
**SOUTHEASTERN ARIZONA
GOVERNMENTS ORGANIZATION**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
(INCLUDING UNIFORM GUIDANCE
SUPPLEMENTAL COMPLIANCE AND
INTERNAL CONTROL REPORTS)**

YEAR ENDED JUNE 30, 2018



SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southeastern Arizona Governments Organization
Bisbee, 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, 2018, 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

SEAGO's 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, 2018 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2018, SEAGO adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75. Our opinion is not modified with respect to this matter.

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, the schedule of SEAGO's pension contributions, the schedule of SEAGO's proportionate share of the long-term disability plans, and the schedule of SEAGO's long-term disability contributions on pages 30 through 33 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.

(continued)

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.

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 March 19, 2019 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.

March 19, 2019
Tucson, Arizona

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,760,253
Due from other governments	516,942
Prepaid expenses	1,424
Capital assets, not being depreciated	25,825
Capital assets, being depreciated, net	<u>351,637</u>
Total assets	<u>2,656,081</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to long-term disability ("LTD")	1,019
Deferred outflows related to pensions	<u>132,594</u>
Total deferred outflows of resources	<u>133,613</u>
LIABILITIES	
Accounts payable	683,700
Accrued expenses	46,437
Compensated absences payable	30,308
Net LTD liability	3,207
Net pension liability	<u>903,527</u>
Total liabilities	<u>1,667,179</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to LTD	3,614
Deferred inflows related to pensions	<u>73,145</u>
Total deferred inflows of resources	<u>76,759</u>
NET POSITION	
Net investment in capital assets	377,462
Unrestricted	<u>668,294</u>
Total net position	<u><u>\$ 1,045,756</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, 2018

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	\$ 2,532,332	\$ 79,131	\$ 13,468	\$ 2,575,335	\$ -	\$ (22,660)
Economic and environmental planning	95,755	17,471	-	24,547	-	(88,679)
Transportation	1,001,158	63,947	84,477	808,430	-	(172,198)
Community development	125,516	27,694	147,331	31,679	-	25,800
Housing	85	-	-	-	-	(85)
Management and general	221,209	(188,243)	-	-	-	(32,966)
Total governmental activities	<u>\$ 3,976,055</u>	<u>\$ -</u>	<u>\$ 245,276</u>	<u>\$ 3,439,991</u>	<u>\$ -</u>	<u>(290,788)</u>
General Revenue:						
Assessment income						81,211
Other income						305
Interest income						20,946
Gain on investment						6,994
Total general revenue						<u>109,456</u>
Change in net position						(181,332)
Net position, beginning of year, restated						<u>1,227,088</u>
Net position, end of year						<u>\$ 1,045,756</u>

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	<u>General Fund</u>	<u>Area Agency on Aging</u>	<u>Housing</u>	<u>Transportation</u>	<u>CDBG</u>	<u>Economic and Environmental Planning</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and cash equivalents	\$ 558,416	\$ 185,900	\$ 548,059	\$ 245,250	\$ 218,000	\$ 4,628	\$ 1,760,253
Due from other governments	4,085	270,475	-	214,712	-	27,670	516,942
Due from other funds	1,388,112	699,880	548,214	55,232	317,117	29,876	3,038,431
Prepaid expenses	-	1,424	-	-	-	-	1,424
Total assets	<u>\$ 1,950,613</u>	<u>\$ 1,157,679</u>	<u>\$ 1,096,273</u>	<u>\$ 515,194</u>	<u>\$ 535,117</u>	<u>\$ 62,174</u>	<u>\$ 5,317,050</u>
LIABILITIES							
Accounts payable	\$ 3,127	\$ 529,004	\$ -	\$ 150,766	\$ (125)	\$ 928	\$ 683,700
Accrued expenses	46,437	-	-	-	-	-	46,437
Due to other funds	1,343,354	468,024	548,098	359,396	273,413	46,146	3,038,431
Total liabilities	<u>1,392,918</u>	<u>997,028</u>	<u>548,098</u>	<u>510,162</u>	<u>273,288</u>	<u>47,074</u>	<u>3,768,568</u>
FUND BALANCES							
Nonspendable	-	1,424	-	-	-	-	1,424
Unassigned	557,695	159,227	548,175	5,032	261,829	15,100	1,547,058
Total fund balances	<u>557,695</u>	<u>160,651</u>	<u>548,175</u>	<u>5,032</u>	<u>261,829</u>	<u>15,100</u>	<u>1,548,482</u>
Total liabilities and fund balances	<u>\$ 1,950,613</u>	<u>\$ 1,157,679</u>	<u>\$ 1,096,273</u>	<u>\$ 515,194</u>	<u>\$ 535,117</u>	<u>\$ 62,174</u>	<u>\$ 5,317,050</u>

