

**SOUTHEASTERN ARIZONA
GOVERNMENTS ORGANIZATION**

Financial Statements
and
Independent Auditors' Reports

June 30, 2012

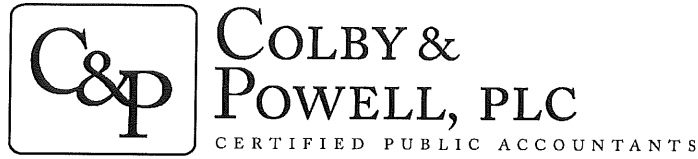
TABLE OF CONTENTS

Financial Section

INDEPENDENT AUDITORS' REPORT	1
Government-wide statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Statements	
Governmental Funds	
Balance Sheet	5
Reconciliation of the Balance Sheet to the Statement of Net Assets	6
Statement of Revenue, Expenditures, and Changes in Fund Balances	7
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	8
Notes to Financial Statements	9

Single Audit Section

Schedule of Expenditures of Federal Awards	18
Notes to Schedule of Expenditures of Federal Awards	20
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	23
Schedule of Findings and Questioned Costs	25
Summary Schedule of Prior Audit Findings	27



1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

INDEPENDENT AUDITORS' REPORT

To the Executive Board
Southeastern Arizona Governments Organization
Bisbee, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeastern Arizona Governments Organization (SEAGO), as of and for the year ended June 30, 2012, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the SEAGO's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 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* and should be considered in assessing the results of our audit.

SEAGO has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SEAGO's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Colby Powell".

February 8, 2013

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,053,072
Due from other governments	675,887
Other receivables	42,137
Prepaid expenses	6,274
Capital assets, not being depreciated	25,825
Capital assets, being depreciated, net	370,760
Total assets	2,173,955
Liabilities	
Accounts payable	440,732
Accrued expenses	20,260
Due to grantor	18,378
Compensated absences payable	31,067
Total liabilities	510,437
Net Assets	
Invested in capital assets, net of related debt	396,585
Restricted	
Aging	18,378
Unrestricted	1,248,555
Total net assets	\$ 1,663,518

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Activities
Year Ended June 30, 2012

Functions / Programs	Expenses	Indirect Expenses Allocation	Program Revenue		Net (Expenses) Revenue and Net Assets
			Charges for Services	Operating Grants and Contributions	
Primary government:					
Governmental activities					
Aging programs	\$ 2,593,477	\$ 60,860	\$ -	\$ 2,653,906	\$ (431)
Economic and environmental planning	558,576	71,345	-	591,373	(38,548)
Transportation	177,776	18,081	-	189,647	(6,210)
Community development	122,090	30,270	151,241	13,300	12,181
Housing	70,166	10,385	-	57,730	(22,821)
Management and general	245,762	(190,941)	-	-	(54,821)
Total governmental activities	3,767,847	-	151,241	3,505,956	(110,650)
General revenue:					
Assessment income					70,317
Other income					10,950
Interest income					922
Total general revenue					82,189
Change in net assets					(28,461)
Net assets, July 1, 2011					1,691,979
Net assets, June 30, 2012					<u>\$ 1,663,518</u>

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION

Balance Sheet

June 30, 2012

	General Fund	Area Agency on Aging	Rural Home Ownership	Transportation	CDBG	Economic and Environmental Planning	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 261,533	\$ 149,120	\$ 594,901	-	\$ 47,518	-	\$ 1,053,072
Due from other governments	-	448,705	12,697	79,767	71,559	63,159	675,887
Due from other funds	150,633	-	-	-	-	-	150,633
Other receivables	5,016	37,121	-	-	-	-	42,137
Prepaid expenses	6,251	23	-	-	-	-	6,274
TOTAL ASSETS	\$ 423,433	\$ 634,969	\$ 607,598	\$ 79,767	\$ 119,077	\$ 63,159	\$ 1,928,003
Liabilities							
Accounts payable	\$ 2,640	\$ 426,513	\$ 307	10,380	\$ 340	552	\$ 440,732
Accrued expenses	8,435	3,942	1,037	1,877	1,901	3,068	20,260
Due to grantor	-	18,378	-	-	-	-	18,378
Due to other funds	-	-	-	89,271	-	61,362	150,633
Total liabilities	11,075	448,833	1,344	101,528	2,241	64,982	630,003
Fund balances							
Unspendable	6,251	23	-	-	-	-	6,274
Restricted	-	18,378	-	-	-	-	18,378
Unassigned	406,107	167,735	606,254	(21,761)	116,836	(1,823)	1,273,348
Total fund balances	412,358	186,136	606,254	(21,761)	116,836	(1,823)	1,298,000
TOTAL LIABILITIES AND FUND BALANCES	\$ 423,433	\$ 634,969	\$ 607,598	\$ 79,767	\$ 119,077	\$ 63,159	\$ 1,928,003

