

**SOUTHEASTERN ARIZONA
GOVERNMENTS ORGANIZATION**

Financial Statements
and
Independent Auditors' Reports

June 30, 2019

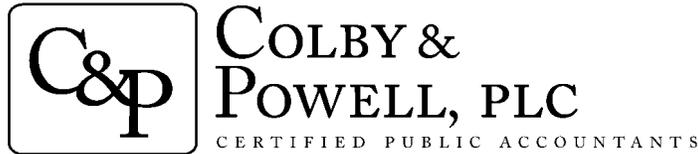
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INDEPENDENT AUDITORS' REPORT

To the Executive Board
Southeastern Arizona Governments Organization
Bisbee, Arizona

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, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

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 SEAGO, as of June 30, 2019, 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/OPEB Liability – Cost-Sharing Pension Plans on page 27, Schedule of SEAGO's Pension/OPEB Contributions on page 29 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions 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 were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2020, on our consideration of SEAGO'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 SEAGO's internal control over financial reporting and compliance.

Colby + Powell

March 26, 2020

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,568,027
Due from other governments	496,720
Prepaid expenses	4,429
Net other postemployment benefits asset	2,225
Capital assets, not being depreciated	25,825
Capital assets, being depreciated, net	319,734
Total assets	2,416,960
Deferred Outflows of Resources	
Deferred outflows related to pensions and other postemployment benefits	156,927
Liabilities	
Accounts payable	443,729
Accrued expenses	35,471
Compensated absences payable	23,133
Noncurrent liability	
Net pension liability	848,334
Total liabilities	1,350,667
Deferred Inflows of Resources	
Deferred inflows related to pensions and other postemployment benefits	117,110
Net Position	
Net investment in capital assets	345,559
Restricted for:	
Area Agency on Aging	178,933
Housing	548,225
CDBG	287,116
Unrestricted	(253,723)
Total net position	\$ 1,106,110

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Activities
Year Ended June 30, 2019

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	\$ 2,694,188	\$ 83,131	\$ 46,888	\$ 2,758,647	\$ -	\$ 28,216
Economic and environmental planning	151,983	16,081	13,240	80,997	-	(73,827)
Transportation	594,437	66,761	183,334	469,832	-	(8,032)
Community development	101,955	22,364	137,660	16,768	-	30,109
Housing	-	-	-	50	-	50
Management and general	<u>232,520</u>	<u>(188,337)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,183)</u>
Total governmental activities	<u>3,775,083</u>	<u>-</u>	<u>381,122</u>	<u>3,326,294</u>	<u>-</u>	<u>(67,667)</u>
General revenues:						
Assessment income						79,100
Interest income						31,482
Gain on investment						17,439
Total general revenues						<u>128,021</u>
Change in net position						60,354
Net position, beginning of year						1,045,756
Net position, end of year						<u>\$ 1,106,110</u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Balance Sheet – Governmental Funds
June 30, 2019

	<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	\$ 503,789	\$ 271,605	\$ 548,225	\$ -	\$ 244,408	\$ -	\$ 1,568,027
Due from other governments	-	296,161	-	155,962	43,000	1,597	496,720
Due from other funds	155,158	-	-	-	-	-	155,158
Prepaid expenses	-	4,429	-	-	-	-	4,429
TOTAL ASSETS	<u>\$ 658,947</u>	<u>\$ 572,195</u>	<u>\$ 548,225</u>	<u>\$ 155,962</u>	<u>\$ 287,408</u>	<u>\$ 1,597</u>	<u>\$ 2,224,334</u>
Liabilities							
Accounts payable	\$ 16,922	\$ 388,794	\$ -	\$ 27,706	\$ 203	\$ 10,104	\$ 443,729
Accrued expenses	32,265	39	-	2,973	89	105	35,471
Due to other funds	-	-	-	132,983	-	22,175	155,158
Total liabilities	<u>49,187</u>	<u>388,833</u>	<u>-</u>	<u>163,662</u>	<u>292</u>	<u>32,384</u>	<u>634,358</u>
Fund balances							
Nonspendable	155,158	4,429	-	-	-	-	159,587
Restricted	-	178,933	548,225	-	287,116	-	1,014,274
Unassigned	454,602	-	-	(7,700)	-	(30,787)	416,115
Total fund balances	<u>609,760</u>	<u>183,362</u>	<u>548,225</u>	<u>(7,700)</u>	<u>287,116</u>	<u>(30,787)</u>	<u>1,589,976</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 658,947</u>	<u>\$ 572,195</u>	<u>\$ 548,225</u>	<u>\$ 155,962</u>	<u>\$ 287,408</u>	<u>\$ 1,597</u>	<u>\$ 2,224,334</u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2019