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, 2018

Fund Balances - Total Governmental Funds \$ 1,548,482

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

Net position as of June 30, 2017 was adjusted to account for the adoption of GASB No. 75, resulting in an increase to net position which relates to the long-term disability plan, which is not reported in the funds. -

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	(388,034)	
Capital assets used in governmental activities		377,462

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

Compensated absences		(30,308)
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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	(903,527)	
Net LTD liabilities	(3,207)	
Long-term liabilities		(906,734)

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 LTD	1,019	
Deferred outflows related to pensions	132,594	
Deferred inflows related to LTD	(3,614)	
Deferred inflows related to pensions	(73,145)	
Deferred outflows and inflows of resources		56,854

Net position of governmental activities		\$ 1,045,756
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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, 2018

	General Fund	Area Agency on Aging	Housing	Transportation	Community Development Block Grant	Economic and Environmental Planning	Total Governmental Funds
Revenues							
Intergovernmental	\$ -	\$ 2,575,335	\$ -	\$ 808,430	\$ 31,679	\$ 81,637	\$ 3,497,081
Indirect charges	188,243	-	-	-	-	-	188,243
Local funds/fees for services	-	13,468	-	84,477	147,330	-	245,275
Local government assessments	81,211	-	-	-	-	-	81,211
Other	-	106	200	-	-	-	306
Interest	20,946	-	-	-	-	-	20,946
Gain on investment	6,994	-	-	-	-	-	6,994
Total revenues	<u>297,394</u>	<u>2,588,909</u>	<u>200</u>	<u>892,907</u>	<u>179,009</u>	<u>81,637</u>	<u>4,040,056</u>
Expenditures							
Current							
Aging programs	-	2,596,674	-	-	-	-	2,596,674
Economic and environmental planning	-	-	-	-	-	112,785	112,785
Housing	-	-	85	-	-	-	85
Management and general	204,207	-	-	-	-	-	204,207
Transportation	-	-	-	1,062,611	-	-	1,062,611
Community development	-	-	-	-	152,196	-	152,196
Total expenditures	<u>204,207</u>	<u>2,596,674</u>	<u>85</u>	<u>1,062,611</u>	<u>152,196</u>	<u>112,785</u>	<u>4,128,558</u>
Excess (deficiency) of revenues over (under) expenditures	93,187	(7,765)	115	(169,704)	26,813	(31,148)	(88,502)
Other Financing Sources (Uses)							
Transfer in	15,295	-	-	-	-	35,516	50,811
Transfer out	(46,861)	-	-	(2,494)	(1,014)	(442)	(50,811)
Total other financing sources (uses)	<u>(31,566)</u>	<u>-</u>	<u>-</u>	<u>(2,494)</u>	<u>(1,014)</u>	<u>35,074</u>	<u>-</u>
Net change in fund balances	61,621	(7,765)	115	(172,198)	25,799	3,926	(88,502)
Fund balances, beginning	496,074	168,416	548,060	177,230	236,030	11,174	1,636,984
Fund balances, ending	<u>\$ 557,695</u>	<u>\$ 160,651</u>	<u>\$ 548,175</u>	<u>\$ 5,032</u>	<u>\$ 261,829</u>	<u>\$ 15,100</u>	<u>\$ 1,548,482</u>

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, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (88,502)

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 (30,084)

SEAGO LTD and 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 LTD and pension liability is measured a year before SEAGO's report date. LTD and Pension expense, which is the change in the net LTD and pension liability adjusted for changes in deferred outflows and inflows of resources related to LTD and pensions, is reported in the Statement of Activities.

