest Receivable	\$0	\$0			\$0		\$0
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$47,972	\$0	\$0	\$0	\$47,972		\$47,972
131 Investments - Unrestricted	\$0	\$26,283			\$26,283		\$26,283
132 Investments - Restricted	\$0	\$0			\$0		\$0
135 Investments - Restricted for Payment of Current Liability	\$0	\$0			\$0		\$0
142 Prepaid Expenses and Other Assets	\$0	\$65,966			\$65,966		\$65,966
143 Inventories	\$3,642	\$0			\$3,642		\$3,642
143.1 Allowance for Obsolete Inventories	-\$182	\$0			-\$182		-\$182
144 Inter Program Due From	\$0	\$0			\$0		\$0
145 Assets Held for Sale	\$0	\$0			\$0		\$0
150 Total Current Assets	\$1,855,173	\$746,495	\$50,613	\$359,497	\$3,011,778		\$3,011,778
161 Land	\$762,476	\$0			\$762,476		\$762,476
162 Buildings	\$12,242,525	\$0		\$490,832	\$12,733,357		\$12,733,357

163 Furniture, Equipment & Machinery - Dwellings	\$303,439	\$0			\$303,439	\$303,439
164 Furniture, Equipment & Machinery - Administration	\$477,229	\$0			\$477,229	\$477,229
165 Leasehold Improvements	\$3,443,242	\$0			\$3,443,242	\$3,443,242
166 Accumulated Depreciation	-\$10,923,882	\$0		-\$490,832	-\$11,414,714	-\$11,414,714
167 Construction in Progress	\$984,297	\$0			\$984,297	\$984,297
168 Infrastructure	\$0	\$0			\$0	\$0
160 Total Capital Assets, Net of Accumulated Depreciation	\$7,289,326	\$0	\$0	\$0	\$7,289,326	\$7,289,326
171 Notes, Loans and Mortgages Receivable - Non-Current	\$0	\$0			\$0	\$0
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due	\$0	\$0			\$0	\$0
173 Grants Receivable - Non Current	\$0	\$0			\$0	\$0
174 Other Assets	\$0	\$0			\$0	\$0
176 Investments in Joint Ventures	\$0	\$0			\$0	\$0
180 Total Non-Current Assets	\$7,289,326	\$0	\$0	\$0	\$7,289,326	\$7,289,326
200 Deferred Outflow of Resources	\$119,402	\$19,403			\$138,805	\$138,805
290 Total Assets and Deferred Outflow of Resources	\$9,263,901	\$765,898	\$50,613	\$359,497	\$10,439,909	\$10,439,909
311 Bank Overdraft	\$0	\$0			\$0	\$0
312 Accounts Payable <= 90 Days	\$57,763	\$54			\$57,817	\$57,817
313 Accounts Payable >90 Days Past Due	\$0	\$0			\$0	\$0
321 Accrued Wage/Payroll Taxes Payable	\$93,423	\$14,739			\$108,162	\$108,162
322 Accrued Compensated Absences - Current Portion	\$2,511	\$445			\$2,956	\$2,956
324 Accrued Contingency Liability	\$0	\$0			\$0	\$0
325 Accrued Interest Payable	\$0	\$0			\$0	\$0
331 Accounts Payable - HUD PHA Programs	\$0	\$0			\$0	\$0
332 Account Payable - PHA Projects	\$0	\$0			\$0	\$0
333 Accounts Payable - Other Government	\$0	\$0			\$0	\$0
341 Tenant Security Deposits	\$52,475	\$0		\$1,100	\$53,575	\$53,575
342 Unearned Revenue	\$5,181	\$0	\$26,250		\$31,431	\$31,431
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	\$0	\$0			\$0	\$0
344 Current Portion of Long-term Debt - Operating Borrowings	\$0	\$0			\$0	\$0
345 Other Current Liabilities	\$0	\$0			\$0	\$0
346 Accrued Liabilities - Other	\$0	\$0			\$0	\$0
347 Inter Program - Due To	\$0	\$0			\$0	\$0
348 Loan Liability - Current	\$0	\$0			\$0	\$0
310 Total Current Liabilities	\$211,353	\$15,238	\$26,250	\$1,100	\$253,941	\$253,941
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$0	\$0			\$0	\$0
352 Long-term Debt, Net of Current - Operating Borrowings	\$0	\$0			\$0	\$0