Fund balances-total governmental funds	\$ 1,589,976
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	345,559
Net OPEB assets held in trust for future benefits are not available for operations and therefore are not reported in the funds.	2,225
Long-term liabilities, such as net pension/OPEB liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(871,467)
Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>39,817</u>
Net position of governmental activities	<u><u>\$ 1,106,110</u></u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2019

	General Fund	Area Agency on Aging	Housing	Transportation	Community Development Block Grant	Economic and Environmental Planning	Total Governmental Funds
Revenues							
Intergovernmental	-	2,758,147	\$ -	469,832	16,768	80,997	\$ 3,325,744
Indirect charges	189,360	-	-	-	-	-	189,360
Fee for services	-	46,888	-	183,334	137,660	13,240	381,122
Local government assessments	79,100	-	-	-	-	-	79,100
Other	-	500	50	-	-	-	550
Interest	31,482	-	-	-	-	-	31,482
Gain on investment	17,439	-	-	-	-	-	17,439
Total revenues	<u>317,381</u>	<u>2,805,535</u>	<u>50</u>	<u>653,166</u>	<u>154,428</u>	<u>94,237</u>	<u>4,024,797</u>
Expenditures							
Current							
Aging programs	-	2,782,091	-	-	-	-	2,782,091
Economic and environmental planning	-	-	-	-	-	175,481	175,481
Housing	-	-	-	-	-	-	-
Management and general	233,490	-	-	-	-	-	233,490
Transportation	-	-	-	664,259	-	-	664,259
Community development	-	-	-	-	127,982	-	127,982
Total expenditures	<u>233,490</u>	<u>2,782,091</u>	<u>-</u>	<u>664,259</u>	<u>127,982</u>	<u>175,481</u>	<u>3,983,303</u>
Excess (deficiency) of revenues over (under) expenditures	<u>83,891</u>	<u>23,444</u>	<u>50</u>	<u>(11,093)</u>	<u>26,446</u>	<u>(81,244)</u>	<u>41,494</u>
Other financing sources (uses)							
Transfer in	12,744	-	-	-	-	35,357	48,101
Transfer out	(44,570)	(733)	-	(1,639)	(1,159)	-	(48,101)
Total other financing sources (uses)	<u>(31,826)</u>	<u>(733)</u>	<u>-</u>	<u>(1,639)</u>	<u>(1,159)</u>	<u>35,357</u>	<u>-</u>
Net change in fund balances	52,065	22,711	50	(12,732)	25,287	(45,887)	41,494
Fund balances, Beginning	<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>
FUND BALANCES, ENDING	<u>\$ 609,760</u>	<u>\$ 183,362</u>	<u>\$ 548,225</u>	<u>\$ (7,700)</u>	<u>\$ 287,116</u>	<u>\$ (30,787)</u>	<u>\$ 1,589,976</u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Reconciliation of the Statement of Revenue, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2019

Net change in fund balances-total governmental funds		\$ 41,494
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Current year depreciation expense		(31,903)
<p>Pension/OPEB 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/OPEB liability is measured a year before the report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the Statement of Activities.</p>		
SEAGO pension/OPEB contributions	79,600	
Pension expense	(36,012)	
		43,588
<p>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.</p>		
Decrease in compensated absences payable		7,175
Change in net position of governmental activities		\$ 60,354

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 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.

A. Reporting Entity

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

B. 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 a 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 revenue 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.

