

**SOUTHEASTERN ARIZONA
GOVERNMENTS ORGANIZATION**

Financial Statements
and
Independent Auditors' Reports

June 30, 2015

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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, 2015, 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, 2015, and the respective changes in financial position for the

year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement Nos. 68 and 71. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

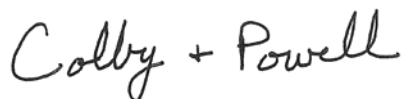
Other Information

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 December 31, 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.



December 31, 2015

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,240,575
Due from other governments	460,354
Other receivables	5,330
Prepaid expenses	11,053
Capital assets, not being depreciated	25,825
Capital assets, being depreciated, net	<u>446,750</u>
Total assets	<u>2,189,887</u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	<u>97,784</u>
Liabilities	
Accounts payable	273,096
Accrued expenses	61,484
Compensated absences payable	28,916
Noncurrent liability	
Net pension liability	<u>789,615</u>
Total liabilities	<u>1,153,111</u>
Deferred Inflows of Resources	
Deferred inflows related to pensions	<u>150,690</u>
Net Position	
Net investment in capital assets	472,575
Unrestricted	<u>511,295</u>
Total net position	<u><u>\$ 983,870</u></u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Activities
Year Ended June 30, 2015

Functions / Programs	Expenses	Indirect Expenses Allocation	Program Revenue			Net (Expenses)
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
						Total
Primary government:						
Governmental activities						
Aging programs	\$ 2,113,306	\$ 57,999	\$ -	\$ 2,159,308	\$ -	\$ (11,997)
Economic and environmental planning	94,120	12,286	-	68,288	-	(38,118)
Transportation	280,032	32,176	-	312,832	-	624
Community development	96,128	13,969	116,841	10,000	-	16,744
Housing	64,633	9,993	120	94,135	-	19,629
Management and general	158,254	(126,423)	-	-	-	(31,831)
Total governmental activities	2,806,473	-	116,961	2,644,563	-	(44,949)
General revenue:						
						71,398
Assessment income						831
Other income						6,116
Interest income						4,787
Gain on investment						
						<u>83,132</u>
Total general revenue						38,183
Change in net position						945,687
Net position, beginning of year, restated						<u>\$ 983,870</u>
Net position, end of year						

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Balance Sheet
June 30, 2015

	<u>General Fund</u>	<u>Area Agency on Aging</u>	<u>Housing</u>	<u>Transportation</u>	<u>CDBG</u>	<u>Economic and Environmental Planning</u>	<u>Total Governmental Funds</u>
Assets							
Cash and cash equivalents	\$ 365,071	\$ 130,060	\$ 582,281	\$ -	\$ 157,918	\$ 5,245	\$ 1,240,575
Due from other governments	-	321,349	6,126	88,762	34,332	9,785	460,354
Due from other funds	72,341	-	-	-	-	-	72,341
Other receivables	-	-	-	5,330	-	-	5,330
Prepaid expenses	8,859	1,169	311	595	62	57	11,053
TOTAL ASSETS	<u>\$ 446,271</u>	<u>\$ 452,578</u>	<u>\$ 588,718</u>	<u>\$ 94,687</u>	<u>\$ 192,312</u>	<u>\$ 15,087</u>	<u>\$ 1,789,653</u>
Liabilities							
Accounts payable	\$ 3,113	\$ 255,360	\$ 252	\$ 14,008	\$ 217	\$ 146	\$ 273,096
Accrued expenses	3,441	43,507	2,008	8,338	1,996	2,194	61,484
Due to other funds	-	-	-	72,341	-	-	72,341
Total liabilities	<u>6,554</u>	<u>298,867</u>	<u>2,260</u>	<u>94,687</u>	<u>2,213</u>	<u>2,340</u>	<u>406,921</u>
Fund balances							
Nonspendable	8,859	1,169	311	595	62	57	11,053
Unassigned	430,858	152,542	586,147	(595)	190,037	12,690	1,371,679
Total fund balances	<u>439,717</u>	<u>153,711</u>	<u>586,458</u>	<u>-</u>	<u>190,099</u>	<u>12,747</u>	<u>1,382,732</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 446,271</u>	<u>\$ 452,578</u>	<u>\$ 588,718</u>	<u>\$ 94,687</u>	<u>\$ 192,312</u>	<u>\$ 15,087</u>	<u>\$ 1,789,653</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, 2015

Fund balances - Total governmental funds	\$ 1,382,732
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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	765,496	
Less accumulated depreciation	<u>(292,921)</u>	
Capital assets used in governmental activities		472,575

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

Compensated absences	(28,916)
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Long-term liabilities, such as net pension liabilities are not due and payable in the current period and, therefore, are not reported as a liability in the funds.