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2012

Fund balances - Total governmental funds		\$ 1,298,000
--	--	--------------

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

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

Governmental capital assets	582,734	
Less accumulated depreciation	<u>(186,149)</u>	
Capital assets used in governmental activities		396,585

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

Compensated absences		<u>(31,067)</u>
----------------------	--	-----------------

Net assets of governmental activities		<u><u>\$ 1,663,518</u></u>
---------------------------------------	--	----------------------------

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2012

	General Fund	Area Agency on Aging	Rural Home Ownership	Transportation	Community Development Block Grant	Economic and Environmental Planning	Total Governmental Funds
Revenues							
Grant revenue	\$ -	\$ 2,653,906	\$ 57,730	189,647	\$ 13,300	591,373	\$ 3,505,956
Indirect charges	197,637	-	-	-	-	-	197,637
Fee for services	-	-	-	-	151,241	-	151,241
Local government assessments	70,317	-	-	-	-	-	70,317
Other	1,151	6,475	250	-	-	3,074	10,950
Interest	608	-	279	-	-	35	922
Total revenues	<u>269,713</u>	<u>2,660,381</u>	<u>58,259</u>	<u>189,647</u>	<u>164,541</u>	<u>594,482</u>	<u>3,937,023</u>
Expenditures							
Current							
Aging programs	-	2,637,531	-	-	-	-	2,637,531
Economic and environmental planning	-	-	-	-	-	628,204	628,204
Housing programs	-	-	80,551	-	-	-	80,551
Management and general	242,272	-	-	-	-	-	242,272
Transportation	-	-	-	195,120	-	-	195,120
Community Development	-	-	-	-	152,469	-	152,469
Total expenditures	<u>242,272</u>	<u>2,637,531</u>	<u>80,551</u>	<u>195,120</u>	<u>152,469</u>	<u>628,204</u>	<u>3,936,147</u>
Excess (deficiency) of revenues over (under) expenditures	<u>27,441</u>	<u>22,850</u>	<u>(22,292)</u>	<u>(5,473)</u>	<u>12,072</u>	<u>(33,722)</u>	<u>876</u>
Other financing sources (uses)							
Transfer in	-	-	-	-	-	35,357	35,357
Transfer out	(35,357)	-	-	-	-	-	(35,357)
Total other financing sources (uses)	<u>(35,357)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,357</u>	<u>-</u>
Net change in fund balances	(7,916)	22,850	(22,292)	(5,473)	12,072	1,635	876
Fund balances, July 1, 2011	420,274	163,286	628,546	(16,288)	104,764	(3,458)	1,297,124
FUND BALANCES, June 30, 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>

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, 2012

Net change in fund balances - Total governmental funds \$ 876

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.

Current year depreciation (30,794)

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 1,457

Change in net assets of governmental activities \$ (28,461)

See accompanying notes to financial statements.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2012

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 assets 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, 2012

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 to local senior centers and related programs.

The Rural Home Ownership Fund is a state funded program to provide down payments to lower income families to purchase homes.

The Transportation Fund provides transportation planning, grants, 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 economical and environmental planning, grants, 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, 2012

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	40 years

F. *Compensated absences*

Compensated absences consist of vacation leave.

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited 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, 2012

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, 2012

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, 2012, the carrying amount of SEAGO’s total cash in bank was \$290,462 and the bank balance was \$296,328. Of the bank balance \$296,328 was covered by federal depository insurance.

Investments – At June 30, 2012, the investments consisted of the following.