353 Non-current Liabilities - Other	\$0	\$0			\$0	\$0
354 Accrued Compensated Absences - Non Current	\$22,602	\$4,005			\$26,607	\$26,607
355 Loan Liability - Non Current	\$0	\$0			\$0	\$0
356 FASB 5 Liabilities	\$0	\$0			\$0	\$0
357 Accrued Pension and OPEB Liabilities	\$1,348,019	\$219,061			\$1,567,080	\$1,567,080
350 Total Non-Current Liabilities	\$1,370,621	\$223,066	\$0	\$0	\$1,593,687	\$1,593,687
300 Total Liabilities	\$1,581,974	\$238,304	\$26,250	\$1,100	\$1,847,628	\$1,847,628
400 Deferred Inflow of Resources	\$338,874	\$55,069			\$393,943	\$393,943
508.4 Net Investment in Capital Assets	\$7,289,326	\$0			\$7,289,326	\$7,289,326
511.4 Restricted Net Position	\$0	\$18,690	\$9,636		\$28,326	\$28,326
512.4 Unrestricted Net Position	\$53,727	\$453,835	\$14,727	\$358,397	\$880,686	\$880,686
513 Total Equity - Net Assets / Position	\$7,343,053	\$472,525	\$24,363	\$358,397	\$8,198,338	\$8,198,338
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$9,263,901	\$765,898	\$50,613	\$359,497	\$10,439,909	\$10,439,909

Nogales Housing Authority (AZ023)
NOGALES, AZ
Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 03/31/2023

	Project Total	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	1 Business Activities	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$706,922	\$0		\$44,688	\$751,610		\$751,610
70400 Tenant Revenue - Other	\$16,181	\$0			\$16,181		\$16,181
70500 Total Tenant Revenue	\$723,103	\$0	\$0	\$44,688	\$767,791	\$0	\$767,791
70600 HUD PHA Operating Grants	\$675,673	\$918,315	\$38,371		\$1,632,359		\$1,632,359
70610 Capital Grants	\$446,317	\$0			\$446,317		\$446,317
70710 Management Fee							
70720 Asset Management Fee							
70730 Book Keeping Fee							
70740 Front Line Service Fee							
70750 Other Fees							
70700 Total Fee Revenue					\$0	\$0	\$0
70800 Other Government Grants	\$0	\$0			\$0		\$0
71100 Investment Income - Unrestricted	\$9,846	\$3,153		\$2,288	\$15,287		\$15,287
71200 Mortgage Interest Income	\$0	\$0			\$0		\$0
71300 Proceeds from Disposition of Assets Held for Sale	\$0	\$0			\$0		\$0
71310 Cost of Sale of Assets	\$0	\$0			\$0		\$0
71400 Fraud Recovery	\$0	\$0			\$0		\$0
71500 Other Revenue	\$21,792	\$994			\$22,786		\$22,786
71600 Gain or Loss on Sale of Capital Assets	\$0	\$0			\$0		\$0
72000 Investment Income - Restricted	\$0	\$0			\$0		\$0
70000 Total Revenue	\$1,876,731	\$922,462	\$38,371	\$46,976	\$2,884,540	\$0	\$2,884,540
91100 Administrative Salaries	\$139,238	\$89,421		\$6,588	\$235,247		\$235,247
91200 Auditing Fees	\$30,420	\$10,562		\$1,267	\$42,249		\$42,249
91300 Management Fee	\$0	\$0			\$0		\$0
91310 Book-keeping Fee	\$0	\$0			\$0		\$0
91400 Advertising and Marketing	\$0	\$0			\$0		\$0
91500 Employee Benefit contributions - Administrative	\$333,748	-\$260,165		\$3,472	\$77,055		\$77,055
91600 Office Expenses	\$15,959	\$728		\$888	\$17,575		\$17,575
91700 Legal Expense	\$0	\$0			\$0		\$0

