
**SOUTHEASTERN ARIZONA
GOVERNMENTS ORGANIZATION**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

**(INCLUDING UNIFORM GUIDANCE
SUPPLEMENTAL COMPLIANCE AND
INTERNAL CONTROL REPORTS)**

YEAR ENDED JUNE 30, 2017



SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southeastern Arizona Governments Organization
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Arizona Governments Organization (SEAGO), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise SEAGO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Arizona Governments Organization as of June 30, 2017 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of SEAGO's proportionate share of the net pension liability on page 26 and the schedule of SEAGO's pension contributions on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for governmental pension liabilities. 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 response 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SEAGO's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

(continued)

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 February 20, 2018 on our consideration of Southeastern Arizona Governments Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeastern Arizona Governments Organization's internal control over financial reporting and compliance.

Regier Cant & Monroe, L.L.P.

February 20, 2018
Tucson, Arizona

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,488,768
Due from other governments	620,220
Prepaid expenses	22,011
Capital assets, not being depreciated	25,825
Capital assets, being depreciated, net	<u>381,721</u>
Total assets	<u>2,538,545</u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	<u>227,578</u>
Liabilities	
Accounts payable	408,628
Accrued expenses	28,296
Compensated absences payable	33,360
Noncurrent liability	
Net pension liability	<u>963,618</u>
Total liabilities	<u>1,433,902</u>
Deferred Inflows of Resources	
Deferred inflows related to pensions	<u>118,918</u>
Net Position	
Net investment in capital assets	407,546
Unrestricted	<u>805,757</u>
Total net position	<u><u>\$ 1,213,303</u></u>

The Notes to Financial Statements are an integral part of these statements

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenue			Net (Expenses) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Primary government:						
Governmental activities						
Aging programs	\$ 2,173,250	\$ 67,650	\$ 3,000	\$ 2,227,881	\$ -	\$ (10,019)
Economic and environmental planning	100,843	16,804	-	139,602	-	21,955
Transportation	1,007,022	49,017	400,000	822,860	-	166,821
Community development	93,599	16,832	116,439	8,671	-	14,679
Housing	330	38	130	-	-	(238)
Management and general	224,468	(157,658)	-	-	-	(66,810)
Total governmental activities	3,599,512	(7,317)	519,569	3,199,014	-	126,388
General revenue:						
Assessment income						78,528
Other income						115
Interest income						13,731
Gain on investment						3,552
Total general revenue						95,926
Change in net position						222,314
Net position, beginning of year						990,989
Net position, end of year						<u>\$ 1,213,303</u>

The Notes to Financial Statements are an integral part of these statements

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	Area Agency on Aging	Housing	Transportation	CDBG	Economic and Environmental Planning	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 323,843	\$ 175,094	\$ 548,060	\$ 221,244	\$ 216,001	\$ 4,526	\$ 1,488,768
Due from other governments	-	428,997	-	105,578	20,059	8,495	563,129
Due from other funds	855,771	-	-	-	-	-	855,771
Prepaid expenses	10,243	3,033	-	8,679	29	27	22,011
TOTAL ASSETS	\$ 1,189,857	\$ 607,124	\$ 548,060	\$ 335,501	\$ 236,089	\$ 13,048	\$ 2,929,679
Liabilities							
Accounts payable	\$ 11,329	\$ 366,223	\$ -	\$ 30,061	\$ 59	\$ 956	\$ 408,628
Accrued expenses	28,296	-	-	-	-	-	28,296
Due to other funds	654,158	72,485	-	128,210	-	918	855,771
TOTAL LIABILITIES	693,783	438,708	-	158,271	59	1,874	1,292,695
Fund balances							
Nonspendable	10,243	3,033	-	8,679	29	27	22,011
Unassigned	485,831	165,383	548,060	168,551	236,001	11,147	1,614,973
TOTAL FUND BALANCES	496,074	168,416	548,060	177,230	236,030	11,174	1,636,984
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,189,857	\$ 607,124	\$ 548,060	\$ 335,501	\$ 236,089	\$ 13,048	\$ 2,929,679

The Notes to Financial Statements are an integral part of these statements

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET POSITION - GOVERNMENTAL FUNDS**

June 30, 2017

Fund balances - Total governmental funds \$ 1,636,984

Amounts reported for governmental activities in the Statement of Net Position is different because:

Accounts receivable in governmental activities are reported on the full accrual basis, but are reported in the funds on the modified accrual basis.