SEAGO LTD contributions	1,019	
LTD expenses	(7,472)	
SEAGO pension contributions	69,390	
Pension expenses	<u>(68,592)</u>	
		(5,655)

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 reported in fiscal year 2017 (57,091)

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 -

Change in net position of governmental activities \$ (181,332)

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 and Other Postemployment Benefits

For purposes of measuring the net long-term disability (“LTD”) liability and the net pension liability, deferred outflows of resources and deferred inflows of resources related to LTD and pensions, and LTD expense and pension expense, information about the LTD and 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 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;

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
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.

Income Tax Status

SEAGO was organized on August 23, 1975, as a publicly supported not-for-profit corporation and is exempt, except for unrelated business income, from taxes under Section 501(c)(3) of the Internal Revenue Code. As an arm of a state or local government, SEAGO is not required to file Form 990. SEAGO is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. SEAGO management has determined it has no income from unrelated activities.

SEAGO management believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. SEAGO would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards

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. SEAGO implemented this statement during this fiscal year, see Note 11 for further information.

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. 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 did not impact SEAGO upon implementation.

(continued)

2. 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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies what liabilities governments should include when disclosing information related to debt. This statement is effective for fiscal year 2020. At this time it is not anticipated to have an effect on the financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and 2) to simplify accounting for interest cost incurred before the end of a construction period. This statement is effective for fiscal year 2020. At this time it is not anticipated to have an effect on the financial statements.

GASB Statement No. 90, *Majority Equity Interests*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement is effective for fiscal year 2019. At this time it is not anticipated to have an effect on the financial statements.

3. 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.

(continued)

3. CASH AND CASH EQUIVALENTS (continued)

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, 2018, the carrying amount of SEAGO's total cash in bank was \$440,148 and the bank balance was \$580,131. Of the bank balance, \$250,000 was covered by federal depository insurance.

Cash Equivalents – June 30, 2018, 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>\$ 1,320,106</u>	<u>\$ 1,320,106</u>

(continued)

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
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	(148,091)	(793)	-	(148,884)
Leasehold improvements	(157,159)	(17,462)	-	(174,621)
Building	(52,701)	(11,829)	-	(64,530)
Total	<u>(357,951)</u>	<u>(30,084)</u>	<u>-</u>	<u>(388,035)</u>
Total capital assets being depreciated, net	<u>381,721</u>	<u>(30,084)</u>	<u>-</u>	<u>351,637</u>
Governmental activities capital assets, net	<u>\$ 407,546</u>	<u>\$ (30,084)</u>	<u>\$ -</u>	<u>\$ 377,462</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Aging programs	\$ 14,789
Economic and environmental planning	442
Transportation	2,494
Community developmental block grant	1,014
Management and general	<u>11,345</u>
Total governmental activities depreciation expense	<u>\$ 30,084</u>

(continued)

5. 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, 2018, follows:

Balance at July 1, 2017	\$ 30,360
Additions to compensated absences	33,471
Reductions to compensated absences	<u>(33,523)</u>
Total	<u>\$ 30,308</u>

6. POST-EMPLOYMENT LIABILITIES

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, 2018, follows:

Balance at July 1, 2017	\$ 963,618
Decrease to pension liability	<u>(60,091)</u>
Total	<u>\$ 903,527</u>

Long-Term Disability – Employees participate in the Arizona State Retirement System. A summary of changes in the liability for the net long-term disability liability for the year ended June 30, 2018, follows:

Balance at July 1, 2017	\$ (1,703)
Increase to long-term disability liability	<u>4,910</u>
Total	<u>\$ 3,207</u>

(continued)

7. INTER-FUND TRANSACTIONS

Inter-fund receivable and payable balances at June 30, 2018, were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 1,388,112	\$ 1,343,354
Aging	699,880	468,024
Housing	548,214	548,098
Transportation	55,232	359,396
CDBG	317,117	273,413
Economic	<u>29,876</u>	<u>46,146</u>
Total	<u>\$ 3,038,431</u>	<u>\$ 3,038,431</u>

Inter-fund receivables and payables above were necessary in order to fund the ongoing activities of the grant programs in current and prior periods.