91800 Travel	\$1,025	\$0		\$43	\$1,068		\$1,068
91810 Allocated Overhead	\$0	\$0			\$0		\$0
91900 Other	\$115,332	\$12,458		\$3,594	\$131,384		\$131,384
91000 Total Operating - Administrative	\$635,722	-\$146,996	\$0	\$15,852	\$504,578	\$0	\$504,578
92000 Asset Management Fee	\$0	\$0			\$0		\$0
92100 Tenant Services - Salaries	\$0	\$0			\$0		\$0
92200 Relocation Costs	\$0	\$0			\$0		\$0
92300 Employee Benefit Contributions - Tenant Services	\$0	\$0			\$0		\$0
92400 Tenant Services - Other	\$0	\$0			\$0		\$0
92500 Total Tenant Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0
93100 Water	\$114,749	\$0			\$114,749		\$114,749
93200 Electricity	\$20,234	\$0			\$20,234		\$20,234
93300 Gas	\$103,343	\$0			\$103,343		\$103,343
93400 Fuel	\$0	\$0			\$0		\$0
93500 Labor	\$0	\$0			\$0		\$0
93600 Sewer	\$58,603	\$0			\$58,603		\$58,603
93700 Employee Benefit Contributions - Utilities	\$0	\$0			\$0		\$0
93800 Other Utilities Expense	\$0	\$0			\$0		\$0
93000 Total Utilities	\$296,929	\$0	\$0	\$0	\$296,929	\$0	\$296,929
94100 Ordinary Maintenance and Operations - Labor	\$181,216	\$0		\$7,588	\$188,804		\$188,804
94200 Ordinary Maintenance and Operations - Materials and Other	\$122,604	\$0		\$382	\$122,986		\$122,986
94300 Ordinary Maintenance and Operations Contracts	\$132,604	\$0		\$5,024	\$137,628		\$137,628
94500 Employee Benefit Contributions - Ordinary Maintenance	\$86,113	\$0		\$3,588	\$89,701		\$89,701
94000 Total Maintenance	\$522,537	\$0	\$0	\$16,582	\$539,119	\$0	\$539,119
95100 Protective Services - Labor	\$0	\$0			\$0		\$0
95200 Protective Services - Other Contract Costs	\$300	\$0			\$300		\$300
95300 Protective Services - Other	\$0	\$0			\$0		\$0
95500 Employee Benefit Contributions - Protective Services	\$0	\$0			\$0		\$0
95000 Total Protective Services	\$300	\$0	\$0	\$0	\$300	\$0	\$300
96110 Property Insurance	\$7,150	\$0		\$298	\$7,448		\$7,448
96120 Liability Insurance	\$0	\$0			\$0		\$0
96130 Workmen's Compensation	\$13,648	\$0		\$569	\$14,217		\$14,217
96140 All Other Insurance	\$21,614	\$0		\$901	\$22,515		\$22,515
96100 Total insurance Premiums	\$42,412	\$0	\$0	\$1,768	\$44,180	\$0	\$44,180
96200 Other General Expenses	\$0	\$0			\$0		\$0

96210 Compensated Absences	\$0	\$0			\$0		\$0
96300 Payments in Lieu of Taxes	\$0	\$0			\$0		\$0
96400 Bad debt - Tenant Rents	\$5,745	\$0			\$5,745		\$5,745
96500 Bad debt - Mortgages	\$0	\$0			\$0		\$0
96600 Bad debt - Other	\$0	\$0			\$0		\$0
96800 Severance Expense	\$0	\$0			\$0		\$0
96000 Total Other General Expenses	\$5,745	\$0	\$0	\$0	\$5,745	\$0	\$5,745
96710 Interest of Mortgage (or Bonds) Payable	\$0	\$0			\$0		\$0
96720 Interest on Notes Payable (Short and Long Term)	\$0	\$0			\$0		\$0
96730 Amortization of Bond Issue Costs	\$0	\$0			\$0		\$0
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$1,503,645	-\$146,996	\$0	\$34,202	\$1,390,851	\$0	\$1,390,851
97000 Excess of Operating Revenue over Operating Expenses	\$373,086	\$1,069,458	\$38,371	\$12,774	\$1,493,689	\$0	\$1,493,689
97100 Extraordinary Maintenance	\$0	\$0			\$0		\$0
97200 Casualty Losses - Non-capitalized	\$0	\$0			\$0		\$0
97300 Housing Assistance Payments	\$0	\$761,974	\$53,312		\$815,286		\$815,286
97350 HAP Portability-In	\$0	\$17,714			\$17,714		\$17,714
97400 Depreciation Expense	\$491,456	\$0			\$491,456		\$491,456
97500 Fraud Losses	\$0	\$0			\$0		\$0
97600 Capital Outlays - Governmental Funds							
97700 Debt Principal Payment - Governmental Funds							
97800 Dwelling Units Rent Expense	\$0	\$0			\$0		\$0
90000 Total Expenses	\$1,995,101	\$632,692	\$53,312	\$34,202	\$2,715,307	\$0	\$2,715,307
10010 Operating Transfer In	\$17,245	\$0			\$17,245	-\$17,245	\$0
10020 Operating transfer Out	-\$17,245	\$0			-\$17,245	\$17,245	\$0
10030 Operating Transfers from/to Primary Government	\$0	\$0			\$0		\$0
10040 Operating Transfers from/to Component Unit	\$0	\$0			\$0		\$0
10050 Proceeds from Notes, Loans and Bonds							
10060 Proceeds from Property Sales							
10070 Extraordinary Items, Net Gain/Loss	\$0	\$0			\$0		\$0
10080 Special Items (Net Gain/Loss)	\$0	\$0			\$0		\$0
10091 Inter Project Excess Cash Transfer In	\$0				\$0		\$0
10092 Inter Project Excess Cash Transfer Out	\$0				\$0		\$0
10093 Transfers between Program and Project - In	\$0	\$0			\$0		\$0
10094 Transfers between Project and Program - Out	\$0	\$0			\$0		\$0
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0