Receivables not collected within 60 days		57,091
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	765,496	
Less accumulated depreciation	<u>(357,950)</u>	
Capital assets used in governmental activities		407,546

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences		(33,360)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Net pension liabilities		(963,618)
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Some deferred outflows and inflows of resources are applicable to future reporting periods and therefore are not reported in the funds.

Deferred outflows related to pensions	227,578	
Deferred inflows related to pensions	<u>(118,918)</u>	
Deferred outflows and inflows of resources		<u>108,660</u>

Net position of governmental activities \$ 1,213,303

The Notes to Financial Statements are an integral part of these statements

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General Fund	Area Agency on Aging	Housing	Transportation	Community Development Block Grant	Economic and Environmental Planning	Total Governmental Funds
Revenues							
Intergovernmental	\$ -	\$ 2,227,881	\$ -	\$ 833,361	\$ 8,671	\$ 82,513	\$ 3,152,426
Indirect charges	157,658	-	-	-	-	-	157,658
Local funds/fees for services	-	3,000	130	400,000	116,439	-	519,569
Local government assessments	78,528	-	-	-	-	-	78,528
Other	-	115	-	-	-	-	115
Interest	13,731	-	-	-	-	-	13,731
Gain on investment	3,552	-	-	-	-	-	3,552
Total revenues	253,469	2,230,996	130	1,233,361	125,110	82,513	3,925,579
Expenditures							
Current							
Aging programs	-	2,221,932	-	-	-	-	2,221,932
Economic and environmental planning	-	-	-	-	-	116,977	116,977
Housing	-	-	368	-	-	-	368
Management and general	199,513	-	-	-	-	-	199,513
Transportation	-	-	-	1,054,850	-	-	1,054,850
Community development	-	-	-	-	109,737	-	109,737
Total expenditures	199,513	2,221,932	368	1,054,850	109,737	116,977	3,703,377
Excess (deficiency) of revenues over (under) expenditures	53,956	9,064	(238)	178,511	15,373	(34,464)	222,202
Other financing sources (uses)							
Transfer in	14,145	-	-	-	-	33,333	47,478
Transfer out	(45,175)	-	-	(1,281)	(580)	(442)	(47,478)
Total other financing sources (uses)	(31,030)	-	-	(1,281)	(580)	32,891	-
Net change in fund balances	22,926	9,064	(238)	177,230	14,793	(1,573)	222,202
Fund balances, beginning	473,148	159,352	548,298	-	221,237	12,747	1,414,782
FUND BALANCES, ENDING	\$ 496,074	\$ 168,416	\$ 548,060	\$ 177,230	\$ 236,030	\$ 11,174	\$ 1,636,984

The Notes to Financial Statements are an integral part of these statements

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2017

Net change in fund balances - Total governmental funds \$ 222,202

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

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

Less current year depreciation (32,515)

SEAGO pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before SEAGO's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

SEAGO pension contributions	63,413	
Pension expenses	<u>(75,849)</u>	(12,436)

Revenue is reported in the Statement of Activities on the full accrual basis, while revenue is reported in governmental funds on the modified accrual basis.

Revenue not collected within 60 days 46,590

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

Change in compensated absences (1,527)

Change in net position of governmental activities \$ 222,314

The Notes to Financial Statements are an integral part of these statements

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Southeastern Arizona Governments Organization (SEAGO) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of SEAGO's more significant accounting policies follows.

Nature of Operations

Southeastern Arizona Governments Organization is a governmental entity which represents the local governmental units in Cochise, Graham, Greenlee, and Santa Cruz counties in Arizona. SEAGO aids local governments in planning and administering federal and state grants. In addition, SEAGO assumes direct responsibility for the delivery of certain grant services.

Basis of Presentation

The basic financial statements include both government-wide and fund financial statements. The government-wide statements focus on SEAGO as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government. The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government. Governmental activities generally are financed through intergovernmental revenue.