Inter-fund transfers for the year ended June 30, 2018, consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Total</u>
General	Economic	\$ 35,516
Transportation	General	2,494
CDBG	General	1,014
Economic	General	442
General/indirect costs	General	<u>11,345</u>
Total		<u>\$ 50,811</u>

8. CONTINGENT LIABILITY

SEAGO participates, as both a pass-through and a sub grantee, in several programs administered by federal and state agencies. Programs included in these financial statements may be subject to program compliance and/or financial monitoring by the granting agencies or representative. Accordingly, the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

(continued)

9. RISK MANAGEMENT

SEAGO is exposed to various risks of loss related to torts, theft, destruction of assets, errors and omissions, injuries to employees, civil rights violations, and other natural disasters. SEAGO carries commercial insurance for all risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in and of the past four fiscal years.

10. CONCENTRATIONS

SEAGO administers multiple government grant programs, SEAGO depends on two Arizona State Agencies for grants for approximately 96 percent of its grant revenue and 82 percent 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.

11. CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2018, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Net position as previously reported at June 30, 2017	\$ 1,213,303
Prior period adjustments – implementation of GASB 75	
Net LTD liability (measurement date as of June 30, 2016)	(1,703)
Net changes in deferred outflows and deferred inflows for year 2017	<u>15,488</u>
Net position, as restated, June 30, 2017	<u>\$ 1,227,088</u>

(continued)

12. 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*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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:

	<u>Initial Membership Date Before July 1, 2011</u>	<u>Initial Membership Date On or after July 1, 2011</u>
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)

12. 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, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 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 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 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:

<u>Period Ended June 30,</u>	<u>Retirement Plan</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2018	\$ 69,390	\$ 2,801	\$ 1,019
2017	63,413	2,922	701
2016	61,063	2,814	675

(continued)

12. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Investment Return – 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:

Expected Return Arithmetic Basis			
<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Real Return Arithmetic Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Equity	58%	6.73%	3.87%
Fixed income	25%	3.70%	0.91%
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>		5.45%
	Inflation		<u>3.25%</u>
	Expected arithmetic nominal return		<u>8.70%</u>

Pension Plan

Pension Liability – At June 30, 2018, SEAGO reported a liability of \$903,527 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, 2018 was 0.00580 percent, which was a decrease of 0.00017 percent from its proportion measured as of June 30, 2017.

(continued)

12. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2018, SEAGO recognized pension expense for ASRS of \$4,010. At June 30, 2018, 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	\$ -	\$ 27,093
Difference between projected and actual earnings on pension plan investments	6,487	-
Changes in assumptions	39,242	27,017
Changes in proportion and differences between SEAGO contributions and proportionate share of contributions	17,475	19,035
SEAGO contributions subsequent to the measurement date	<u>69,390</u>	<u>-</u>
Total	<u>\$ 132,594</u>	<u>\$ 73,145</u>

The \$69,390 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	\$ (29,625)
2019	31,126
2020	9,342
2021	(20,784)
2022	-
Thereafter	-

(continued)

12. 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, 2016
Actuarial roll-forward date	June 30, 2017
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, 2017 valuation were based on the results of an actuarial valuation performed as of June 30, 2016, which was rolled forward to June 30, 2017.