	(789,615)
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Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

	<u>(40,295)</u>
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Net position of governmental activities	<u><u>\$ 996,481</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, 2015

	<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	-	2,159,308	\$ 94,005	312,832	10,000	68,288	\$ 2,644,433
Indirect charges	127,080	-	-	-	-	-	127,080
Fee for services	-	-	120	-	116,841	-	116,961
Local government assessments	71,398	-	-	-	-	-	71,398
Other	831	-	130	-	-	-	961
Interest	6,116	-	-	-	-	-	6,116
Gain on investment	4,787	-	-	-	-	-	4,787
Total revenues	<u>210,212</u>	<u>2,159,308</u>	<u>94,255</u>	<u>312,832</u>	<u>126,841</u>	<u>68,288</u>	<u>2,971,736</u>
Expenditures							
Current							
Aging programs	-	2,155,281	-	-	-	-	2,155,281
Economic and environmental planning	-	-	-	-	-	107,522	107,522
Housing	-	-	74,024	-	-	-	74,024
Management and general	149,166	-	-	-	-	-	149,166
Transportation	-	-	-	311,786	-	-	311,786
Community Development	-	-	-	-	110,264	-	110,264
Total expenditures	<u>149,166</u>	<u>2,155,281</u>	<u>74,024</u>	<u>311,786</u>	<u>110,264</u>	<u>107,522</u>	<u>2,908,043</u>
Excess (deficiency) of revenues over (under) expenditures	<u>61,046</u>	<u>4,027</u>	<u>20,231</u>	<u>1,046</u>	<u>16,577</u>	<u>(39,234)</u>	<u>63,693</u>
Other financing sources (uses)							
Transfer in	17,877	-	-	172	-	30,731	48,780
Transfer out	(43,129)	(2,727)	(602)	(1,218)	(629)	(475)	(48,780)
Total other financing sources (uses)	<u>(25,252)</u>	<u>(2,727)</u>	<u>(602)</u>	<u>(1,046)</u>	<u>(629)</u>	<u>30,256</u>	<u>-</u>
Net change in fund balances	35,794	1,300	19,629	-	15,948	(8,978)	63,693
Fund balances, Beginning	<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>
FUND BALANCES, ENDING	<u>\$ 439,717</u>	<u>\$ 153,711</u>	<u>\$ 586,458</u>	<u>\$ -</u>	<u>\$ 190,099</u>	<u>\$ 12,747</u>	<u>\$ 1,382,732</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, 2015

Net change in fund balances - Total governmental funds \$ 63,693

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

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

Less current year depreciation (36,121)

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

SEAGO pension contributions	57,653	
Pension expense	(46,477)	
		11,176

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 (565)

Change in net position of governmental activities **\$ 38,183**

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2015

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, 2015

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, 2015

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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. *Budgetary Comparison*

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

I. *Indirect Expenses*

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

J. *Deferred Outflows and Inflows of Resources*

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

K. *Pensions*

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

L. *Fund Balance Reporting*

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

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Fund Balance Reporting - Continued

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

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

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

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

M. Impact of Recently Issued Accounting Principles

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. SEAGO implemented this standard during this fiscal period. See the subsequent notes for further details.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*—an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The SEAGO implemented this standard during this fiscal period. See the subsequent notes for further details.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2015

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, 2015, the carrying amount of SEAGO’s total cash in bank was \$152,331 and the bank balance was \$264,102. Of the bank balance \$264,102 was covered by federal depository insurance.

Investments – At June 30, 2015, 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>\$ 1,088,244</u>	<u>\$ 1,088,244</u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2015

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Balance July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,825	\$ -	\$ -	\$ 25,825
Capital assets being depreciated:				
Furniture and equipment	154,728	-	-	154,728
Leasehold improvements	261,934	-	-	261,934
Building	<u>323,010</u>	<u>-</u>	<u>-</u>	<u>323,010</u>
Total	<u>739,672</u>	<u>-</u>	<u>-</u>	<u>739,672</u>
Less accumulated depreciation for:				
Furniture and equipment	(134,814)	(6,830)	-	(141,644)
Leasehold improvements	(104,773)	(17,462)	-	(122,235)
Building	<u>(17,214)</u>	<u>(11,829)</u>	<u>-</u>	<u>(29,043)</u>
Total	<u>(256,801)</u>	<u>(36,121)</u>	<u>-</u>	<u>(292,922)</u>
Total capital assets being depreciated, net	<u>965,742</u>	<u>(72,242)</u>	<u>-</u>	<u>446,750</u>
Governmental activities capital assets, net	<u>\$ 965,742</u>	<u>\$ (72,242)</u>	<u>\$ -</u>	<u>\$ 472,575</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Aging programs	\$ 20,799
Economic and environmental planning	475
Transportation	1,218
Housing	602
Community Developmental Block Grant	629
Management and general	<u>12,398</u>
 Total governmental activities depreciation expense	 <u>\$ 36,121</u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2015