A statement of activities presents comparison between direct expenses and program revenue. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include:

- Charges to customers or applicants for goods or services
- Operating grants and contributions

Revenues that are not classified as program revenues, including internally dedicated resources, are reported as general revenues.

Generally the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund financial statements provide information about SEAGO's funds. The emphasis of fund financial statements are on major governmental funds and are displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

SEAGO reports the following major governmental funds:

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

The **Area Agency on Aging Fund** accounts for area agency on aging pass-through funding for senior related programs within the region.

The **Housing Fund** provides mortgage counseling to purchase or refinance homes for families within the region.

The **Transportation Fund** provides transportation planning, grant application assistance and other services for communities within the region.

The **Community Development Block Grant Fund** provides technical assistance, planning, administration, and other services for communities within the region.

The **Economic and Environmental Planning Fund** provides economic and environmental planning and other services for communities within the region.

Basis of Accounting

The government-wide financial statements are presented using the economic resources measurement focus and accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. SEAGO considers all revenue reported in the governmental funds to be available if the revenue is collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of the government-wide and fund statements, “Cash and cash equivalents” includes all demand, savings accounts, and highly liquid investments with a maturity of three months or less.

Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Furniture and Equipment	\$ 5,000	Straight-line	3-10 years
Leasehold and Improvements	\$ 5,000	Straight-line	15-40 years

Compensated Absences

Compensated absences consists of vacation leave.

Employees may earn vacation hours depending on years of service. Any vacation hours in excess of 240 hours unused at year-end are forfeited. Upon termination of employment, up to 160 hours of vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support, revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Comparison

SEAGO is not legally required to adopt a budget for the general or major funds, and therefore budgetary comparison information is not included in this report.

Indirect Expenses

Expenses that cannot be specifically associated with a single program are allocated to the funds based upon an estimated percentage of use of the resource by each fund.

Deferred Outflows and Inflows of Resources

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditures in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as a revenue in future periods.

Pensions

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

Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned);
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers;
3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of SEAGO's Executive Board;
4. *Assigned* fund balances are intended to be used by SEAGO for specific purposes but do not meet the criteria to be classified as restricted or committed; and

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. *Unassigned* fund balance is the residual classification for SEAGO's governmental funds and includes all spendable amounts not contained in other classifications.

SEAGO's policy for committed fund balances is through formal organizational resolutions passed through the executive board. The process of rescinding a committed fund balance requires the same process.

SEAGO's policy for assigned fund balances is through motions passed by the executive board. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, SEAGO's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

New Accounting Standards

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes, applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The provisions of this statement were taken into consideration in the preparation of the financial statements for SEAGO's fiscal year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 is effective for fiscal year 2018. At this time, management is unable to estimate the magnitude of the impact on SEAGO.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement was effective for fiscal year 2017. It did not make any changes to the financial statements or their presentation.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to provide certain required disclosures about the agreements. This statement was effective for fiscal year 2017. It did not make any changes to the financial statements or their presentation.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement was effective for fiscal year 2017. It did not make any changes to the financial statements or their presentation.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement was effective for fiscal year 2017. There were no changes to the financial statements or their presentation.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement was effective for fiscal year 2017. It did not make any changes to the financial statements or their presentation.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement was effective for fiscal year 2017. It did not make any changes to the financial statements or their presentation.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement was effective for fiscal year 2017, and was taken into consideration during the preparation of the financial statements for the year ended June 30, 2017.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for fiscal year 2019, it is not anticipated to impact SEAGO.

GASB Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for fiscal year 2020, it is not anticipated to impact SEAGO.

GASB Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. The applicable items for SEAGO are:

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.

This Statement is effective for fiscal year 2017, and was taken into consideration in preparing these financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement is effective for fiscal year 2018, it is not anticipated to impact SEAGO.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the informational needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement is effective for fiscal year 2020. Management is in the process of determining the effect on SEAGO upon adoption of the Statement.

2. CASH AND CASH EQUIVALENTS

Arizona Revised Statutes (A.R.S.) authorize SEAGO to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101% of all deposits not covered by federal depository insurance.

SEAGO has not formally adopted deposit and investment policies that limit SEAGO's allowable deposits or investments and address the specific types of risk to which SEAGO is exposed.

