

**SOUTHEASTERN ARIZONA
GOVERNMENTS ORGANIZATION**

Financial Statements
and
Independent Auditors' Reports

June 30, 2013

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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, 2013, 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, 2013, 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.

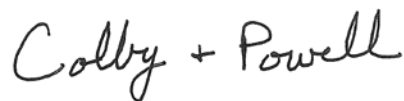
Other Information

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 October 18, 2013, 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.



October 18, 2013

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Net Position
June 30, 2013

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 824,359
Due from other governments	723,674
Other receivables	206
Prepaid expenses	9,671
Capital assets, not being depreciated	25,825
Capital assets, being depreciated, net	512,932
Total assets	2,096,667
Liabilities	
Accounts payable	334,695
Accrued expenses	84,229
Due to grantor	2,573
Compensated absences payable	35,609
Total liabilities	457,106
Net Position	
Invested in capital assets, net of related debt	538,757
Unrestricted	1,100,804
Total net position	\$ 1,639,561

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Activities
Year Ended June 30, 2013

Functions / Programs	Expenses	Indirect Expenses Allocation	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Total
Primary government:					
Governmental activities					
Aging programs	\$ 2,501,294	\$ 65,907	\$ -	\$ 2,540,756	\$ (26,445)
Economic and environmental planning	100,995	18,658	-	75,721	(43,932)
Transportation	269,677	27,973	-	293,974	(3,676)
Community development	121,570	31,586	160,789	10,000	17,633
Housing	69,229	17,349	5,138	46,276	(35,164)
Management and general	188,429	(161,472)	-	-	(26,957)
Total governmental activities	<u>3,251,195</u>	<u>-</u>	<u>165,927</u>	<u>2,966,727</u>	<u>(118,541)</u>
General revenue:					
					77,671
					19,196
					1,291
					(3,574)
					<u>94,584</u>
					(23,957)
					1,663,518
					<u>\$ 1,639,561</u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Balance Sheet
June 30, 2013

	General Fund	Area Agency on Aging	Housing	Transportation	CDBG	Economic and Environmental Planning	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 184,813	\$ 8,799	\$ 562,439	\$ -	\$ 68,308	-	\$ 824,359
Due from other governments	-	457,073	9,532	165,079	67,800	24,190	723,674
Due from other funds	181,662	-	-	-	-	-	181,662
Other receivables	45	-	161	-	-	-	206
Prepaid expenses	9,221	292	28	50	55	25	9,671
TOTAL ASSETS	\$ 375,741	\$ 466,164	\$ 572,160	\$ 165,129	\$ 136,163	\$ 24,215	\$ 1,739,572
Liabilities							
Accounts payable	\$ 6,156	\$ 323,094	\$ 80	\$ 3,959	\$ 256	\$ 1,150	\$ 334,695
Accrued expenses	11,360	72,869	-	-	-	-	84,229
Due to grantor	-	-	-	2,573	-	-	2,573
Due to other funds	-	-	-	158,597	-	23,065	181,662
Total liabilities	17,516	395,963	80	165,129	256	24,215	603,159
Fund balances							
Unspendable	9,221	292	28	50	55	25	9,671
Unassigned	349,004	69,909	572,052	(50)	135,852	(25)	1,126,742
Total fund balances	358,225	70,201	572,080	-	135,907	-	1,136,413
TOTAL LIABILITIES AND FUND BALANCES	\$ 375,741	\$ 466,164	\$ 572,160	\$ 165,129	\$ 136,163	\$ 24,215	\$ 1,739,572

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, 2013

Fund balances - Total governmental funds	\$ 1,136,413
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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	759,397	
Less accumulated depreciation	<u>(220,640)</u>	
Capital assets used in governmental activities		538,757

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

Compensated absences	<u>(35,609)</u>
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Net position of governmental activities	<u><u>\$ 1,639,561</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, 2013

