

**SOUTHEASTERN ARIZONA  
GOVERNMENTS ORGANIZATION**

Financial Statements  
and  
Independent Auditors' Reports

June 30, 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Executive Board  
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, 2014, 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, 2014, 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.

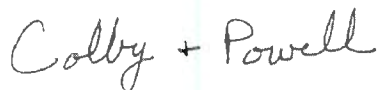
#### *Other Information*

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 February 9, 2015, 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.



February 9, 2015

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Statement of Net Position**  
**June 30, 2014**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 1,154,360
Due from other governments	565,697
Prepaid expenses	5,346
Capital assets, not being depreciated	25,825
Capital assets, being depreciated, net	482,871
<b>Total assets</b>	2,234,099
<b>Liabilities</b>	
Accounts payable	305,784
Accrued expenses	100,580
Compensated absences payable	28,351
<b>Total liabilities</b>	434,715
<b>Net Position</b>	
Invested in capital assets, net of related debt	508,696
Unrestricted	1,290,688
<b>Total net position</b>	\$ 1,799,384

*See accompanying notes to financial statements.*

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Statement of Activities**  
**Year Ended June 30, 2014**

Functions / Programs	Expenses	Indirect Expenses Allocation	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
<b>Primary government:</b>						
Governmental activities						
Aging programs	\$ 2,393,743	\$ 60,526	\$ 80,000	\$ 2,441,800	\$ 6,099	\$ 73,630
Economic and environmental planning	118,091	14,714	16,144	105,251	-	(11,410)
Transportation	224,648	27,351	-	251,051	-	(948)
Community development	109,321	16,446	154,117	10,000	-	38,350
Housing	51,417	9,589	24,147	31,541	-	(5,318)
Management and general	147,672	(128,626)	-	-	-	(19,046)
<b>Total governmental activities</b>	<u>3,044,892</u>	<u>-</u>	<u>274,408</u>	<u>2,839,643</u>	<u>6,099</u>	<u>75,258</u>
<b>General revenue:</b>						
Assessment income						69,273
Other income						3,509
Interest income						5,906
Gain on investment						5,877
Total general revenue						<u>84,565</u>
Change in net position						159,823
Net position, July 1, 2013						1,639,561
Net position, June 30, 2014						<u>\$ 1,799,384</u>

*See accompanying notes to financial statements.*

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**

**Balance Sheet**

June 30, 2014

	<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>
<b>Assets</b>							
Cash and cash equivalents	\$ 355,622	\$ 82,873	\$ 559,335	\$ -	\$ 128,118	\$ 28,412	\$ 1,154,360
Due from other governments	-	420,614	8,508	86,345	49,117	1,113	565,697
Due from other funds	52,360	-	-	-	-	-	52,360
Prepaid expenses	1,824	847	25	50	25	2,575	5,346
<b>TOTAL ASSETS</b>	<u>\$ 409,806</u>	<u>\$ 504,334</u>	<u>\$ 567,868</u>	<u>\$ 86,395</u>	<u>\$ 177,260</u>	<u>\$ 32,100</u>	<u>\$ 1,777,763</u>
<b>Liabilities</b>							
Accounts payable	\$ 2,752	\$ 264,923	\$ 173	\$ 31,616	\$ 365	\$ 5,955	\$ 305,784
Accrued expenses	3,131	87,000	866	3,532	2,744	3,307	100,580
Due to other funds	-	-	-	51,247	-	1,113	52,360
<b>Total liabilities</b>	<u>5,883</u>	<u>351,923</u>	<u>1,039</u>	<u>86,395</u>	<u>3,109</u>	<u>10,375</u>	<u>458,724</u>
<b>Fund balances</b>							
Unspendable	1,824	847	25	50	25	2,575	5,346
Unassigned	402,099	151,564	566,804	(50)	174,126	19,150	1,313,693
<b>Total fund balances</b>	<u>403,923</u>	<u>152,411</u>	<u>566,829</u>	<u>-</u>	<u>174,151</u>	<u>21,725</u>	<u>1,319,039</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 409,806</u>	<u>\$ 504,334</u>	<u>\$ 567,868</u>	<u>\$ 86,395</u>	<u>\$ 177,260</u>	<u>\$ 32,100</u>	<u>\$ 1,777,763</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, 2014

Fund balances - Total governmental funds \$ 1,319,039

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.