Deposits – At June 30, 2017 the carrying amount of SEAGO's total cash in bank was \$177,382 and the bank balance was \$264,184. Of the bank balance \$250,000 was covered by federal depository insurance.

Cash Equivalents – June 30, 2017, the cash equivalents consisted of the following:

<u>Cash Equivalent</u>	<u>Credit Rating</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Arizona LGIP Pool 700	Unrated	<u>\$ 1,311,386</u>	<u>\$ 1,311,386</u>

(continued)

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 01, 2016	Increases	Decreases	Balance June 30, 2017
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 25,825	\$ -	\$ -	\$ 25,825
Capital Assets being depreciated:				
Furniture and equipment	154,728	-	-	154,728
Leasehold improvements	261,934	-	-	261,934
Building	323,010	-	-	323,010
Total	<u>739,672</u>	<u>-</u>	<u>-</u>	<u>739,672</u>
Less accumulated depreciation for:				
Furniture and equipment	(144,867)	(3,224)	-	(148,091)
Leasehold improvements	(139,697)	(17,462)	-	(157,159)
Building	(40,872)	(11,829)	-	(52,701)
Total	<u>(325,436)</u>	<u>(32,515)</u>	<u>-</u>	<u>(357,951)</u>
Total capital assets being depreciated, net	<u>414,236</u>	<u>(32,515)</u>	<u>-</u>	<u>381,721</u>
Governmental activities capital assets, net	<u>\$ 440,061</u>	<u>\$ (32,515)</u>	<u>\$ -</u>	<u>\$ 407,546</u>

(continued)

3. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Aging programs	\$ 18,371
Economic and environmental planning	442
Transportation	1,281
Community developmental block grant	580
Management and general	<u>11,841</u>
Total governmental activities depreciation expense	<u>\$ 32,515</u>

4. COMPENSATED ABSENCES

Vacation – Employees may earn annual vacation time based on the number of years of employment. An employee is entitled to receive compensation for up to 160 hours of unused/unpaid vacation time upon termination of employment. A summary of changes in the liability for compensated absences for the year ended June 30, 2017, follows:

Balance at July 01, 2016	\$ 31,833
Additions to compensated absences	29,470
Reductions to compensated absences	<u>(27,943)</u>
Total	<u>\$ 33,360</u>

5. NET PENSION LIABILITY

Pension – Employees participate in the Arizona State Retirement System. A summary of changes in the liability for the net pension liability for the year ended June 30, 2017, follows:

Balance at July 01, 2016	\$ 896,852
Increase to pension liability	<u>66,766</u>
Total	<u>\$ 963,618</u>

(continued)

9. CONCENTRATIONS

SEAGO administers multiple government grant programs, SEAGO depends on two Arizona State Agencies for grants for approximately 89% of its grant revenue and 69% of total revenue included in these financial statements. These revenue sources are from the Aging and Adult Administration grant with the Arizona Department of Economic Security and Transportation grant with the Arizona Department of Transportation. Decreases in funding or discontinuance of these programs in future years may have a significant effect upon the operations of SEAGO.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS

SEAGO records its retirement plan in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Plan Description – Eligible employees of SEAGO participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its web site at www.azasrs.gov.

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:

	Initial Membership Date Before July 1, 2011	Initial Membership Date 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 months of last 120 months	Highest 60 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.

(continued)

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and SEAGO was required by statute to contribute at the actuarially determined rate of 11.48 percent (10.84 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members’ annual covered payroll.

SEAGO’s contributions for the current period and two preceding years, all of which were equal to the required contributions, were as follows:

Period Ended June 30,	Retirement Plan	Health Benefit Supplement Fund	Long-Term Disability Fund
2017	\$ 63,413	\$ 2,922	\$ 701
2016	61,063	2,814	675
2015	60,850	3,197	628

Pension Liability – At June 30, 2017, SEAGO reported a liability of \$963,618 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2016 to the measurement date of June 30, 2017. SEAGO’s proportion of the net pension liability was based on SEAGO’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2017. SEAGO’s proportion measured as of June 30, 2017 was 0.00597 percent, which was a decrease of 0.00021 percent from its proportion measured as of June 30, 2016.