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 8.70%. 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	\$ 1,159,693	\$ 903,527	\$ 689,479

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

(continued)

12. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Long-term Disability Plan

LTD Liability – At June 30, 2018, SEAGO reported a liability of \$3,207 for its proportionate share of the ASRS’ net LTD liability. The net LTD liability was measured as of June 30, 2017. The total LTD liability used to calculate the net LTD liability was determined using update procedures to roll forward the total LTD liability from an actuarial valuation as of June 30, 2016 to the measurement date of June 30, 2017. SEAGO’s proportion of the net LTD liability was based on SEAGO’s actual contributions to the LTD 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, 2018 was 0.00589 percent, which was an increase of 0.00589 percent from its proportion measured as of June 30, 2017.

LTD Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2018, SEAGO recognized LTD expense for ASRS of \$4,904. At June 30, 2018, SEAGO reported deferred outflows of resources and deferred inflows of resources related to LTD from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Difference between projected and actual earnings on plan investments	-	3,610
Changes in assumptions	-	-
Changes in proportion and differences between SEAGO contributions and proportionate share of contributions	-	4
SEAGO contributions subsequent to the measurement date	<u>1,019</u>	<u>-</u>
Total	<u>\$ 1,019</u>	<u>\$ 3,614</u>

(continued)

12. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

The \$1,019 reported as deferred outflows of resources related to ASRS LTD resulting from SEAGO contributions subsequent to the measurement date will be recognized as a reduction of the net LTD 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 LTD will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$ (904)
2019	(904)
2020	(904)
2021	(902)
2022	-
Thereafter	-

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

Actuarial valuation date	June 30, 2016
Actuarial roll-forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Inflation	3%
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial valuation performed as of June 30, 2016, which was rolled forward to June 30, 2017.

Discount Rate – The discount rate used to measure the ASRS total LTD liability was 8%, which is less than the long-term expected rate of return of 8.70%. 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 LTD 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 LTD plan investments was applied to all periods of projected benefit payments to determine the total LTD liability.

(continued)

12. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Sensitivity of SEAGO's Proportionate Share of the ASRS Net LTD Liability to Changes in the Discount Rate – The following table presents SEAGO's proportionate share of the net LTD liability calculated using the discount rate of 8% as well as what SEAGO's proportionate share of the net LTD 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 LTD liability	\$ 5,325	\$ 3,207	\$ (10,457)

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

13. SUBSEQUENT EVENTS

Management evaluated subsequent events through March 19, 2019, 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, 2018

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)*
SEAGO's proportion of the net pension liability	0.005800%	0.005970%	0.005760%	0.005336%
SEAGO's proportionate share of the net pension liability	\$ 903,527	\$ 963,618	\$ 896,852	\$ 789,615
SEAGO's covered-employee payroll	\$ 636,606	\$ 584,451	\$ 562,794	\$ 529,985
SEAGO's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.93%	164.88%	159.36%	148.99%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	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, 2018

Arizona State Retirement System

	Reporting Fiscal Year				
	2018	2017	2016	2015	2014*
Statutorily required contribution	\$ 69,390	\$ 63,413	\$ 61,063	\$ 57,653	\$ 51,472
SEAGO's contributions in relation to the statutorily required contribution	(69,390)	(63,413)	(61,063)	(57,653)	(51,472)
SEAGO's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
SEAGO's covered employee payroll	\$ 636,606	\$ 584,451	\$ 562,794	\$ 529,985	\$ 486,168
SEAGO's contributions as a percentage of covered-employee payroll	10.90%	10.85%	10.85%	10.88%	10.59%

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
SCHEDULE OF SEAGO'S PROPORTIONATE SHARE OF THE
LONG-TERM DISABILITY PLAN

June 30, 2018

Arizona State Retirement System

		Reporting Fiscal Year (Measurement Date)*
		2018 (2017)
SEAGO's proportion of the net pension liability		0.005890%
SEAGO's proportionate share of the net pension liability	\$	3,207
SEAGO's covered-employee payroll	\$	636,606
SEAGO's proportionate share of the net pension liability as a percentage of its covered-employee payroll		0.50%
Plan fiduciary net position as a percentage of the total pension liability		84.44%