10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$118,370	\$289,770	-\$14,941	\$12,774	\$169,233	\$0	\$169,233
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$7,461,423	\$528,378	\$39,304	\$0	\$8,029,105		\$8,029,105
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	-\$345,623		\$345,623	\$0		\$0
11050 Changes in Compensated Absence Balance							
11060 Changes in Contingent Liability Balance							
11070 Changes in Unrecognized Pension Transition Liability							
11080 Changes in Special Term/Severance Benefits Liability							
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents							
11100 Changes in Allowance for Doubtful Accounts - Other							
11170 Administrative Fee Equity	\$0	\$453,835			\$453,835		\$453,835
11180 Housing Assistance Payments Equity		\$18,690			\$18,690		\$18,690
11190 Unit Months Available	2638	2065	72	108	4883		4883
11210 Number of Unit Months Leased	2545	2027	72	108	4752		4752
11270 Excess Cash	\$1,516,187				\$1,516,187		\$1,516,187
11610 Land Purchases	\$0				\$0		\$0
11620 Building Purchases	\$446,317				\$446,317		\$446,317
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

SINGLE AUDIT



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*

To the Board of Commissioners of
Housing Authority of the City of Nogales
City of 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) as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 26, 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as an item 2023-001 that we consider to be a material weakness.

Report on 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

The Authority's response to the finding identified in our audit is presented in the corrective action plan at the end of this report. The Authority is responsible for preparing a corrective action plan to address each finding. The Authority's response and corrective action plan were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman, PLLC

December 26, 2023



Independent Auditors' Report on Compliance for Each Major Program;
Report on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Housing Authority of the City of Nogales's (the Authority) 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 each of the Authority's major federal programs for the year ended March 31, 2023. The Authority'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 Authority 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 March 31, 2023.

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; 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 Auditor's 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 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 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 generally accepted auditing standards, *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 generally accepted auditing standards, *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 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. 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 an item 2023-101 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 Authority's response to the internal control over compliance 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.

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.

Fester & Chapman, PLLC

December 26, 2023

HOUSING AUTHORITY OF THE CITY OF NOGALES
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED MARCH 31, 2023

Federal Assistance Listings Number	Federal Program Name	Cluster Title	Pass-Through Grantor	Pass-Through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development						
14.850	Public and Indian Housing		N/A	N/A	\$ 644,865	
14.871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster	N/A	N/A	928,412	
14.EHV	Emergency Housing Choice Vouchers	Housing Voucher Cluster	N/A	N/A	<u>38,371</u>	
	Total Housing Voucher Cluster 14.871				966,783	
14.872	Public Housing Capital Fund		N/A	N/A	<u>479,862</u>	
	Total U.S. Department of Housing and Urban Development				<u>2,091,510</u>	
	Total Expenditures of Federal Awards				<u>\$ 2,091,510</u>	<u>\$</u>

HOUSING AUTHORITY OF THE CITY OF NOGALES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
MARCH 31, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (schedule) includes the federal grant activity of the Housing Authority of the City of Nogales, Arizona for the year ended March 31, 2023. 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 Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principle contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - FEDERAL ASSISTANCE LISTINGS NUMBER

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the *2022 Federal Assistance Listings*. When no Federal Assistance Listings Number has been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the 2-digit federal agency identifier and the word "unknown" were used.