(continued)

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, SEAGO recognized pension expense for ASRS of \$75,849. At June 30, 2017, SEAGO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,856	\$ 66,290
Difference between projected and actual earnings on pension plan investments	104,424	-
Changes in assumptions	-	50,983
Changes in proportion and differences between SEAGO contributions and proportionate share of contributions	50,262	1,645
SEAGO contributions subsequent to the measurement date	<u>67,036</u>	<u>-</u>
Total	<u>\$ 227,578</u>	<u>\$ 118,918</u>

The \$67,036 reported as deferred outflows of resources related to ASRS pensions resulting from SEAGO contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the ASRS pension will be recognized in pension expense as follows:

Year Ended June 30	Deferred Outflows (Inflows) of Resources
2018	\$ (14,201)
2019	(18,186)
2020	44,730
2021	29,280
2022	-
Thereafter	-

(continued)

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Actuarial valuation date	June 30, 2015
Actuarial roll-forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 – 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial valuation performed as of June 30, 2015, which was rolled forward to June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%	3.90%
Fixed income	25%	3.70%	0.93%
Commodities	2%	3.84%	0.08%
Real estate	10%	4.25%	0.42%
Multi-asset class	<u>5%</u>	<u>3.41%</u>	<u>0.17%</u>
Total	<u>100%</u>		5.50%
	Inflation		<u>3.25%</u>
	Expected arithmetic nominal return		<u>8.75%</u>

(continued)

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of SEAGO’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents SEAGO’s proportionate share of the net pension liability calculated using the discount rate of 8% as well as what SEAGO’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
SEAGO's proportionate share of net pension liability	\$ 1,228,686	\$ 963,618	\$ 751,091

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

11. SUBSEQUENT EVENTS

Management evaluated subsequent events through February 20, 2018, which is the date on which the financial statements were available to be issued, and noted no material subsequent events that required recognition or additional disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
SCHEDULE OF SEAGO'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY COST - SHARING PENSION PLANS

June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)*		
	2017 (2016)	2016 (2015)	2015 (2014)
SEAGO's proportion of the net pension liability	0.005970%	0.005760%	0.005336%
SEAGO's proportionate share of the net pension liability	\$ 963,618	\$ 896,852	\$ 789,615
SEAGO's covered-employee payroll	\$ 584,451	\$ 562,794	\$ 529,985
SEAGO's proportionate share of the net pension liability as a percentage of its covered-employee payroll	164.88%	159.36%	148.99%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

* Prior year information not available at this time. As the information becomes available, the prior ten years will be presented.

**SOUTHEASTERN ARIZONA GOVERNMENTS ASSOCIATION
SCHEDULE OF SEAGO'S PENSION CONTRIBUTIONS**

June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year*			
	2017	2016	2015	2014
Statutorily required contribution	\$ 63,413	\$ 61,063	\$ 57,653	\$ 51,472
SEAGO's contributions in relation to the statutorily required contribution	<u>(63,413)</u>	<u>(61,063)</u>	<u>(57,653)</u>	<u>(51,472)</u>
SEAGO's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SEAGO's covered employee payroll	\$ 584,451	\$ 562,794	\$ 529,985	\$ 486,168
SEAGO's contributions as a percentage of covered-employee payroll	10.85%	10.85%	10.88%	10.59%

* Prior year information not available. As the information becomes available the prior ten years will be presented.

GOVERNMENT AUDITING REPORTS

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through the Arizona Department of Economic Security				
Aging Cluster				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	ADES15-089126	\$ 248,092	\$ 248,092
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	ADES15-089126	578,794	578,794
Nutrition Services Incentive Program	93.053	ADES15-089126	98,411	98,411
Total Aging Cluster			925,297	925,297
Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	ADES15-089126	-	15,588
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	ADES15-089126	-	13,965
Alzheimer's Disease Demonstration Grants to States	93.051	ADES15-089126	-	1,513
National Family Caregiver Support, Title III, Part E	93.052	ADES15-089126	148,547	148,546
Affordable Care Act - Medicare Improvements Patients and Providers	93.518	ADES15-089126	-	8,433
Social Services Block Grant	93.667	ADES15-089126	455,901	586,263
Total U.S. Department of Health and Human Services			1,529,745	1,699,605
<u>U.S. Department of Commerce</u>				
Economic Development - Support for Planning Organizations	11.302		-	75,000
Total U.S. Department of Commerce			-	75,000