<u>Investment</u>	<u>Credit Rating</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Arizona LGIP Pool 7	Unrated	<u>\$ 762,610</u>	<u>\$ 762,610</u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2012

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</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	-	-	146,347
Total	<u>556,910</u>	<u>-</u>	<u>-</u>	<u>556,910</u>
Less accumulated depreciation for:				
Furniture and equipment	(102,969)	(13,332)	-	(116,301)
Leasehold improvements	(52,387)	(17,462)	-	(69,849)
Building	-	-	-	-
Total	<u>(155,356)</u>	<u>(30,794)</u>	<u>-</u>	<u>(186,150)</u>
Total capital assets being depreciated, net	<u>803,108</u>	<u>(61,588)</u>	<u>-</u>	<u>370,760</u>
Governmental activities capital assets, net	<u>\$ 803,108</u>	<u>\$ (61,588)</u>	<u>\$ -</u>	<u>\$ 396,585</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Aging programs	\$ 17,462
Economic and environmental planning	1,936
Transportation	846
Management and general	<u>10,550</u>
 Total governmental activities depreciation expense	 <u>\$ 30,794</u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2012

NOTE 4 – COMPENSATED ABSENCES

Vacation – Each employee is entitled to annual vacation time based upon the number of years of employment. An employee is entitled to receive compensation for any unused/unpaid vacation time upon termination of employment. A summary of changes in the liability for compensated absences for the year ended June 30, 2012, follows:

Balance at July 1, 2011	\$ 32,524
Additions to compensated absences	28,001
Reductions to compensated absences	<u>(29,458)</u>
 Balance at June 30, 2012	 <u><u>\$ 31,067</u></u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund receivable and payable balances at June 30, 2012, were as follows:

Payable from	Payable to General Fund
Transportation	\$ 89,271
Economic and Environmental Planning	<u>61,362</u>
	<u><u>\$ 150,633</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, 2012 consisted of the following:

Transfer From	Transfer to Economic and Environmental Planning
General fund	<u>\$ 35,357</u>

Interfund transfer from the General Fund to Economic and Environmental Planning Fund was to comply with matching funds requirement of a grant contract.

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Financial Statements
June 30, 2012

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 76% of its grant revenue and 67% 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, 2012

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, 2012, active ASRS members and SEAGO were each required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 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, 2012, 2011, and 2010 were \$60,948, \$68,232, and \$51,144, 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, 2012

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	421,096
Special Programs for the Aging--Title III, Part C-- Nutrition Services	93.045	DE1-11040-001	605,773
Nutrition Services Incentive Program	93.053	DE1-11040-001	<u>84,955</u>
Total Aging Cluster			1,111,824
Special Programs for the Aging--Title VII, Chapter 2--Long Term Care Ombudsman Services For Older Individuals	93.042	DE1-11040-001	18,071
Special Programs for the Aging--Title III, Part D--Disease Prevention and Health Promotion Services	93.043	DE1-11040-001	24,661
ARRA Special Programs for the Aging--Title IV and Title II--Discretionary Projects	93.048		-
National Family Caregiver Support	93.052	DE1-11040-001	158,609
Social Services Block Grant	93.667	DE1-11040-001	732,434
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	DE1-11040-001	<u>62,541</u>
Total U.S. Department of Health and Human Services			<u><u>2,108,140</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	T07-49-C0021	38,177
Job Access_Reverse Commute	20.516	T07-49-C0021	5,580
New Freedom Program	20.521	T07-49-C0021	<u>1,961</u>
Total Transit Services Programs Cluster			45,718
Metropolitan Transportation Planning	20.505	T07-49-C0021	10,636
Formula Grants for Other Than Urbanized Areas	20.509	T07-49-C0021	18,373
ARRA Highway Planning and Construction	20.205	T07-49-C0021	<u>114,921</u>
Total Department of Transportation			<u><u>189,648</u></u>