* 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 LONG-TERM DISABILITY CONTRIBUTIONS**

June 30, 2018

Arizona State Retirement System

	Reporting Fiscal Year*	
	2018	2017
Statutorily required contribution	\$ 1,019	\$ 701
SEAGO's contributions in relation to the statutorily required contribution	(1,019)	(701)
SEAGO's contribution deficiency (excess)	\$ -	\$ -
SEAGO's covered employee payroll	\$ 636,606	\$ 584,451
SEAGO's contributions as a percentage of covered-employee payroll	0.16%	0.12%

* Prior year information not available at this time. 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, 2018

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 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	\$ 498,206	\$ 505,983
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	ADES15-089126	732,601	732,601
Nutrition Services Incentive Program	93.053	ADES15-089126	116,251	116,251
Total Aging Cluster			1,347,058	1,354,835
Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	ADES15-089126	-	15,669
Elder Abuse	93.041	ADES15-089126	-	2,691
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	ADES15-089126	-	13,098
National Family Caregiver Support, Title III, Part E	93.052	ADES15-089126	119,975	165,524
Affordable Care Act - Medicare Improvements Patients and Providers	93.518	ADES15-089126	-	16,327
Social Services Block Grant	93.667	ADES15-089126	586,744	586,744
Total U.S. Department of Health and Human Services			2,053,777	2,154,888
<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, 2018

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	GRT-17-0006576-T	-	110,248
Highway Planning and Construction	20.205	GRT-17-0006576-T	-	174,010
Highway Planning and Construction	20.205	GRT-17-0006576-T	-	125,556
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	JPA 11-016	-	6,655
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AZ-2016-0020-00	-	20,000
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AZ-2016-0019-00	-	20,000
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GRT-17-0006624-T	-	149,942
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GRT-17-0006624-T	-	92,011
Total U.S. Department of Transportation			-	698,422
<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	148-17	-	20,000
Total U.S. Department of Housing and Urban Development			-	20,000
<u>U.S. Environmental Protection Agency</u>				
Passed through the Arizona Department of Environmental Quality				
Water Quality Management Planning	66.454	GSC-2015-00006	-	6,637
Total U.S. Environmental Protection Agency			-	6,637
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,053,777	\$ 2,954,947

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “schedule”) 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 2018 *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.

**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, 2018, and the related notes to the financial statements, which collectively comprise SEAGO's basic financial statements, and have issued our report thereon dated March 19, 2019.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

(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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Southeastern Arizona Governments Association Response to Findings

SEAGO management's response to the finding identify in our audit is described in the accompanying schedule of findings and questioned costs. SEAGO management's response was not subject 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.



March 19, 2019
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, 2018. 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, 2018.

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, material weaknesses may exist that have not been identified.

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.

March 19, 2019
Tucson, Arizona

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
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?	No
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)	No

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, 2018

Section II - Financial Statement Findings

Finding Number 2018-01, Fund Accounting Issues Material Weakness

Statement of Condition

There were a significant amount of audit adjustments required to correct individual fund balance sheet accounts, including balancing the total of all fund due to/due from accounts to zero. There were also adjustments to move various individual fund balance sheet asset and liability accounts to the general fund. There were also reconciling adjustments totaling approximately \$103,000 on the bank reconciliations that had not cleared or reversed as of June 30, 2018.

Criteria

As a special governmental entity, SEAGO keeps its books on the fund basis. Fund accounting allows SEAGO to track individual projects on a separate basis, which provides the ability to see how the individual fund or program is performing. Generally, fund accounting records the revenue and expense portion of the activity in each fund. There are control accounts for balance sheet items such as accounts receivable and accounts payable. Unless a fund is directly responsible for another general category on the balance sheet, generally the general fund is where all those other assets and liabilities would be recorded, using the due to/due from accounts to “move” the asset or liability from the individual fund to the general fund. An example of a specific item that may be recorded on the individual fund level would be prepaid conference fees for one specific program for the following year. Additionally, usually as part of the year-end closing of fund activities, the due to/due from accounts are cleared to reflect only what is actually due to and due from at year-end.