Governmental capital assets	765,496	
Less accumulated depreciation	<u>(256,800)</u>	
Capital assets used in governmental activities		508,696

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

Compensated absences		<u>(28,351)</u>
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Net position of governmental activities		<u><u>\$ 1,799,384</u></u>
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*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, 2014**

	General Fund	Area Agency on Aging	Housing	Transportation	Community Development Block Grant	Economic and Environmental Planning	Total Governmental Funds
<b>Revenues</b>							
Intergovernmental	-	2,443,899	\$ 31,311	251,051	10,000	78,201	\$ 2,814,462
Indirect charges	130,425	-	-	-	-	-	130,425
Fee for services	-	80,000	24,147	-	154,117	16,144	274,408
Local government assessments	69,273	-	-	-	-	-	69,273
Other	3,509	4,000	230	-	-	27,050	34,789
Interest	5,906	-	-	-	-	-	5,906
Gain on investment	5,877	-	-	-	-	-	5,877
<b>Total revenues</b>	<u>214,990</u>	<u>2,527,899</u>	<u>55,688</u>	<u>251,051</u>	<u>164,117</u>	<u>121,395</u>	<u>3,335,140</u>
<b>Expenditures</b>							
Current							
Aging programs	-	2,436,863	-	-	-	-	2,436,863
Economic and environmental planning	-	-	-	-	-	132,914	132,914
Housing	-	-	60,352	-	-	-	60,352
Management and general	140,895	-	-	-	-	-	140,895
Transportation	-	-	-	250,256	-	-	250,256
Community Development	-	-	-	-	125,135	-	125,135
Capital outlay	-	6,099	-	-	-	-	6,099
<b>Total expenditures</b>	<u>140,895</u>	<u>2,442,962</u>	<u>60,352</u>	<u>250,256</u>	<u>125,135</u>	<u>132,914</u>	<u>3,152,514</u>
Excess (deficiency) of revenues over (under) expenditures	<u>74,095</u>	<u>84,937</u>	<u>(4,664)</u>	<u>795</u>	<u>38,982</u>	<u>(11,519)</u>	<u>182,626</u>
Other financing sources (uses)							
Transfer in	18,050	-	-	-	-	33,707	51,757
Transfer out	(46,447)	(2,727)	(587)	(795)	(738)	(463)	(51,757)
Total other financing sources (uses)	<u>(28,397)</u>	<u>(2,727)</u>	<u>(587)</u>	<u>(795)</u>	<u>(738)</u>	<u>33,244</u>	<u>-</u>
Net change in fund balances	45,698	82,210	(5,251)	-	38,244	21,725	<u>182,626</u>
Fund balances, July 1, 2013	<u>358,225</u>	<u>70,201</u>	<u>572,080</u>	<u>-</u>	<u>135,907</u>	<u>-</u>	<u>1,136,413</u>
<b>FUND BALANCES, June 30, 2014</b>	<u>\$ 403,923</u>	<u>\$ 152,411</u>	<u>\$ 566,829</u>	<u>\$ -</u>	<u>\$ 174,151</u>	<u>\$ 21,725</u>	<u>\$ 1,319,039</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**  
**Year Ended June 30, 2014**

**Net change in fund balances - Total governmental funds** \$ 182,626

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.

Expenditures for capital assets	6,099	
Less current year depreciation	<u>(36,160)</u>	
Excess capital expenditures over depreciation		(30,061)

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	<u>7,258</u>	
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**Change in net position of governmental activities** \$ 159,823

*See accompanying notes to financial statements.*

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Notes to Financial Statements**  
June 30, 2014

***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, 2014

***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, 2014

**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 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 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, 2014

**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. 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
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.



**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Notes to Financial Statements**  
June 30, 2014

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**K. Impact of Recently Issued Accounting Principles**

In March 2012, the GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Upon implementation, it is anticipated that this statement will cause a restatement of beginning net position of the Governmental Activities.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Arizona Revised Statutes (A.R.S.) authorize the Organization 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 percent of all deposits not covered by federal depository insurance.

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, 2014, the carrying amount of SEAGO’s total cash in bank was \$77,811 and the bank balance was \$83,547. Of the bank balance \$83,547 was covered by federal depository insurance.

*Investments* – At June 30, 2014, the investments consisted of the following.

Investment	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 700	Unrated	<u>\$ 1,076,550</u>	<u>\$ 1,076,550</u>

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Notes to Financial Statements**  
June 30, 2014

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 25,825	\$ -	\$ -	\$ 25,825
Capital assets being depreciated:				
Furniture and equipment	148,629	6,099	-	154,728
Leasehold improvements	261,934	-	-	261,934
Building	323,010	-	-	323,010
<b>Total</b>	<u>733,573</u>	<u>6,099</u>	<u>-</u>	<u>739,672</u>
Less accumulated depreciation for:				
Furniture and equipment	(128,110)	(6,704)	-	(134,814)
Leasehold improvements	(87,311)	(17,462)	-	(104,773)
Building	(5,220)	(11,994)	-	(17,214)
<b>Total</b>	<u>(220,641)</u>	<u>(36,160)</u>	<u>-</u>	<u>(256,801)</u>
Total capital assets being depreciated, net	<u>1,025,864</u>	<u>(60,122)</u>	<u>-</u>	<u>482,871</u>
<b>Governmental activities capital assets, net</b>	<u>\$1,025,864</u>	<u>\$ (60,122)</u>	<u>\$ -</u>	<u>\$ 508,696</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Aging programs	\$ 20,672
Economic and environmental planning	980
Transportation	2,287
Housing	654
Community Developmental Block Grant	1,176
Management and general	<u>10,391</u>
Total governmental activities depreciation expense	<u>\$ 36,160</u>