NOTE 3 - INDIRECT COST RATE

The Authority did not elect to use the 10% 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, 2023

A. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles

<u>Unmodified</u>	
Yes	No

Is a going concern emphasis-of-matter paragraph included in the auditor's report?	_____	X
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Internal control over financial reporting:

Material weakness(es) identified?	X	_____
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Significant deficiency(ies) identified?	_____	X
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Noncompliance material to the financial statements noted?	_____	X
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Federal Awards:

Internal control over major programs:

Material weakness(es) identified?	_____	X
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Significant deficiency(ies) identified?	X	_____
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Type of auditors' 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
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Identification of major programs:

<u>Federal Assistance Listings Number</u>	<u>Name of Federal Program or Cluster</u>
Housing Choice Voucher cluster:	
14.871	Section 8 Housing Choice Vouchers
14.EHV	Emergency Housing Vouchers

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
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Auditee qualified as low-risk auditee?	X	_____
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Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR §200.511(b)?	X	_____
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HOUSING AUTHORITY OF THE CITY OF NOGALES
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YEAR ENDED MARCH 31, 2023

B. Financial Statement Findings

2023-001 Financial Reporting Process (Repeat Finding: 2022-001)

- Criteria: The Authority should have adequate internal controls in place to help ensure that its financial statements and related note disclosures are completed accurately in accordance with accounting principles generally accepted in the United States of America (GAAP).
- Condition: There were misstatements of various general ledger accounts that resulted in audit adjustments as follows:
- Accounts receivable and accounts payables were overstated by approximately \$20,000.
 - Unreconciled outstanding check of approximately \$20,000 was not investigated.
 - Fixed assets schedules were incomplete and additional year-end closing procedures were not completed in a timely manner.
- Cause: The Authority's reconciliation and review procedures were not performed timely and controls were not performed as designed to prevent these misstatements.
- Effect: Additional audit adjustments were necessary to correct account balances in the Authority's financial statements.
- Recommendation: The Authority should evaluate its year-end financial closing process and develop comprehensive policies and procedures to help ensure its financial reports are accurate and prepared in accordance with GAAP. It is also recommended that management review its general ledger regularly.

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C. Federal Awards Findings and Questioned Costs

2023-101 Eligibility

FAL number and name: 14.871 Section 8 Housing Assistance Payments and 14.EHV Emergency Housing Vouchers
Award numbers and years: N/A and 2023
Federal agency: U.S. Department of Housing and Urban Development
Compliance requirements: Eligibility
Questioned Costs: N/A

Criteria: In accordance with 24 CFR 5.601, Public Housing Agencies (PHAs) should maintain effective internal control policies and procedures to determine income eligibility requirements and properly calculate tenants' required rent payments.

Condition: The Authority did not have someone other than the preparer review and approve its eligibility determinations.

Cause: The Authority lacked proper internal control over the tenants' eligibility determination process.

Effect: There is an increased risk that eligibility determinations could contain errors that the Authority may not detect or correct in a timely manner.

Recommendation: The Authority should establish policies and procedures to ensure that tenants' eligibility determinations will be reviewed and approved by an employee that is independent of the initial eligibility determination.



HOUSING AUTHORITY OF THE CITY OF NOGALES

CORRECTIVE ACTION PLAN

December 26, 2023

We have prepared the following corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards and by 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). Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Financial Statement Findings:

2023-001 Financial Reporting Process

Recommendation: The Authority should evaluate its year-end financial closing process and develop comprehensive policies and procedures to help ensure its financial reports are accurate and prepared in accordance with GAAP. It is also recommended that management review its general ledger regularly.

Action Taken: Authority concurs and has implemented the recommendation.

Anticipated Completion date: Fiscal year 2024

Federal Award Findings and Questioned costs:

2023-101 Eligibility

Recommendation: The Authority should establish policies and procedures to ensure that tenants' eligibility determinations will be reviewed and approved by an employee that is independent of the initial eligibility determination.

Action Taken: Authority concurs and has implemented the recommendation.

Anticipated Completion date: Fiscal year 2024



HOUSING AUTHORITY OF THE CITY OF NOGALES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED MARCH 31, 2023

Status of Financial Statement Findings

Finding No: 2022-001, Significant Deficiency in Internal Control over Financial Reporting

Status: Not corrected.

Status of Federal Awards Findings and Questioned Costs

Finding No: 2022-002 Significant Deficiency in Internal Control over Compliance

Status: Fully corrected.

Finding No: 2022-003 Significant Deficiency in Internal Control over Compliance (HUD-51999)

Status: Fully corrected.