Cause

The accounting manager does not have the necessary educational background or professional experience with fund accounting.

Effect

By not following general fund accounting principles, there is a risk that bank reconciliations may be in error because the cash balances on every individual fund need to be accounted for and totaled to compare to the reconciliation. The complexity of cash accounts in most individual funds makes it difficult to determine if cash is properly stated at a glance, therefore increasing the risk that misappropriation of cash may be hidden by the complexity of how cash is being treated at this time. In addition, there may be errors in submitting proper payment on payroll liabilities because there isn't one total for each liability in the general fund, but individual totals throughout the funds.

(continued)

Recommendation

We recommend that SEAGO investigate obtaining assistance from an individual experienced in fund accounting, and structure the accounting function to use the ability of the accounting manager in day to day operations, ensuring revenue billing and collections is complete, and that all payroll and expenses are paid on time. The fund specialist could then take this activity and convert it to proper fund accounting. We understand it may be difficult to locate such an individual in Bisbee, however, technology advances might allow this individual to work remotely.

Views of Responsible Officials and Planned Corrective Actions:

See attached corrective action plan.

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, 2018

Prepared by Management of

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION



Summary Schedule of Prior Audit Findings

The status of audit findings from the prior year is as follows:

Financial Statement Findings

Finding 2017-001: Not Providing a SEFA with Final Amounts

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? Yes

Noncompliance material to financial statements noted? No

Finding: SEAGO 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").

Status: As recommended, the Accounts Manager received additional training on SEAGO's accounting software and will continue to receive ongoing training over time. An in-depth analysis was performed of the accounting system used to separately track DES in-house and pass-through expenditures, and correcting entries were made. The result of the analysis and correcting entries was the ability to provide a complete and accurate SEFA that matched the final FY18 report from DES.

Finding 2017-002: Failure to Accrue Payroll

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? Yes

Noncompliance material to financial statements noted? No

Finding: SEAGO 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.

Status: As recommended, a checklist was developed that proved effective in ensuring that fiscal year 2018 expenditures were not misstated, including the accrual of payroll expenses for the final pay period in the fiscal year ending June 30, 2018.

Federal Award Findings and Questioned Costs

Finding Number 2017-001: Not Providing a SEFA with Final Amounts

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? Yes

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)

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

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

Corrective Action Plan for Findings Identified for the Year Ended June 30, 2018

Financial Statement Findings

Finding 2018-001: Fund Accounting Issues

Finding Summary: There were a significant amount of audit adjustments required to correct individual fund balance sheet accounts, including balancing the total of all fund due to/due from accounts to zero. There were also adjustments to move various individual fund balance sheet asset and liability accounts to the general fund. There were also reconciling adjustments totaling approximately \$103,000 on the bank reconciliations that had not cleared or reversed as of June 30, 2018.

Cause: Admittedly, the accounting manager does not have the necessary educational background or professional experience with fund accounting. However, due to the prior year's audit findings, this was a condition that was well known to the auditors, and it was necessary for the auditors to make similar audit adjustments in performing the audit for the fiscal year ending June 30, 2017. While those audit adjustments were fewer in number, the auditors issued no finding relating to fund accounting issues, and they did not recommend that SEAGO investigate obtaining assistance from an individual experienced in fund accounting at that time to ensure fund accounting principles were followed in the preparation of SEAGO's financial statements. Had they done so, SEAGO would have taken corrective action, as was done to address the deficiencies identified in the fiscal year 2017 audit, and it's most likely this year's audit finding would have been avoided.

Responsible Individuals: Management / Accounting Manager

Corrective Action Plan: SEAGO agrees with the auditor's recommendation and will investigate obtaining assistance from a CPA experienced in fund accounting to provide oversight and technical assistance to the accounting manager to ensure fund accounting principles are followed in the preparation of SEAGO's financial statements.

Anticipated Completion Date: June 30, 2019

Federal Award Findings and Questioned Costs

None noted.