(continued)

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Expenditures
<u>U.S. Department of Transportation</u>				
Passed through the Arizona Department of Transportation				
Highway Planning and Construction	20.205	JPA 11-016	-	74,883
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	JPA 11-016	-	250,051
Formula Grants for Rural Areas	20.509	JPA 11-016	-	15,205
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AZ-16-0020	-	107,887
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	JPA 11-016	-	17,611
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	G1C1686T	-	1,412
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	10242016	-	956
Total U.S. Department of Transportation			-	468,005
<u>U.S. Department of Housing and Urban Development</u>				
Passed through the Arizona Department of Housing Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				
	14.228	111-16	-	9,463
Total U.S. Department of Housing and Urban Development			-	9,463
<u>U.S. Environmental Protection Agency</u>				
Passed through the Arizona Department of Environmental Quality				
Water Quality Management Planning	66.454	GSC2015 00006	-	7,362
Total U.S. Environmental Protection Agency			-	7,362
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,529,745	\$ 2,259,435

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of SEAGO and is presented on the accrual basis of accounting. 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*. Because the Schedule presents only a selected portion of the operations of SEAGO, it is not intended to and does not present the financial position, or changes in net position of SEAGO.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER

The program title and CFDA numbers were obtained from the federal or pass through grantor or the 2017 *Catalog of Federal Domestic Assistance*.

4. INDIRECT COST RATE

Southeastern Arizona Governments Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

(continued)

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

Board of Directors
Southeastern Arizona Governments Organization
Tucson, Arizona

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Arizona Governments Organization (SEAGO), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise SEAGO’s basic financial statements, and have issued our report thereon dated February 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SEAGO’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SEAGO’s internal control. Accordingly, we do not express an opinion on the effectiveness of SEAGO’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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, items 2017-001 and 2017-002.

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SEAGO's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-001

SEAGO's Response to Findings

SEAGO's response to the findings identified in our audit is described in the accompanying document titled "Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan June 30, 2017." SEAGO's response was 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.



February 20, 2018
Tucson Arizona

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Southeastern Arizona Governments Organization
Tucson, Arizona

Report on Compliance for Each Major Federal Program

We have audited Southeastern Arizona Governments Organization’s (SEAGO) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SEAGO’s major federal programs for the year ended June 30, 2017. SEAGO’s major federal programs are identified in the Summary of Auditor’s Results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of SEAGO’s major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SEAGO’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Southeastern Arizona Governments Organization’s compliance.

(continued)

Opinion on Each Major Federal Program

In our opinion, SEAGO complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

SEAGO's response to the noncompliance finding identified in our audit is described in the accompanying document titled "Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan June 30, 2017." SEAGO's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of SEAGO is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SEAGO's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program, 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SEAGO's internal control over compliance.

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 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 in 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.

(continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

SEAGO's response to the internal control over compliance finding identified in our audit is described in the accompanying document titled "Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan June 30, 2017." SEAGO's response was not subjected to the 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.

Regier Cant & Monroe, L.L.P.

February 20, 2018
Tucson, Arizona

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2017

Section I-Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Two
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	One
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.044	U.S. Department of Health and Human Services Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers
93.045	U.S. Department of Health and Human Services Special Programs for the Aging Title III Part C Nutrition Services
93.053	U.S. Department of Health and Human Services Nutrition Services Incentive Program (Aging Cluster)

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

(continued)

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

For the Year Ended June 30, 2017

Section II-Financial Statement Findings

Finding Number 2017-001, Not Providing a SEFA with Final Amounts (Significant Deficiency)

Statement of Condition

We were initially provided with a draft SEFA which included pass-through funding that had not been finalized by the pass-through funder. After the pass-through funder provided their final funding report there was an immaterial difference between the draft SEFA and the final SEFA.

Criteria

The Uniform Guidance requires recipients of federal funds to have a system in place to track the expenditures of federal funds, and to be able to prepare a SEFA which contains all federal funds expended during the fiscal year.

