



Pima Association of Governments
Single Audit Reporting Package
June 30, 2016

**PIMA ASSOCIATION OF GOVERNMENTS
SINGLE AUDIT REPORTING PACKAGE
JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

Regional Council
Pima Association of Governments
Tucson, Arizona

Report on Financial Statements

We have audited the accompanying financial statements of Pima Association of Governments (the Association, a non-profit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pima Association of Governments as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of Pima Association of Governments' 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 the 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 Pima Association of Governments' internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
December 14, 2016

FINANCIAL STATEMENTS

**PIMA ASSOCIATION OF GOVERNMENTS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016**

ASSETS

Current Assets:

Cash and cash equivalents	\$	1,452,353
Due from Federal government		1,217,005
Due from State government		39,218
Due from other local governments		44,207
Prepaid items		115,468
Total current assets		2,868,251

Noncurrent Assets:

Refundable deposits		55,364
Capital assets, net of accumulated depreciation		198,567
Total noncurrent assets		253,931

Total assets	\$	3,122,182
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$	32,816
Accrued salaries and benefits		460,393
Advances		1,643,415
Capital lease payable		28,403
Total current liabilities		2,165,027

Noncurrent Liabilities:

Capital lease payable		39,250
Total noncurrent liabilities		39,250

Total liabilities		2,204,277
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Net Assets:

Unrestricted net assets		917,905
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Total liabilities and net assets	\$	3,122,182
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The accompanying notes are an integral part of these financial statements.

**PIMA ASSOCIATION OF GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Revenues:

Other local	\$	1,699,844
State grants and aid		338,778
Federal grants and aid		6,657,394
Total revenues		8,696,016

Expenses:

Program services:		
Personnel services		3,776,829
Professional services		2,041,687
Travel		7,334
Occupancy and utilities		311,053
Equipment and maintenance		120,543
Office		19,223
Conferences, meetings, and memberships		65,935
Other		103,062
Total program services		6,445,666

Management and general:

Personnel services		1,314,037
Professional services		74,731
Travel		3,808
Occupancy and utilities		572,445
Equipment and maintenance		60,702
Depreciation		33,277
Office		4,337
Conferences, meetings, and memberships		78,402
Other		110,484
Total management and general		2,252,223

Total expenses		8,697,889
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Change in net assets		(1,873)
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Net assets, at beginning of year		919,778
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Net assets, at end of year	\$	917,905
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The accompanying notes are an integral part of these financial statements.

**PIMA ASSOCIATION OF GOVERNMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash flows from operating activities:

Change in net assets	\$	(1,873)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		33,277
Changes in assets and liabilities:		
Increase in due from Federal government		(505,059)
Decrease in due from State government		28,570
Increase in due from other local governments		(5,415)
Increase in prepaid expenses		(111,403)
Decrease in accounts payable		(157,773)
Decrease in accrued salaries and benefits		(28,907)
Decrease in unearned revenues		(132,312)
Increase in advances		<u>302,499</u>
Net cash used for operating activities		<u>(578,396)</u>

Cash flows from capital and related financing activities:

Payment for capital lease payable		<u>(26,024)</u>
Net cash used for capital and related financing activities		<u>(26,024)</u>

Net decrease in cash and cash equivalents (604,420)

Cash and cash equivalents, beginning of year 2,056,773

Cash and cash equivalents, end of year \$ 1,452,353

The accompanying notes are an integral part of these financial statements.

**PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pima Association of Governments (the Association) is an Arizona non-profit organization governed by a regional council comprised of a representative from each member jurisdiction located in Pima County, Arizona. Management of the Association is independent of State and local governments. Under existing Federal and State laws and intergovernmental agreements, the Association's duties and powers include, but are not limited to, coordinating and planning regional activities related to issues that cross jurisdictional boundaries, such as air quality, water quality, transportation, land use, and human services.

The Association also has broad financial responsibilities, including establishing an annual Overall Work Program (OWP), and implementing a system of accounting and a budget summary on a work program basis.