	<u>General Fund</u>	<u>Area Agency on Aging</u>	<u>Housing</u>	<u>Transportation</u>	<u>Community Development Block Grant</u>	<u>Economic and Environmental Planning</u>	<u>Total Governmental Funds</u>
Revenues							
Intergovernmental	-	2,540,756	\$ 46,276	293,974	10,000	75,721	\$ 2,966,727
Indirect charges	166,106	-	-	-	-	-	166,106
Fee for services	-	-	5,138	-	160,789	-	165,927
Local government assessments	77,671	-	-	-	-	-	77,671
Other	12,989	-	380	-	-	5,827	19,196
Interest	1,282	-	-	-	-	9	1,291
Loss on investment	(3,574)	-	-	-	-	-	(3,574)
Total revenues	<u>254,474</u>	<u>2,540,756</u>	<u>51,794</u>	<u>293,974</u>	<u>170,789</u>	<u>81,557</u>	<u>3,393,344</u>
Expenditures							
Current							
Aging programs	-	2,544,968	-	-	-	-	2,544,968
Economic and environmental planning	-	-	-	-	-	118,057	118,057
Housing	-	-	85,968	-	-	-	85,968
Management and general	182,383	-	-	-	-	-	182,383
Transportation	-	-	-	295,174	-	-	295,174
Community Development	-	-	-	-	151,718	-	151,718
Capital outlay	176,663	-	-	-	-	-	176,663
Total expenditures	<u>359,046</u>	<u>2,544,968</u>	<u>85,968</u>	<u>295,174</u>	<u>151,718</u>	<u>118,057</u>	<u>3,554,931</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(104,572)</u>	<u>(4,212)</u>	<u>(34,174)</u>	<u>(1,200)</u>	<u>19,071</u>	<u>(36,500)</u>	<u>(161,587)</u>
Other financing sources (uses)							
Transfer in	50,439	-	-	22,961	-	38,323	111,723
Transfer out	-	(111,723)	-	-	-	-	(111,723)
Total other financing sources (uses)	<u>50,439</u>	<u>(111,723)</u>	<u>-</u>	<u>22,961</u>	<u>-</u>	<u>38,323</u>	<u>-</u>
Net change in fund balances	(54,133)	(115,935)	(34,174)	21,761	19,071	1,823	(161,587)
Fund balances, July 1, 2012	<u>412,358</u>	<u>186,136</u>	<u>606,254</u>	<u>(21,761)</u>	<u>116,836</u>	<u>(1,823)</u>	<u>1,298,000</u>
FUND BALANCES, June 30, 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>

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, 2013

Net change in fund balances - Total governmental funds \$ (161,587)

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	176,663	
Less current year depreciation	<u>(34,491)</u>	
Excess capital expenditures over depreciation		142,172

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>(4,542)</u>	
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Change in net position of governmental activities \$ (23,957)

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2013

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, 2013

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, 2013

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, 2013

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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Impact of Recently Issued Accounting Principles

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants'(AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the SEAGO's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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, 2013, the carrying amount of SEAGO's total cash in bank was \$160,883 and the bank balance was \$175,196. Of the bank balance \$175,196 was covered by federal depository insurance.

Investments – At June 30, 2013, the investments consisted of the following.

<u>Investment</u>	<u>Credit Rating</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Arizona LGIP Pool 700	Unrated	<u>\$ 663,476</u>	<u>\$ 663,476</u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2013

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,825	\$ -	\$ -	\$ 25,825
Capital assets being depreciated:				
Furniture and equipment	148,629	-	-	148,629
Leasehold improvements	261,934	-	-	261,934
Building	146,347	176,663	-	323,010
Total	<u>556,910</u>	<u>176,663</u>	<u>-</u>	<u>733,573</u>
Less accumulated depreciation for:				
Furniture and equipment	(116,301)	(11,809)	-	(128,110)
Leasehold improvements	(69,849)	(17,462)	-	(87,311)
Building	-	(5,220)	-	(5,220)
Total	<u>(186,150)</u>	<u>(34,491)</u>	<u>-</u>	<u>(220,641)</u>
Total capital assets being depreciated, net	<u>741,520</u>	<u>284,344</u>	<u>-</u>	<u>512,932</u>
Governmental activities capital assets, net	<u>\$ 741,520</u>	<u>\$ 284,344</u>	<u>\$ -</u>	<u>\$ 538,757</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Aging programs	\$ 20,189
Economic and environmental planning	915
Transportation	2,135
Housing	610
Community Developmental Block Grant	1,098
Management and general	<u>9,544</u>
 Total governmental activities depreciation expense	 <u>\$ 34,491</u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2013

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, 2013, follows:

Balance at July 1, 2012	\$ 31,067
Additions to compensated absences	28,645
Reductions to compensated absences	<u>(24,103)</u>
 Balance at June 30, 2013	 <u><u>\$ 35,609</u></u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund receivable and payable balances at June 30, 2013, were as follows:

<u>Payable from</u>	<u>Payable to General Fund</u>
Transportation	\$ 158,597
Economic and Environmental Planning	<u>23,065</u>
	<u><u>\$ 181,662</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, 2013 consisted of the following:

<u>Transfer to</u>	<u>Transfer from Area Agency on Aging</u>
General Fund	\$ 50,439
Economic and Environmental Planning	38,323
Transportation	<u>22,961</u>
	<u><u>\$ 111,723</u></u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2013

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 75% 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, 2013

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, 2013, active ASRS members and SEAGO were each required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 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, 2013, 2012, and 2011 were \$52,350, \$60,948, and \$68,232, 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, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	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	DE1-11040-001	368,341
Special Programs for the Aging--Title III, Part C-- Nutrition Services	93.045	DE1-11040-001	636,797
Nutrition Services Incentive Program	93.053	DE1-11040-001	<u>97,644</u>
Total Aging Cluster			1,102,782
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services For Older Individuals	93.042	DE1-11040-001	20,353
Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	DE1-11040-001	20,827
National Family Caregiver Support	93.052	DE1-11040-001	153,071
Social Services Block Grant	93.667	DE1-11040-001	725,173
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	DE1-11040-001	<u>21,094</u>
Total U.S. Department of Health and Human Services			<u>2,043,300</u>
<u>U.S. Department of Transportation</u>			
Passed through the Arizona Department of Transportation			
Transit Services Programs Cluster			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	JPA 11-016	<u>26,600</u>
Total Transit Services Programs Cluster			26,600
Metropolitan Transportation Planning	20.516	JPA 13-097	41,956
Formula Grants for Other Than Urbanized Areas	20.509	JPA 11-016	12,679
Highway Planning and Construction	20.205	JPA 11-016	<u>212,739</u>
Total Department of Transportation			<u>293,974</u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Expenditures of Federal Awards-continued
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Environmental Protection Agency</u>			
Passed through the Arizona Department of Environmental Quality			
Water Quality Management Planning	66.454	EV09-0150	5,721
Total U.S. Environmental Protection Agency			5,721
<u>U.S. Department of Commerce</u>			
Economic Development_Support for Planning Organizations	11.302	07-83-06852	70,000
Total U.S. Department of Commerce			70,000
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Arizona Department of Commerce			
Housing Counseling Assistance Program	14.169	HC120921032	4,091
Passed through the Arizona Department of Housing			
Housing Counseling Assistance Program	14.169	327-08	18,150
Housing Counseling Assistance Program	14.169	2010-02/2013-01	24,035
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	135-13	10,000
Total U.S. Department of Housing and Urban Development			56,276
<u>U.S. Department of Agriculture</u>			
Passed through the Arizona Department of Health Service			
Commodity Supplemental Food Program	10.565	ADHS 12-014080	6,325
Senior Farmers Market Nutrition Program	10.576	ADHS 12-014080	111
			6,436
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,475,707

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Schedule of Expenditures of Federal Awards

June 30, 2013

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 2013 *Catalog of Federal Domestic Assistance*.



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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
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, 2013, and the related notes to the financial statements, which collectively comprise SEAGO's basic financial statements, and have issued our report thereon dated October 18, 2013.

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

October 18, 2013



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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 (SEAGO)'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 SEAGO's major federal programs for the year ended June 30, 2013. SEAGO's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SEAGO's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 SEAGO's compliance.

Opinion on Each Major Federal Program

In our opinion, 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, 2013.

Report on Internal Control Over Compliance

Management of SEAGO is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SEAGO's internal control over compliance with the types of requirements that could have a direct and material effect on 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Colby + Powell

October 18, 2013

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Findings and Questioned Costs
June 30, 2013

Section 1 – Summary of Auditors’ Results

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? | No |
| 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)? | No |
| 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—
Grants for Supportive services and Senior Center | 93.044 |
| Special Programs for the Aging—Title III, Part C—
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, 2013

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Summary Schedule of Prior Audit Findings
June 30, 2013

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

Item: 12-01 *Preparation of the working trial balance*

Condition: The Organization did not reconcile bank accounts on a timely basis.

Status: No similar finding was noted for 2013.