Fund financial statements provide information about SEAGO's funds. The emphases 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 nonmajor funds.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

C. *Basis of Accounting*

The government-wide financial statements are presented using the economic resources measurement focus and the 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. The Organization 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.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. 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.

E. Capital assets

Capital assets are reported at actual cost. Donated assets are reported at acquisition 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>
Land	\$ 5,000	Not depreciated	N/A
Buildings	5,000	Straight-line	15-40 years
Furniture and equipment	5,000	Straight-line	3-10 years
Leasehold improvements	5,000	Straight-line	15-40 years

F. Compensated absences

Compensated absences consist 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.

G. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. *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.

I. *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.

J. *Deferred Outflows and Inflows of Resources*

The statement of net position include 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 expenditure 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.

K. *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.

L. *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 the Organization's Executive Board,
4. *Assigned* fund balances are intended to be used by the Organization for specific purposes but do not meet the criteria to be classified as restricted or committed, and

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Fund Balance Reporting - Continued

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

The Organization’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.

The Organization’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, the Organization’s policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the SEAGO to invest public monies in the State Treasurer’s investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, SEAGO may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated “A” or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody’s investor’s service and Standard and Poor’s rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

Custodial credit risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

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

Deposits – At June 30, 2019, the carrying amount of SEAGO's total cash in bank was \$99,002 and the bank balance was \$137,756. Of the bank balance \$137,756 was covered by federal depository insurance.

Investments – At June 30, 2019, the investments consisted of the following.

Investment	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 700	Unrated	\$ 1,469,028	\$ 1,469,028

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consist of reimbursable grants and contracts entered into with federal, state and local governments. Following is a list due from each type of government at June 30, 2019.

State of Arizona	\$ 453,720
City of Nogales	27,000
City of Bisbee	12,000
Santa Cruz County	4,000
Total	\$ 496,720

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>
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	(148,884)	(2,614)	-	(151,498)
Leasehold improvements	(174,621)	(17,462)	-	(192,083)
Building	(64,530)	(11,827)	-	(76,357)
Total	<u>(388,035)</u>	<u>(31,903)</u>	<u>-</u>	<u>(419,938)</u>
Total capital assets being depreciated, net	<u>351,637</u>	<u>(63,806)</u>	<u>-</u>	<u>319,734</u>
Governmental activities capital assets, net	<u>\$ 377,462</u>	<u>\$ (63,806)</u>	<u>\$ -</u>	<u>\$ 345,559</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Aging programs	\$ 18,072
Economic and environmental planning	197
Transportation	746
Community Developmental Block Grant	144
Management and general	<u>12,744</u>
Total governmental activities depreciation expense	<u>\$ 31,903</u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 5 – COMPENSATED ABSENCES

Vacation – Employees may earn annual vacation time based upon 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, 2019, follows:

Balance at July 1, 2018	\$ 30,308
Additions to compensated absences	18,509
Reductions to compensated absences	<u>(25,684)</u>
 Balance at June 30, 2019	 <u><u>\$ 23,133</u></u>

NOTE 6 – 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, 2019, follows:

Balance at July 1, 2018	\$ 906,734
Reductions to pension liability	<u>(58,400)</u>
	 <u><u>\$ 848,334</u></u>

NOTE 7 – INTERFUND TRANSACTIONS

Interfund receivable and payable balances at June 30, 2019, were as follows:

	Payable to
Payable from	General
	Fund
Transportation	\$ 132,983
Economic and Environmental Planning	<u>22,175</u>
	 <u><u>\$ 155,158</u></u>

Interfund receivables and payable above were necessary in order to fund the ongoing activities of the grant programs in current and prior periods.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 7 – INTERFUND TRANSACTIONS - Continued

Interfund transfers for the year ended June 30, 2019 consisted of the following:

Transfer from	Transfer to Economic and Environmental Planning
General Fund	31,826
Area Agency on Aging	733
Transportation	1,639
Community Development	1,159
	\$ 35,357

NOTE 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 representatives. Accordingly, the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

NOTE 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. The Organization 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 any of the past three fiscal years.