**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Notes to Financial Statements**  
June 30, 2014

**NOTE 4 – 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, 2014, follows:

Balance at July 1, 2013	\$ 35,609
Additions to compensated absences	17,200
Reductions to compensated absences	<u>(24,458)</u>
 Balance at June 30, 2014	 <u><u>\$ 28,351</u></u>

**NOTE 5 – INTERFUND TRANSACTIONS**

Interfund receivable and payable balances at June 30, 2014, were as follows:

Payable from	Payable to General Fund
Transportation	\$ 51,410
Economic and Environmental Planning	1,113
	<u><u>\$ 52,523</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.

Interfund transfers for the year ended June 30, 2014 consisted of the following:

Transfer to	Transfer from General Fund
Economic and Environmental Planning	\$ 33,707
	<u><u>\$ 33,707</u></u>

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Notes to Financial Statements**  
June 30, 2014

***NOTE 6 – CONTINGENT LIABILITY***

SEAGO participates, as both a pass-through and a contractor, 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 7 – 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 8 – CONCENTRATIONS***

Although SEAGO administers multiple government grant programs, SEAGO depends on one contract for approximately 86% of its grant revenue and 73% of total revenue included in these financial statements. This revenue source is from the Aging and Adult Administration contract with the Arizona Department of Economic Security. Decreases in funding or discontinuance of this program in future years may have a significant effect upon the operations of the Organization.

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Notes to Financial Statements**  
June 30, 2014

***NOTE 9 – PENSION PLAN***

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of SEAGO. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the following:

ASRS  
3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or (800) 621-3778

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and SEAGO's contribution rates.

*Cost-sharing plans* – For the year ended June 30, 2014, active ASRS members and SEAGO were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll. SEAGO's contributions to ASRS for the years ended June 30, 2014, 2013, and 2012 were \$54,803, \$52,350, and \$60,948, respectively, which were equal to the required contributions for the year.

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of Health and Human Services</u></b>			
<b>Passed through the Arizona Department of Economic Security</b>			
<b>Aging Cluster</b>			
Special Programs for the Aging--Title III, Part B-- Grants for Supportive Services and Senior Centers	93.044	DE1-11040-001	297,029
Special Programs for the Aging--Title III, Part C-- Nutrition Services	93.045	DE1-11040-001	574,097
Nutrition Services Incentive Program	93.053	DE1-11040-001	<u>79,191</u>
Total Aging Cluster			950,317
Special Programs for the Aging--Title VII, Chapter 2--Long Term Care Ombudsman Services For Older Individuals	93.042	DE1-11040-001	31,530
Special Programs for the Aging--Title III, Part D--Disease Prevention and Health Promotion Services	93.043	DE1-11040-001	24,142
National Family Caregiver Support	93.052	DE1-11040-001	122,391
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	DE1-11040-001	6,500
Social Services Block Grant	93.667	DE1-11040-001	723,362
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	DE1-11040-001	<u>61,009</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>1,919,251</u></b>
<b><u>U.S. Department of Transportation</u></b>			
<b>Passed through the Arizona Department of Transportation</b>			
<b>Transit Services Programs Cluster</b>			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	JPA 11-016	<u>20,000</u>
Total Transit Services Programs Cluster			20,000
Metropolitan Transportation Planning	20.505	JPA 13-097	2,284
Metropolitan Transportation Planning	20.505	AZ-65-X006	73,401
Formula Grants for Other Than Urbanized Areas	20.509	JPA 11-016	16,341
Highway Planning and Construction	20.205	JPA 11-016	<u>139,025</u>
<b>Total Department of Transportation</b>			<b><u>251,051</u></b>

*See accompanying notes to financial statements.*

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Schedule of Expenditures of Federal Awards-continued**  
**Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Environmental Protection Agency</u></b>			
<b>Passed through the Arizona Department of Environmental Quality</b>			
Water Quality Management Planning	66-454	EV09-0150	3,201
<b>Total U.S. Environmental Protection Agency</b>			<b>3,201</b>
<b><u>U.S. Department of Commerce</u></b>			
Economic Development_Support for Planning Organizations	11-302	07-83-06852	75,000
<b>Total U.S. Department of Commerce</b>			<b>75,000</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b>Passed through the Arizona Department of Housing</b>			
Housing Counseling Assistance Program	14-169	327-08	15,540
Housing Counseling Assistance Program	14-169	2013-01	11,980
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14-228	135-13	10,000
<b>Total U.S. Department of Housing and Urban Development</b>			<b>37,520</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 2,286,023</b>

*See accompanying notes to financial statements.*

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Notes to Schedule of Expenditures of Federal Awards**  
June 30, 2014

***NOTE 1 – BASIS OF PRESENTATION***

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Southeastern Arizona Governments Organization and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OBM Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

***NOTE 2 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER***

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*.



