# MEMORANDUM

Date: December 14, 2015

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **Audited Financial Report for the Most Current Available Fiscal Year – Tucson Regional Economic Opportunities (TREO) Now Known as Sun Corridor Inc.**

Supervisor Ally Miller has requested the most recent audited financial statement received by the County for TREO/Sun Corridor Inc. The most recent audited statement is for Fiscal Year 2013/14 and is attached. The audited financial report for Fiscal Year 2014/15 is not yet final and has not been released, which is customary practice.

In my conversation with Sun Corridor Inc. President and CEO Joseph Snell he indicated that any information the Board of Supervisors desires with regard to Sun Corridor's financial statements will be made available upon request. If any Board member desires any specific information, please provide your request to me so I can forward the information to Mr. Snell and ensure all Board members receive the same information.

CHH/lab

Attachment

c: Joseph Snell, President and CEO, Sun Corridor Inc.

# TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.

## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

REGIER CARR & MONROE, LLP, CPAs

# TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.

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# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tucson Regional Economic Opportunities, Inc.
Tucson, Arizona

We have audited the accompanying financial statements of Tucson Regional Economic Opportunities, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2014 and 2013 and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinion.

*(continued)*



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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tucson Regional Economic Opportunities, Inc. as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Regier Carr & Monroe, L.L.P.

December 17, 2014
Tucson, Arizona

# TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.
## STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

### ASSETS

| | 2014 | 2013 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 1,983,254 | $ 1,977,238 |
| Investments | 576,248 | 576,190 |
| Receivables | | |
| Trade receivables | 17,428 | 36 |
| Pima County | 150,000 | 162,500 |
| Prepaid expenses and other assets | 25,038 | 24,770 |
| Total current assets | 2,751,968 | 2,740,734 |
| **PROPERTY AND EQUIPMENT, NET** | 26,585 | 46,491 |
| **OTHER ASSETS** | | |
| Deferred compensation plan | 184,478 | 142,753 |
| Total assets | $ 2,963,031 | $ 2,929,978 |

*The Notes to Financial Statements are an integral part of these statements*

# TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.
## STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

### LIABILITIES AND NET ASSETS

| | 2014 | 2013 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 34,922 | $ 43,127 |
| Accrued employee benefits and taxes | 275,420 | 302,239 |
| Deferred membership dues | 515,979 | 500,895 |
| Total current liabilities | 826,321 | 846,261 |
| **OTHER LIABILITIES** | | |
| Deferred compensation plan | 184,478 | 142,753 |
| Total liabilities | 1,010,799 | 989,014 |
| **NET ASSETS** | | |
| Unrestricted | 1,952,232 | 1,940,964 |
| Total liabilities and net assets | $ 2,963,031 | $ 2,929,978 |

*The Notes to Financial Statements are an integral part of these statements*

# TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.
## STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **REVENUE** | | |
| Government agencies | | |
| Pima County | $ 450,000 | $ 500,000 |
| Membership income | 956,187 | 1,059,052 |
| Special events | 220,620 | 87,978 |
| Healthcare campaign | 187,500 | - |
| Interest | 1,525 | 1,821 |
| Gain on disposal of assets | - | 23 |
| Donated services | 41,500 | 35,000 |
| Other | 70,470 | 3,025 |
| Total revenue | 1,927,802 | 1,686,899 |
| **EXPENSES** | | |
| Program expenses | 1,691,772 | 1,497,054 |
| Administrative expenses | 224,762 | 258,425 |
| Total expenses | 1,916,534 | 1,755,479 |
| **CHANGE IN NET ASSETS** | 11,268 | (68,580) |
| **NET ASSETS, BEGINNING OF YEAR** | 1,940,964 | 2,009,544 |
| **NET ASSETS, END OF YEAR** | $ 1,952,232 | $ 1,940,964 |

*The Notes to Financial Statements are an integral part of these statements*

# TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.
## STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 11,268 | $ (68,580) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 20,991 | 33,077 |
| Gain on disposal of assets | - | (23) |
| Changes in operating assets and liabilities | | |
| Receivables | (4,892) | (129,998) |
| Prepaid and other current assets | (268) | 3,911 |
| Accounts payable | (8,203) | (945) |
| Accrued employee benefits | (26,819) | 10,703 |
| Deferred revenue | 15,084 | (39,839) |
| Net cash provided (used) by operating activities | 7,161 | (191,694) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Sale of investments | - | 574,924 |
| Purchase of investments | (60) | (576,190) |
| Proceeds sale of assets | - | 1,018 |
| Purchase of property and equipment | (1,085) | (1,031) |
| Net cash used by investing activities | (1,145) | (1,279) |
| Net increase (decrease) in cash | 6,016 | (192,973) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 1,977,238 | 2,170,211 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 1,983,254 | $ 1,977,238 |