NOTE 10 – CONCENTRATIONS

Although SEAGO administers multiple government grant programs, SEAGO depends on two grants for approximately 97% of its grant revenue and 86% 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 the Organization.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS

SEAGO contributes to the pension plan described below. The plan is a component unit of the State of Arizona.

At June 30, 2019, SEAGO reported the following aggregate amounts related to pensions for the plan to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net OPEB assets	\$ 2,225
Net pension and OPEB liabilities	848,334
Deferred outflows of resources related to pension and OPEB	156,927
Deferred inflows of resources related to pension and OPEB	117,110
Pension and OPEB expense	36,012

SEAGO reported \$79,600 of pension and OPEB expenditures in the governmental funds related to the pension plan to which it contributes.

A. Arizona State Retirement System

Plan Description – All eligible SEAGO employees 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 website at www.azasrs.gov.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits 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	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.

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 earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

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

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.80 percent (11.64 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and statute required SEAGO to contribute at the actuarially determined rate of 11.80 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. In addition, SEAGO was required by statute to contribute at the actuarially determined rate of 10.53 percent (10.41 percent for retirement, 0.06 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for SEAGO in positions that an employee who contributes to the ASRS would typically fill. SEAGO’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2019, were \$72,703, \$2,991 and \$1,041, respectively.

During fiscal year 2019, SEAGO paid for ASRS pension and OPEB contributions as follows: 16.76 percent from the General Fund, 33.53 percent from the Area Agency on Aging Fund, 28.41 percent from the Transportation Fund, 11.60 percent from the CDBG Fund, and 9.70 percent from the Economic Environmental Planning Fund.

Liability - At June 30, 2019, SEAGO reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	Net Pension/OPEB
	(Asset) Liability
Pension	\$ 845,157
Health insurance premium benefit	(2,225)
Long-term disability	3,177

The net asset and net liabilities were measured as of June 30, 2018. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total liabilities as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3–6.75 percent to 2.7–7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

SEAGO’s proportion of the net asset or net 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, 2018. SEAGO’s proportions measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, were:

	Proportion June 30, 2018	Increase (decrease) from June 30, 2017
Pension	0.00606%	0.00026%
Health insurance premium benefit	0.00618%	0.00029%
Long-term disability	0.00608%	0.00025%

Expense – For the year ended June 30, 2019, SEAGO recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	32,634
Health insurance premium benefit	2,217
Long-term disability	1,161

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

Deferred Outflows/Inflows of Resources—At June 30, 2019, SEAGO reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,283	\$ 4,659	\$ -	\$ 2,054
Changes of assumptions or other inputs	22,364	74,935	4,292	-
Net difference between projected and actual earnings on plan investments	-	20,324	-	4,445
Changes in proportion and differences between SEAGO contributions and proportionate share of contributions	29,382	10,382	12	3
SEAGO contributions subsequent to the measurement date	72,703	-	2,991	-
Total	\$ 147,732	\$ 110,300	\$ 7,295	\$ 6,502
	Long-Term Disability			
	Deferred Outflows of Resources	Deferred Inflows of Resources		
Differences between expected and actual experience	\$ 81	\$ -		
Changes of assumptions or other inputs	688	-		
Net difference between projected and actual earnings on plan investments	-	308		
Changes in proportion and differences between SEAGO contributions and proportionate share of contributions	90	-		
SEAGO contributions subsequent to the measurement date	1,041	-		
Total	\$ 1,900	\$ 308		

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting SEAGO contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>	<u>Long-Term Disability</u>
2020	\$ 13,824	\$ (859)	22
2021	(9,150)	(859)	22
2022	(30,830)	(860)	22
2023	(9,115)	88	105
2024	-	292	120
Thereafter	-	-	260

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

ASRS

Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7 - 7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

The long-term expected rate of return on ASRS plan investments was determined to be 7.50 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Geometric Real
Equity	50%	5.50%
Fixed income	30%	3.83%
Real estate	20%	5.85%
Total	100%	