The Center for Pima Basin Sustainability (the Center) was incorporated on April 9, 2009, as a nonprofit corporation, under the laws of Arizona. The Center shares a common board, facilities, and some staff with the Association and is, therefore, considered a related party of the Association. The Center's purpose is to identify, promote, and support sustainable technologies, infrastructure, and processes for Southern Arizona.

A. Basis of Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association had no permanently or temporarily restricted net assets at current fiscal year end.

B. Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grant and similar items are recorded as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

**PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Funding Organizations

The Association's primary source of revenue is from Federal and State agencies. The Association had various grants or contracts during the fiscal year with the following organizations.

- Federal Transit Administration
- Federal Highway Administration
- United States Department of Energy
- Arizona Department of Transportation
- Environmental Protection Agency
- United States Department of the Interior

D. Indirect Costs

Indirect costs included in expenses are recovered using an ADOT approved indirect cost rate. Such costs are for goods or services necessary to conduct the various programs.

E. Advances

Advances represent funds provided by member governments in anticipation of future expenses. If an expense is not ultimately incurred, the advance will be returned to the contributing member government.

F. Income Tax Status

The Association qualifies as a non-profit agency and is exempt from Federal income taxes as a Section 501(c)(4) organization other than a private foundation under the Internal Revenue Code and from Arizona income taxes under the Arizona Revised Statutes (A.R.S.). The Association's Form 990, *Return of Organization Exempt from Income Taxes* is generally subject to examination by the Internal Revenue Service for three years after the date filed.

G. Expense Allocation

Directly identifiable expenses are charged to program services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

H. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Compensated Absences

Compensated absences consist of paid time off and annual leave. Employees accrue up to 28 days of paid time off depending on years of service. There is no maximum amount of paid time off that an employee may accumulate, but upon separation the employee is entitled to payment up to 240 hours of combined paid time off and annual leave.

J. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

L. Furniture and Equipment

Capital assets are defined by the Association as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over their estimated useful lives of 3 to 10 years.

M. Impairment of Long-Lived Assets

The Association reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

**PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Subsequent Events

Subsequent events have been evaluated through December 14, 2016, which is the date the financial statements were available to be issued.

NOTE 2 – CASH

Custodial credit risk is the risk that in the event of bank failure the Association's deposits may not be returned to the Association. Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program. At year end the carrying amount of the Association's total cash in bank was \$1,452,353 and the bank balance was \$1,851,180.

NOTE 3 – CAPITAL ASSETS

Capital assets at year end consisted of the following:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets:				
Leasehold improvements	\$ 82,185	\$	\$	\$ 82,185
Vehicles, furniture and equipment	<u>304,031</u>	<u> </u>	<u> </u>	<u>304,031</u>
Total capital assets being depreciated	<u>386,216</u>	<u> </u>	<u> </u>	<u>386,216</u>
Less accumulated depreciation for:				
Leasehold improvements	(13,697)	(8,219)		(21,916)
Vehicles, furniture and equipment	<u>(140,675)</u>	<u>(25,058)</u>	<u> </u>	<u>(165,733)</u>
Total accumulated depreciation	<u>(154,372)</u>	<u>(33,277)</u>	<u> </u>	<u>(187,649)</u>
Total capital assets, net	<u>\$ 231,844</u>	<u>\$ (33,277)</u>	<u>\$</u>	<u>\$ 198,567</u>

**PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 – RELATED PARTY TRANSACTIONS

The City of Tucson, City of South Tucson, Town of Marana, Town of Oro Valley, Town of Sahuarita, Pascua Yaqui Tribe, Tohono O’odham Nation, and the Arizona Department of Transportation each have a representative on the Association’s Regional Council. As council members, these individuals influence the financial activities of the Association through voting authority.

Certain member governments billed the Association for grants funded by the Association.