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, 2015, follows:

Balance at July 1, 2014	\$ 28,351
Additions to compensated absences	20,994
Reductions to compensated absences	<u>(20,429)</u>
 Balance at June 30, 2015	 <u><u>\$ 28,916</u></u>

NOTE 5 – NET PENSION LIABILITY

Pension – Employees participate in the Arizona State Retirement System. A summary of changes in the liability for the net pension liability for the year ended June 30, 2015, follows:

Balance at July 1, 2014	\$ 905,169
Reductions to pension liability	<u>(115,554)</u>
	<u><u>\$ 789,615</u></u>

NOTE 6 – INTERFUND TRANSACTIONS

Interfund receivable and payable balances at June 30, 2015, were as follows:

	<u>Payable from</u>	<u>Payable to</u>
		<u>General</u>
		<u>Fund</u>
	<u>Transportation</u>	<u>\$ 72,513</u>
		<u><u>\$ 72,513</u></u>

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2015

NOTE 6 – INTERFUND TRANSACTIONS - Continued

Interfund transfers for the year ended June 30, 2015 consisted of the following:

Transfer from	Transfer to Economic and Environmental Planning
General Fund	25,252
Area Agency on Aging Housing	2,727
Transportation	602
Community Development	1,046
	629
	\$ 30,256

NOTE 7 – CONTINGENT LIABILITY

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

NOTE 8 – 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 9 – CONCENTRATIONS

Although SEAGO administers multiple government grant programs, SEAGO depends on two grants for approximately 94% of its grant revenue and 84% of total revenue included in these financial statements. These revenue sources are from the Aging and Adult Administration grant with the Arizona Department of Economic Security and Transportation grant with the Arizona Department of Transportation. Decreases in funding or discontinuance of these programs in future years may have a significant effect upon the operations of the Organization.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2015

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Governmental Activities
Net position as previously reported at June 30, 2014	\$ <u>1,799,384</u>
Prior period adjustments-implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2014)	(905,169)
Deferred outflows-SEAGO contributions made during fiscal year 2014	<u>51,472</u>
Total prior period adjustment	<u>(853,697)</u>
Net position, as restated, June 30, 2014	\$ <u><u>945,687</u></u>

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS

SEAGO contributes to the Arizona State Retirement System (ASRS). This plan is a component unit of the State of Arizona.

At June 30, 2015, SEAGO reported the following aggregate amounts related to pensions to which it contributed:

Statement of Net Position and Statement of Activities	<u>Governmental Activities</u>
Net pension liabilities	\$ 789,615
Deferred outflows of resources	97,784
Deferred inflows of resources	138,079
Pension expense	46,477

SEAGO reported \$61,478 of pension expenditures in the governmental funds related to pension plans contributes.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2015

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

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

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2015

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and SEAGO was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. SEAGO’S contributions to the pension plan for the year ended June 30, 2015, were \$60,850. SEAGO’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

	Health Benefit Supplement		Long-term Disability Fund	
Year ended June 30,	Fund		Long-term Disability Fund	
2015	\$	3,197	\$	628
2014		2,917		1,162
2013		2,780		1,107

Pension Liability – At June 30, 2015, the SEAGO reported a liability of \$789,615 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. SEAGO’s proportion of the net pension liability was based on SEAGO’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2014. SEAGO’s proportion measured as of June 30, 2014, was .005336 percent, which was a decrease of .000109 from its proportion measured as of June 30, 2013.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2015, SEAGO recognized pension expense for ASRS of \$61,478. At June 30, 2015, SEAGO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of		Deferred Inflows of	
	Resources		Resources	
Differences between expected and actual experience	\$	40,131	\$	-
Net difference between projected and actual earnings on pension plan investments		-		138,079
Changes in proportion and differences between SEAGO contributions and proportionate share of contributions		-		12,611
SEAGO contributions subsequent to the measurement date		57,653		-
Total	\$	97,784	\$	150,690

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2015

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

The \$57,653 reported as deferred outflows of resources related to ASRS pensions resulting from SEAGO contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,		
2016	\$	(22,555)
2017		(22,555)
2018		(30,930)
2019		(34,519)
2020		-
Thereafter		-