**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  
Bisbee, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Arizona Governments Organization (SEAGO), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SEAGO's basic financial statements, and have issued our report thereon dated February 9, 2015.

**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. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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*.

### **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.

*Colby + Powell*

February 9, 2015





COLBY &  
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Executive Board  
Southeastern Arizona Governments Organization  
Bisbee, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited Southeastern Arizona Governments Organization's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Southeastern Arizona Governments Organization's major federal programs for the year ended June 30, 2014. Southeastern Arizona Governments Organization'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 Southeastern Arizona Governments Organization'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Southeastern Arizona Governments Organization'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.

### **Basis for Qualified Opinion on the Aging Cluster**

As described in the accompanying schedule of findings and questioned costs, Southeastern Arizona Governments Organization did not comply with requirements regarding subrecipient monitoring as found in item 2014-01. Compliance with such requirements is necessary, in our opinion, for Southeastern Arizona Governments Organization to comply with the requirements applicable to that program.

### **Qualified Opinion on the Aging Cluster**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Southeastern Arizona Governments Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Aging Cluster for the year ended June 30, 2014.

### **Other Matters**

Southeastern Arizona Governments Organization's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Southeastern Arizona Governments Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Southeastern Arizona Governments Organization 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 Southeastern Arizona Governments Organization'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 OMB Circular A-133, 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 Southeastern Arizona Governments Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-01 to be a material weakness.

Southeastern Arizona Governments Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Southeastern Arizona Governments Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Colby + Powell*

February 9, 2015

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Schedule of Findings and Questioned Costs**  
June 30, 2014

**Section 1 – Summary of Auditors’ Results**

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***Financial Statements***

- |  |             |
|--|-------------|
| 1. Type of auditors’ report issued:  | Unqualified |
| 2. Internal control over financial reporting:                                    |             |
| a. Material weaknesses?  | No          |
| b. Significant deficiencies identified not considered to be material weaknesses? | No          |
| c. Noncompliance material to the financial statements noted?                     | No          |

***Federal Awards***

- |  |                    |
|--|--------------------|
| 1. Internal control over major programs:   |                    |
| a. Material weaknesses identified?   | Yes                |
| b. Significant deficiencies identified not considered to be material weaknesses?   | No                 |
| 2. Type of auditor’s report issued on compliance for major programs:   | Unqualified        |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510 (a)? | Yes                |
| 4. Identification of major programs:   |                    |
| <u>Name of Federal Program</u>   | <u>CFDA Number</u> |
| Aging Cluster:   |                    |
| Special Programs for the Aging—Title III, Part B—<br>Grants for Supportive services and Senior Center                    | 93.044             |
| Special Programs for the Aging—Title III, Part C—<br>Nutrition Services  | 93.045             |
| Nutrition Services Incentive Program   | 93.053             |
| Social Services Block Grant  | 93.667             |
| 5. Dollar threshold used to distinguish between Type A and Type B programs:  | \$ 300,000         |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?  | No                 |

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Schedule of Findings and Questioned Costs-continued**  
June 30, 2014

*Financial Statement Findings*

None

*Federal Award Findings and Questioned Costs*

Item: 2014-01

**U.S. Department of Health and Human Services**

Social Services Block Grant – CFDA No. 93.667

Aging Cluster:

Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers – CFDA No. 93.044

Special Programs for the Aging-Title III, Part C-Nutrition Services – CFDA No. 93.045

Nutrition Services Incentive Program – CFDA No. 93.053

Grant Number: DE1-11040-001      Grant Period: Year Ended June 30, 2014

Criteria – To ensure that subrecipients are in compliance with the requirements of the grant, SEAGO is required to perform financial monitoring of subrecipients.

Condition – SEAGO did a limited amount of financial monitoring of subrecipients.

Cause/Effect – During the year, a new director over the program was hired and did not complete the financial monitoring of subrecipients. A non-compliance in grant requirements could occur and be undetected by SEAGO.

Recommendation – We recommend that SEAGO establish a system to ensure that all subrecipients receive financial monitoring every year.

Response – Management agrees with this finding and will implement procedures to insure that all subrecipients receive financial monitoring.

**SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION**  
**Summary Schedule of Prior Audit Findings**  
June 30, 2014

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

The Organization had no Single audit findings for the year ended June 30, 2013.