*The Notes to Financial Statements are an integral part of these statements*

# TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.
## NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Nature of Operations*

Tucson Regional Economic Opportunities, Inc. (the "Organization") was organized as a nonprofit organization on February 10, 2005. The purpose of the Organization is to support the creation of new businesses, the retention and expansion of existing businesses within the region, and the attraction of companies that offer high value jobs and share the community's values. The Organization has a contract with Pima County to implement and administer a comprehensive economic development program that will assist in the creation and retention of jobs and otherwise improve or enhance the economic welfare of the inhabitants of the City and County.

*Basis of Presentation*

As required by the Classification of Net Assets of Not-for-Profit Entities topic of the FASB Accounting Standards Codification, the financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Temporarily restricted net assets carry donor-imposed restrictions that limit their use. No temporarily restricted net assets existed at June 30, 2014 and 2013.

Permanently restricted net assets also possess donor-imposed restrictions that limit their use to investment in perpetuity to provide a permanent source of income for Organization operations. No permanently restricted net assets existed at June 30, 2014 and 2013.

*Recognition of Revenue*

Revenue derived from membership dues and contracts with government agencies is recognized on a straight-line basis over the period to which the dues and contracts relate.

Contributions are recognized as revenue when they are received or unconditionally pledged. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as a reclassification of net assets.

*(continued)*

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

The Organization recognizes the value of contributed services that either create or enhance a non-financial asset or services requiring specialized skills performed by persons possessing those skills.

*Property, Plant, and Equipment*

The Organization records all leasehold improvements and equipment at cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the individual asset, which range from three to seven years. Depreciation expense for the year ended June 30, 2014 was $20,991 ($33,077 for the year ended June 30, 2013). Upon sale or retirement of depreciable properties, the related cost and accumulated depreciation are removed from the accounts. All gains or losses are reflected in revenue in the year of disposition. In addition, all acquisitions over $2,500 are capitalized.

*Income Taxes*

Based upon information supplied to the Internal Revenue Service, the Organization is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. Certain unrelated business income may be subject to income tax.

The Organization has adopted standards under generally accepted accounting principles that set a "more likely than not" criterion for recognizing tax benefits of uncertain tax positions, establishes measurement criteria for tax benefits, and establishes certain disclosure requirements. The Organization believes that their income tax filing positions and deductions will be sustained upon examination and, accordingly, have not recorded any reserves or related accruals for interest and penalties at June 30, 2014 for uncertain income tax positions pursuant to generally accepted accounting principles. Income tax related interest and penalties, if any, are reported in general and administrative expenses when incurred. The accompanying financial statements do not include any interest or penalties related to income taxes. No income tax examinations are currently underway or anticipated. The statute of limitations is three years for federal income tax purposes and four years for the State of Arizona.

*Accounts Receivable*

The Organization considers amounts billed due upon receipt. At June 30, 2014 and 2013, the Organization deemed none of their receivables were uncollectible. The Organization believes there is no probability to not collect accounts receivable generated through contracts from Pima County.

*(continued)*

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less, which are held for operating purposes and are not restricted or designated for other than current use. The Organization maintains its operating cash account, money market accounts, and savings accounts in various banks located in Arizona. Cash balances may exceed the federally insured amounts during the year, however, the Organization's management does not believe they are exposed to significant credit risk. Total uninsured cash balances at June 30, 2014 and 2013 were approximately $1,016,000 and $976,000, respectively.

*Marketable Securities*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at fair value in the statements of financial position. Unrealized gains and losses are included in the statements of activities.

*Comparative Information*

Certain presentations in the financial statements for prior year amounts have been reclassified to provide comparability with current year amounts.

*Advertising Costs*

Costs incurred for producing and communicating non-direct advertising are expensed when incurred. Costs incurred for direct response advertising is capitalized and amortized over its estimated useful life. No advertising costs were capitalized at June 30, 2014 and 2013. Advertising costs expensed during the year ended June 30, 2014 totaled $47,638 ($67,123 for the year ended June 30, 2013).