<u>Member Governments</u>	<u>Services billed for during the fiscal year</u>
City of Tucson	\$ 375,273
Town of Oro Valley	28,633
Town of Sahuarita	25,000
Totals	\$ 428,906

For the year current fiscal year, certain member governments provided cash contributions for the purposes of meeting local matching or funding requirements of various grant programs as follows:

Member governments:	
City of Tucson	\$ 298,000
Pima County	298,000
Tohono O’odham Nation	7,160
City of South Tucson	4,350
Town of Marana	22,820
Town of Oro Valley	30,160
Pascua Yaqui Tribe	2,485
Town of Sahuarita	13,525
	\$ 676,500

Advances from federal and local governments were \$1,643,415 at year end. Such amounts are expected to be used to meet matching or funding requirements in subsequent periods.

The facilities used by the Center for Pima Basin Sustainability are owned by the Association. The Association provides the Center with the use of the facilities for office space and Center activities free of charge. The Center incurs no direct payroll or employee benefits expenses, as all facility employees are employed through the Association and the Association is responsible for all payroll and related costs, office space, office supplies, and telephone.

PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – OBLIGATIONS UNDER LEASES

Capital Leases – The Association has acquired equipment under the provisions of a long-term lease agreement classified as a capital lease. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases that meet the Associations’ capitalization threshold are as follows:

	Governmental Activities
Asset:	
Vehicles, furniture and equipment	\$ 134,479
Less: Accumulated depreciation	35,861
Total	\$ 98,618

Amortization of assets held under capital leases is included with depreciation expense, which totaled \$13,448 in the fiscal year.

The future minimum lease obligations and the net present value of these minimum lease payments at year end were as follows:

	Governmental Activities
Year Ending June 30:	
2017	\$ 33,688
2018	33,688
2019	8,384
Total minimum lease payments	75,760
Less: amount representing interest	7,857
Present value of minimum lease payments	\$ 67,903
Due within one year	\$ 28,403

Operating Leases – The Association leases its office space under noncancelable operating leases, which are contingent upon the continued funding of the Association by grantor agencies and member governments. The modified gross lease provides for annual payments of approximately \$861,624 subject to annual operating cost adjustments and expires on December 31, 2023.

PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – OBLIGATIONS UNDER LEASES

In addition, the Association leases equipment and vehicles under non-cancelable operating leases with total annual payments of approximately \$18,241 through fiscal year 2019.

The total rent expense under the Association's operating leases was \$879,865 for the fiscal year. The future minimum rental commitment after the current fiscal year is as follows:

Year Ending June 30:		
	2017	\$ 879,125
	2018	875,726
	2019	867,346
	2020	861,624
	2021	861,624
	Thereafter	<u>2,154,060</u>
Total minimum payments required		<u>\$ 6,499,505</u>

NOTE 6 – SHORT TERM DEBT – REVOLVING LINE OF CREDIT

The Association has a \$350,000 unsecured revolving line of credit to provide cash flow during the year to mitigate the impact of timing differences of expenditures and the receipt of federal revenues. At June 30, 2016, there was no outstanding balance. Bank advances on the credit line are payable on demand and carry an interest rate equal to the sum of the applicable index + 1.0 percent, but not less than 5.0 percent.

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description. Association 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. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at www.azasrs.gov.

**PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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 current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Association was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The Association's contributions to the pension plan for the year ended June 30, 2016 were \$410,813.

**PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Association’s contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Year ending June 30:			
2016	\$ 410,813	\$ 18,931	\$ 4,544
2015	356,586	19,319	3,929
2014	380,390	23,216	8,572

Proportionate Share of the Net Pension Liability. ASRS prepares financial statements in accordance with accounting principles established by the Governmental Accounting Standards Board (GASB). GASB standards require that ASRS calculate a proportionate share of the net pension liability for each participating employer. At June 30, 2016, the Association’s proportion of the net pension liability of the ASRS was \$5,975,268. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015. The Association’s proportion of the net pension liability was based on a projection of the Association’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. In accordance with accounting principles established by the Financial Accounting Standards Board (FASB), a liability for the Association’s proportion of the net pension liability has not been recognized in the financial statements as the Association had paid all required contributions to ASRS as of year end.