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Expenditures of Federal Awards-continued
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Labor</u>			
Passed through the National Association of Regional Councils			
ARRA Program of competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	EV05-0044	493,192
Total U.S. Department of Housing and Urban Development			493,192
<u>U.S. Environmental Protection Agency</u>			
Passed through the Arizona Department of Environmental Quality			
ARRA Nonpoint Source Implementation Grants	66.460	-	13,924
ARRA Water Quality Management Planning	66.454	EV09-0150	9,257
Total U.S. Environmental Protection Agency			23,181
<u>U.S. Department of Commerce</u>			
Economic Development_Support for Planning Organizations	11.302	07-83-06469-01	75,000
Total U.S. Department of Commerce			75,000
<u>U.S. Department of Treasury</u>			
Passed through the Arizona Department of Housing			
National Foreclosure Mitigation Counseling Service	21.000	327-08	25,350
Total U.S. Department of Treasury			25,350
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Arizona Department of Commerce			
Housing Counseling Assistance Program	14.169	HC06-0998-032	22,295
Passed through the Arizona Department of Housing			
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	325-06A	86,973
Total U.S. Department of Housing and Urban Development			109,268
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,023,779

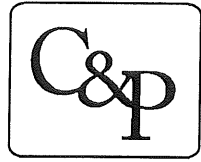
SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Notes to Schedule of Expenditures of Federal Awards
June 30, 2012

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 2012 *Catalog of Federal Domestic Assistance*.



COLBY &
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southeastern Arizona Governments Organization (SEAGO), as of and for the year ended June 30, 2012, which collectively comprise SEAGO's basic financial statements and have issued our report thereon dated February 8, 2013. 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.

Internal Control Over Financial Reporting

Management of the SEAGO is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SEAGO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SEAGO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SEAGO's internal control over financial reporting.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. **12-1**

Compliance and Other Matters

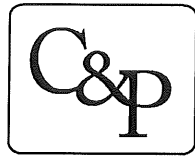
As part of obtaining reasonable assurance about whether the SEAGO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

SEAGO's response to the findings identified in our audit is described in the accompanying schedule of findings and question costs. We did not audit SEAGO's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Executive Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



February 8, 2013



COLBY &
POWELL, PLC
CERTIFIED PUBLIC ACCOUNTANTS

1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Executive Board
Southeastern Arizona Governments Organization
Bisbee, Arizona

Compliance

We have audited the 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 the SEAGO's major federal programs for the year ended June 30, 2012. The SEAGO's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the SEAGO's management. Our responsibility is to express an opinion on the SEAGO's compliance based on our audit.

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 the 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. Our audit does not provide a legal determination of the SEAGO's compliance with those requirements.

In our opinion, SEAGO, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the SEAGO is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the SEAGO's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 The SEAGO's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The SEAGO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the SEAGO's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Executive Board, and federal awarding agencies is not intended to be and should not be used by anyone other than these specified parties.

Colby + Powell

February 8, 2013

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Schedule of Findings and Questioned Costs
June 30, 2012

Section 1 – Summary of Auditors’ Results

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors’ report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses? | Yes |
| 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
93.053 |
| Social Services Block Grant | 93.667 |
| ARRA-Program of competitive Grants for Worker Training
and Placement in High Growth and Emerging Industry
Sectors | 17.275 |
| 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, 2012

Financial Statement Findings

Item: 12-01 Preparation of the working trial balance

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

Criteria: Reconciliation of bank accounts is a fundamental procedure in internal controls over cash receipting and disbursements.

Cause: The Organization had ineffective policies and procedures over cash to ensure that reconciliations were completed in a timely manner.

Effect: Not reconciling bank accounts on a timely basis could result in errors or other problems that would not be detected by management.

Recommendation: We recommend the Organization implement policies and procedures over bank account reconciliations to ensure they are completed in a timely manner.

Response: Management agrees with this finding.

Federal Award Findings and Questioned Costs

None

SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION
Summary Schedule of Prior Audit Findings
June 30, 2012

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

Item: 11-01 *Preparation of the working trial balance*

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

Status: A similar finding was noted for 2012 as item 12-01.

Item: 11-02 *Internal Control over Revenue Recognition*

Condition: WE noted during our audit that some prior year receipts of payments did not meet the recognition criteria as revenue and were incorrectly recorded as revenue.

Status: No similar finding was noted for 2012.

Finding 11-03 – Grant Reimbursement Requests (Non-Major Program)

Federal Agency: US Department of Commerce

Program: Economic Development _ Support for Planning Organizations

CDFR#: 11.302

Condition: During the course of our audit we noted that two reimbursement requests submitted to the same granting agency contained the same expenditures.

Status: No similar finding was noted for 2012.