Discount Rate – At June 30, 2018, the discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2019

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

Sensitivity of SEAGO’s Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate – The following table presents SEAGO’s proportionate share of the net pension/OPEB liability calculated using the discount rate of 7.5 percent, as well as what SEAGO’s proportionate share of the net pension/OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
SEAGO's Proportionate share of the			
Net pension liability	\$ 1,204,790	\$ 845,157	\$ 544,689
Net insurance premium benefit liability			
(asset)	7,885	(2,225)	(10,837)
Net long-term disability liability	3,600	3,177	2,766

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Required Supplementary Information
Schedule of SEAGO's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Pension Plans
June 30, 2019

ASRS-Pension

	Reporting Fiscal Year (Measurement Date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
SEAGO's proportion of the net pension liability	0.006060%	0.005800%	0.005970%	0.005760%	0.005336%	Information
SEAGO's proportionate share of the net pension liability	\$ 845,157	\$ 903,527	\$ 963,618	\$ 896,852	\$ 789,615	not available
SEAGO's covered payroll	\$ 602,514	\$ 566,197	\$ 558,959	\$ 530,321	\$ 481,047	
SEAGO's proportionate share of the net pension liability as a percentage of its covered-employee payroll	140.27%	159.58%	172.40%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year (Measurement Date)		
	2019 (2018)	2018 (2017)	2017 through 2010
SEAGO's proportion of the net OPEB (asset)	0.006180%	0.005890%	Information
SEAGO's proportionate share of the net OPEB (asset)	\$ (2,225)	\$ (3,207)	not available
SEAGO's covered payroll	\$ 602,514	\$ 566,197	
SEAGO's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-0.37%	-0.57%	
Plan fiduciary net position as a percentage of the total OPEB liability	102.20%	103.57%	

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Required Supplementary Information
Schedule of SEAGO's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Pension Plans
June 30, 2019

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year (Measurement Date)		
	2019 (2018)	2018 (2017)	2017 through 2010
SEAGO's proportion of the net OPEB (asset)	0.006180%	0.005890%	Information
SEAGO's proportionate share of the net OPEB (asset)	\$ (2,225)	\$ (3,207)	not available
SEAGO's covered payroll	\$ 602,514	\$ 566,197	
SEAGO's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-0.37%	-0.57%	
Plan fiduciary net position as a percentage of the total OPEB liability	102.20%	103.57%	

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Required Supplementary Information
Schedule of SEAGO Pension/OPEB Contributions
June 30, 2019

ASRS-Pension

	Reporting Fiscal Year						2013 through 2010
	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 72,703	\$ 65,674	\$ 61,036	\$ 60,647	\$ 57,752	\$ 51,472	Information not available
SEAGO's contributions in relation to the statutorily required contribution	<u>(72,703)</u>	<u>(65,674)</u>	<u>(61,036)</u>	<u>(60,647)</u>	<u>(57,752)</u>	<u>(51,472)</u>	
SEAGO's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
SEAGO's covered payroll	\$ 650,295	\$ 602,514	\$ 566,197	\$ 558,959	\$ 530,321	\$ 481,047	
SEAGO's contributions as a percentage of covered payroll	11.18%	10.90%	10.78%	10.85%	10.89%	10.70%	

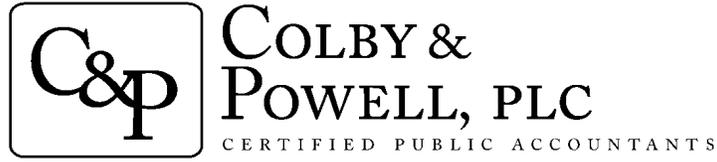
ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year			2016 through 2010
	2019	2018	2017	
Statutorily required contribution	\$ 2,991	\$ 2,651	\$ 3,171	Information not available
SEAGO's contributions in relation to the statutorily required contribution	<u>(2,991)</u>	<u>(2,651)</u>	<u>(3,171)</u>	
SEAGO's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
SEAGO's covered payroll	\$ 650,295	\$ 602,514	\$ 566,197	
SEAGO's contributions as a percentage of covered payroll	0.46%	0.44%	0.56%	