NOTE 8 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although the Association expects such amounts, if any, to be immaterial.

PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 – RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries commercial insurance for all risks of loss, including property and liability, workers' compensation and employee health and accident insurance. There were no claims directly attributable to the Association resulting from these risks in any of the past three fiscal years.

SINGLE AUDIT SECTION

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**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***

Independent Auditor's Report

Regional Council
Pima Association of Governments
Tucson, 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 of Pima Association of Governments, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pima Association of Governments' basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pima Association of Governments' 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 Pima Association of Governments' internal control. Accordingly, we do not express an opinion on the effectiveness of Pima Association of Governments' 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 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 Pima Association of Governments' financial statements are free from 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 Standards*.

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.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
December 14, 2016

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Independent Auditor's Report

Regional Council
Pima Association of Governments
Tucson, Arizona

Report on Compliance for Each Major Federal Program

We have audited Pima Association of Governments' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Pima Association of Governments' major federal programs for the year ended June 30, 2016. Pima Association of Governments' 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pima Association of Governments' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pima Association of Governments' 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 Pima Association of Governments' compliance.

Opinion on Each Major Federal Program

In our opinion, Pima Association of Governments 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, 2016.

Report on Internal Control Over Compliance

Management of Pima Association of Governments 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 Pima Association of Governments' 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pima Association of Governments' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Pima Association of Governments as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pima Association of Governments' basic financial statements. We issued our report thereon dated December 14, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 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 taken as a whole.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
December 14, 2016

**PIMA ASSOCIATION OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Number	Total Expenditures
<u>U.S. Department of Transportation</u>			
Passed through Arizona Department of Transportation:			
Highway Planning and Construction	20.205	JPA 11-089	\$ 5,809,636
Highway Planning and Construction	20.205	HSIP PCA-0 (200)	74,501
Highway Planning and Construction	20.205	HSIP PCA-0 (201)	178,434
Total Highway Planning and Construction			<u>6,062,571</u>
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	JPA 11-089	144,480
Federal Transit Cluster:			
Passed through Arizona Department of Transportation:			
Enhanced Mobility of Seniors & Individuals with Disabilities Program	20.513	AZ-16-0036	54,968
Passed through City of Tucson:			
Job Access & Reverse Commute Program	20.516	AZ-37-X016	12,602
Job Access & Reverse Commute Program	20.516	AZ-37-X020	14,791
New Freedom Program	20.521	AZ-57-X011	6,032
New Freedom Program	20.521	AZ-57-X015	719
Total Federal Transit Cluster			<u>89,112</u>
Total U.S. Department of Transportation			<u>6,296,163</u>
<u>U.S. Department of the Interior</u>			
Passed through U.S. Geological Survey:			
U.S. Geological Survey Research and Data Collection	15.808	G11AC20101	170,992
<u>U.S. Department of Energy</u>			
Passed through Leonardo Technologies, Inc.:			
State Energy Program Special Projects, Recovery Act	81.119	DE-FE0004002	62,500
Passed through National Renewable Energy Laboratory:			
Clean Cities Coalition Mentoring	81.XXX	DE-AC36-08GO28308	29,056
Total U.S. Department of Energy			<u>91,556</u>
<u>Environmental Protection Agency</u>			
Direct program:			
National Clean Diesel Emissions Reduction Program, Recovery Act	66.039	EPA-OAR-OTAQ-13-02	98,683
Total Expenditures of Federal Awards			<u>\$ 6,657,394</u>

**PIMA ASSOCIATION OF GOVERNMENTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Pima Association of Governments under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net position or cash flows of the Association.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the applicable Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

NOTE 4 – INDIRECT COST RATE

The Association has not elected to use the 10% de minimus cost rate as covered in §200.414 Indirect (F&A) costs.

**PIMA ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

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

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee: Yes

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: No

Findings and Questioned Costs Related to Federal Awards: No

Summary Schedule of Prior Audit Findings required to be reported: No