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

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.50%
Commodities	4%	4.75%
Total	<u>100%</u>	

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Notes to Financial Statements

June 30, 2015

NOTE 11 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS - Continued

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
SEAGO's proportionate share of the net pension liability	\$ 998,033	\$ 789,615	\$ 676,538

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

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Required Supplementary Information
Schedule of SEAGO's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2015 (2014)	2014 through 2006
SEAGO's proportion of the net pension liability	0.005336%	Information
SEAGO's proportionate share of the net pension liability	\$ 789,615	not available
SEAGO's covered-employee payroll	\$ 529,985	
SEAGO's proportionate share of the net pension liability as a percentage of its covered-employee payroll	148.99%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Required Supplementary Information
Schedule of SEAGO Pension Contributions
June 30, 2015

Arizona State Retirement System

	<u>Reporting Fiscal Year</u>		
	2015	2014	2013 through 2006
Statutorily required contribution	\$ 57,653	\$ 51,472	Information not available
SEAGO's contributions in relation to the statutorily required contribution	<u>(57,653)</u>	<u>(51,472)</u>	
SEAGO's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
SEAGO's covered-employee payroll	\$ 529,985	\$ 486,168	
SEAGO's contributions as a percentage of covered-employee payroll	10.88%	10.59%	

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

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	237,982
Special Programs for the Aging--Title III, Part C-- Nutrition Services	93.045	DE1-11040-001	580,797
Nutrition Services Incentive Program	93.053	DE1-11040-001	<u>83,651</u>
Total Aging Cluster			902,430
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services For Older Individuals	93.042	DE1-11040-001	14,196
Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	DE1-11040-001	18,777
Alzheimer's Disease Demonstration Grants to States	93.501	DE1-11040-001	1,737
National Family Caregiver Support	93.052	DE1-11040-001	110,771
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	DE1-11040-001	1,600
Social Services Block Grant	93.667	DE1-11040-001	582,468
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	DE1-11040-001	<u>47,158</u>
Total U.S. Department of Health and Human Services			<u><u>1,679,137</u></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>17,007</u>
Total Transit Services Programs Cluster			17,007
Metropolitan Transportation Planning	20.505	AZ-16-0039	122,018
Metropolitan Transportation Planning	20.505	AZ-65-X006	23,681
Metropolitan Transportation Planning	20.505	AZ-16-0036	2,299
Formula Grants for Other Than Urbanized Areas	20.509	JPA 11-016	17,451
Highway Planning and Construction	20.205	JPA 11-016	<u>130,113</u>
Total Department of Transportation			<u><u>312,569</u></u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Expenditures of Federal Awards-continued
Year Ended June 30, 2015

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	2,985
Total U.S. Environmental Protection Agency			2,985
<u>U.S. Department of Commerce</u>			
Economic Development_Support for Planning Organizations	11.302	07-83-06852	65,303
Total U.S. Department of Commerce			65,303
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Arizona Department of Housing			
Housing Counseling Assistance Program	14.169	2013-01	34,235
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	135-14	10,000
Passed through NCRC			
Housing Counseling Assistance Program	14.169		13,216
Total U.S. Department of Housing and Urban Development			57,451
<u>U.S. Department of Agriculture</u>			
Passed through the Arizona Department of Health Services			
Commodity Supplemental Food Program	10.565		1,329
Total U.S. Department of Agriculture			1,329
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,117,445

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Schedule of Expenditures of Federal Awards
June 30, 2015

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 2015 *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, 2015, and the related notes to the financial statements, which collectively comprise SEAGO's basic financial statements, and have issued our report thereon dated December 31, 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

December 31, 2015



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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, 2015. 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.

Opinion on Each Major Federal Program

In our opinion, 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 each of its major federal programs for the year ended June 30, 2015.

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.

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. *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

December 31, 2015

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Findings and Questioned Costs-continued
June 30, 2015

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)? | 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—
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 |

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Summary Schedule of Prior Audit Findings
June 30, 2015

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

2014-01 Monitoring of Subrecipients

Federal Agency: Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.667 Social Services Block Grant

93.044 Special Programs for the Aging-Title III, Part B-Grants for Supportive Services
and Senior Centers

93.045 Special Programs for the Aging-Title III, Part C-Nutrition Services

93.053 Nutrition Services Incentive Program

Award Number: DE1-11040-001

Questioned Cost: None

Finding: SEAGO did a limited amount of financial monitoring of subrecipients.

Status: During the fiscal year 2015 audit, no similar findings were noted.