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Required Supplementary Information
Schedule of SEAGO Pension/OPEB Contributions
June 30, 2019

ASRS-Long-Term Disability

	<u>Reporting Fiscal Year</u>			
	2019	2018	2017	2016 through 2010
Statutorily required contribution	\$ 1,041	\$ 964	\$ 793	Information not available
SEAGO's contributions in relation to the statutorily required contribution	<u>(1,041)</u>	<u>(964)</u>	<u>(793)</u>	
SEAGO's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
SEAGO's covered payroll	<u>\$ 650,295</u>	<u>\$ 602,514</u>	<u>\$ 566,197</u>	
SEAGO's contributions as a percentage of covered payroll	0.16%	0.16%	0.14%	



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**INDEPENDENT AUDITORS'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***

To the Executive Board
Southeastern Arizona Governments Organization

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Arizona Governments Organization (SEAGO), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SEAGO's basic financial statements, and have issued our report thereon dated March 26, 2020.

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 opinions 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies may exist that have not been identified. We did

identify certain deficiencies in internal control, described in the accompanying schedule of findings and response that we consider to be material weaknesses. We consider all deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Standard*.

Organization's Response to Findings

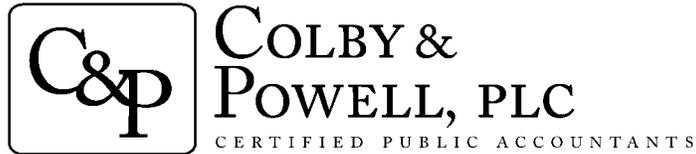
SEAGO's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. SEAGO's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



March 26, 2020



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

To the Executive Board
Southeastern Arizona Governments Organization
Bisbee, Arizona

Report on Compliance for Each Major Federal Program

We have audited the South Eastern Arizona Governments Organization (SEAGO) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the SEAGO's major federal programs for the year ended June 30, 2019. 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 the 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 the SEAGO's compliance.

Opinion on Each Major Federal Program

In our opinion, the SEAGO complied, in all material respects, with the types of 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, 2019.

Report on Internal Control Over Compliance

Management of the 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 the SEAGO's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 federal 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 the 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, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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. 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.



March 26, 2020

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

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	\$ 548,641	\$ 578,421
Special Programs for the Aging--Title III, Part C-- Nutrition Services	93.045	ADES15-089126	750,759	750,759
Nutrition Services Incentive Program	93.053	ADES15-089126	99,770	99,770
Total Aging Cluster			1,399,170	1,428,950
Special Programs for the Aging--Title VII, Chapter 2--Long Term Care Ombudsman Services For Older Individuals	93.042	ADES15-089126	-	15,350
Special Programs for the Aging--Title III, Part D--Disease Prevention and Health Promotion Services	93.043	ADES15-089126	-	23,025
National Family Caregiver Support, Title III, Part E	93.052	ADES15-089126	154,073	203,089
Social Services Block Grant	93.667	ADES15-089126	593,524	593,524
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	ADES15-089126	-	52,467
Total U.S. Department of Health and Human Services			<u>2,146,767</u>	<u>2,316,405</u>
<u>U.S. Department of Transportation</u>				
Passed through the Arizona Department of Transportation				
Transit Services Programs Cluster				
Highway Planning and Construction	20.205	GRT-17-0006576-T	-	175,082
Metropolitan Transportation Planning and State and Non-Metropolitan Planning	20.505	JPA 11-016	-	5,997
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AZ-2016-0020-00	-	18,758
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-17-0006634-T	-	142,941
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GRT-17-0006624-T	-	83,088
Total Department of Transportation			<u>-</u>	<u>445,866</u>

The accompanying notes are an integral part of this schedule.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Expenditures of Federal Awards-continued
Year Ended June 30, 2019