Effect

Although the required correction to the SEFA for the year ended June 30, 2017 was for an immaterial amount, if corrective action is not taken to ensure the SEFA is prepared properly, there may be serious consequences to SEAGO in subsequent fiscal years. This could potentially include a modified opinion on either the financial statements or on compliance with the requirements of the major programs if the error is a material amount in future years.

Recommendation

We recommend that the accounting staff obtain relevant training on the accounting software to allow for accurate reconciliation of federal expenditures and the preparation of the SEFA.

(continued)

Section II-Financial Statement Findings (continued)

Finding 2017-002, Failure to Accrue Payroll (Significant Deficiency)

Statement of Condition

The amount of payroll costs related to the final days in fiscal year end June 30, 2017 that were not paid until the following fiscal year were not accrued as of June 30, 2017.

Criteria

A basic concept of generally accepted accounting principles accepted in the United States of America is to match expenses to the revenue that they generate. Since the payroll days in the current fiscal year generated revenue for that year, those expenses should be accrued.

Effect

Expenses are not matched with the revenue that they generate.

Recommendation

We recommend that SEAGO develop a checklist of items necessary to complete before closing out the accounting records for a fiscal year. SEAGO did provide us with the required payroll accrual, and that accrual is included in these financial statements.

Section III-Federal Award Findings and Questioned Costs

Finding Number 2017-001, Not Providing a SEFA with Final Amounts (Significant Deficiency)

Please refer to the finding in the Financial Statement Findings section.

(continued)

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the Year Ended June 30, 2016

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

Management's Response to Auditor's Findings
Summary Schedule of Prior Audit Findings and Corrective Action Plan
For the Fiscal Year Ending
June 30, 2017

Prepared by Management of

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION



Summary Schedule of Prior Audit Findings

None

Corrective Action Plan

Financial Statement Findings

Finding 2017-001

Finding Summary:

We provided Regier Carr & Monroe, LLP, CPAs with a draft of our SEFA for the fiscal year ended June 30, 2017 which did not agree with the final amounts reported by Arizona Department of Economic Security (“DES”). We corrected this error when the final report from DES became available.

Cause: There was a change in key accounting staff occurring mid-Fiscal Year 2017. The previous Accounts Manager was a degreed CPA with career-long experience in fund accounting, and who also had benefited from a week of overlap training on SEAGO’s accounting processes and systems upon hire. The present Accounts Manager does not possess a degree in accounting, had never performed governmental fund accounting in her career, and despite an agreement that was designed to assure a reasonable amount of cross training with outgoing staff, was denied the opportunity for such training.

The previous Accounts Manager had established a sophisticated system within SEAGO’s accounting software to separately track in-house expenditures and pass-through expenditures. Because our current Accounts Manager was deprived of the opportunity for cross training, there was not a clear understanding on how to correctly post transactions within the established accounts and this resulted in an incomplete SEFA that did not match the final report from DES.

Responsible Individuals:

Management / Accounts Manager

Corrective Action Plan:

The Accounts Manager has received basic training on SEAGO’s accounting software and will continue to receive ongoing training over time. The cause of the incomplete SEFA has been discussed internally, and we have identified a system that will be employed in future fiscal years to ensure our draft SEFA is reconciled with reports from the DES on-line expenditure reporting system and internal expenditure tracking reports developed by SEAGO staff before the SEFA is provided to the auditors.

Anticipated Completion Date: September 30, 2018

Finding 2017-002

Finding Summary: We failed to accrue payroll expenses for the final pay period in the fiscal year ending June 30, 2017, which were paid in the subsequent fiscal year. This resulted in the expenses for fiscal year 2017 being misstated.

Responsible Individuals: Management / Accounts Manager

Corrective Action Plan: The Accounts Manager will develop a checklist of items necessary to complete before closing out the accounting records for future fiscal years as recommended by the auditors.

Anticipated Completion Date: August 31, 2018

Single Audit

Finding 2017-003

Finding Summary: We provided Regier Carr & Monroe, LLP, CPAs with a draft of our SEFA for the year ended June 30, 2017 which did not contain final amounts from Arizona Department of Economic Security (“DES”). We corrected this error when the final report from DES was available.

Responsible Individuals: Management / Accounts Manager

Corrective Action Plan: See Corrective Action Plan for Finding 2017-001.

Anticipated Completion Date: September 30, 2018