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 Commerce</u>				
Economic Development_Support for Planning Organizations	11.302	07-83-06852	-	75,000
Total U.S. Department of Commerce			-	75,000
<u>U.S. Department of Housing and Urban Development</u>				
Passed through the Arizona Department of Housing				
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	148-17	-	16,768
Total U.S. Department of Housing and Urgan Development			-	16,768
<u>U.S. Environmental Protection Agency</u>				
Passed through the Arizona Department of Enviornmental Quality				
Water Quality Management Planning	66.454	GSC-2015-00006	-	5,997
Total U.S. Enviornmental Protection Agency			-	5,997
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,146,767	\$ 2,860,036

The accompanying notes are an integral part of this schedule.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of SEAGO under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the 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). 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual/accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. SEAGO has not elected to use the 10% *de minimis* indirect cost rate allowed under the Uniform Guidance.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Findings and Questioned Costs
June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> No

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

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

Identification of major federal programs:

CFDA Number	Name of Federal Program
	<u>Aging Cluster</u>
93.044	Special Programs for the Aging--Title III, Part B-- Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging--Title III, Part C-- Nutrition Services
93.053	Nutrition Services Incentive
93.667	Social Services Block Grant

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

Auditee qualified as low-risk auditee? Yes X No

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Findings and Questioned Costs - Continued
June 30, 2019

Financial Statement Findings

Item: 2019-01

Subject: Preparation of the working trial balance

Criteria/Specific Requirements: SEAGO should prepare a more complete and accurate working trial balance prior to the start of the audit.

Condition: SEAGO did not have a complete and accurate working trial balance prior to the start of the audit.

Effect: A misstatement could occur and not be detected by management within a timely manner.

Cause: SEAGO did not maintain procedures to ensure that the trial balance was properly prepared.

Recommendation: The working trial balance should require very few accounting adjustments prior to the start of the annual audit. All material and necessary journal entries that are known to the SEAGO management should be recorded in the trial balance.

Response: Management agrees with this finding and will ensure that all material adjustments are posted to the general ledger prior to the audit.

Item: 2019-02

Subject: Bank reconciliation procedures

Criteria/Specific Requirements: Proper internal control dictates that all bank accounts must be reconciled on a monthly basis in order to identify and resolve variances in a timely manner and insure that the financial records reflect accurate balances.

Condition: At the time of our audit it was noted that SEAGO did not reconcile cash for its checking account during the year in a timely manner, which led to misstatements of the year-end balances. Misstatements were corrected with client approved audit adjustments.

Effect: Untimely reconciliations allow differences and errors to go undetected, which puts the SEAGO's assets at risk. In addition, the lack of timely reconciliations delayed the audit process as trial balances were not completed in a timely manner.

Cause: The SEAGO did not maintain procedures to ensure that the bank reconciliations were properly prepared in a timely manner.

Recommendation: Management should ensure that cash accounts are not materially misstated by reconciling such accounts to their corresponding detail on a regular basis.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Findings and Questioned Costs - Continued
June 30, 2019

Response: Management agrees with this finding and will implement procedures to ensure that timely and accurate bank reconciliations are performed.

Item: 2019-03

Subject: Reconciliation of payroll liability accounts

Criteria/Specific Requirements: Management should reconcile payroll liability accounts to their corresponding detail on a regular basis.

Condition: At the time of the audit, SEAGO had balances in many of its payroll liability accounts which usually should not have such balances. Such balances were made up of misstatements due to error, which were corrected with client approved audit adjustments.

Effect: A material misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

Cause: SEAGO did not maintain procedures to ensure that the payroll liability account balances were properly stated.

Recommendation: Management should ensure that payroll liability accounts are not materially misstated by reconciling such accounts to their corresponding detail on a regular basis.

Response: Management agrees with this finding and will implement procedures to ensure that payroll liabilities are reconciled to their corresponding detail on a regular basis.

Federal Award Findings and Questioned Costs

None

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Summary Schedule of Prior Audit Findings
June 30, 2019

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

2018-01 – Fund Accounting Issues

Finding: 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.

Status: This finding related to internal controls over fund accounting issues is a recurring finding reported as finding 2019-01, 2019-02 and 2019-03 in current year.