*Use of 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 public support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. CONCENTRATIONS

Approximately 25% of the revenue received by the Organization during the year ended June 30, 2014 (30% for the year ended June 30, 2013) was from government contracts. If Pima County chooses not to renew their contracts, the Organization could suffer a financial impact.

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## 3. ACCOUNTS RECEIVABLE CREDIT RISK

At June 30, 2014, the Organization had accounts receivable of $167,428 ($162,536 at June 30, 2013). Accounts receivable contain no collateral provisions for collection. At June 30, 2014, approximately 90% of the accounts receivable are from one entity: Pima County, Arizona (99% for 2013).

## 4. MARKETABLE SECURITIES AND SHORT-TERM INVESTMENTS

Marketable securities are stated at fair value. Fair values and unrealized appreciation (depreciation) at June 30, 2014 and 2013 are as follows:

| | Cost | Fair Value | Unrealized Appreciation (Depreciation) |
|---|---|---|---|
| June 30, 2014 | | | |
| Investments – U.S. Government Securities | $ 576,248 | $ 576,248 | $ - |
| June 30, 2013 | | | |
| Investments – U.S. Government Securities | $ 576,190 | $ 576,190 | $ - |

Short-term investments consist of U.S. Government securities and are carried at fair value.

The following summarizes the investment return and its classification in the financial statements for the years ending June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividend income shown on the statements of activities | $ 1,525 | $ 1,821 |

The rate of return on the investments was less than 1% for 2014 and 2013.

## 5. FAIR VALUE MEASUREMENTS

U.S. generally acceptable accounting principles establishes a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consists of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair values using Level 1 input because they generally provide the most reliable evidence of fair value.

*(continued)*

## 5. FAIR VALUE MEASUREMENTS (continued)

Level 1 Fair Value Measurements are based on quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date. An active market for the assets is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Fair Value Measurements are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset.

Level 3 Fair Value Measurements are based on unobservable inputs for the asset. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the assets at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the (including assumption about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data.

Fair value measurements were reported based on the following:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2014 | | | | |
| Investments – U.S. Government Securities Funds | $ 576,248 | $ 576,248 | $ - | $ - |
| June 30, 2013 | | | | |
| Investments – U.S. Government Securities | $ 576,190 | $ 576,190 | $ - | $ - |

*(continued)*

## 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Leasehold improvement | $ 3,855 | $ 3,855 |
| Furniture | 84,531 | 84,531 |
| Computer and related equipment | 65,673 | 64,589 |
| Software | 12,552 | 12,552 |
| Audio/visual | 26,422 | 26,422 |
| Machinery | 7,077 | 68,314 |
| Website | 27,733 | 27,733 |
| Miscellaneous equipment | 1,315 | 1,315 |
| Trademark – WIP | 14,630 | 14,630 |
| Total | 243,788 | 303,941 |
| Less accumulated depreciation | (217,203) | (257,450) |
| Property and equipment, net | $ 26,585 | $ 46,491 |

## 7. ACCRUED EMPLOYEE BENEFITS

Accrued employee benefits consist of accrued wages, vacation pay, and accrued insurance. Vacation pay is accrued as a liability when earned because the employees receive a vested right to the employee benefit.

## 8. REVOLVING LINE OF CREDIT

The Organization has a revolving line of credit in the amount of $150,000 with interest at the bank's prime rate plus 1% with a floor rate of 5%. At June 30, 2014 and 2013, there were no borrowings against the line and no borrowings have occurred in 2014 through the date of the Independent Auditor's Report. The line of credit expires on November 30, 2014.

*(continued)*

## 9. LEASES

The Organization leases office space under a five-year operating lease, expiring on June 30, 2015. At June 30, 2014 and 2013, monthly lease payments were $11,375. The lease has minimal escalation amounts over the life of the lease.

Total rent expense, including applicable taxes and common area expenses, was $156,762 for the year ended June 30, 2014 ($151,913 for the year ended June 30, 2013).

The Organization also leases a copier and a postage machine under five-year operating leases. At June 30, 2014 and 2013, the copier monthly lease payments were $695. The postage machine monthly lease payments were $181 at June 30, 2014 and 2013. The leases run through April 2015 and March 2016, respectively.

Total copier expense was $11,433 (including taxes) for the year ended June 30, 2014 ($12,324 for the year ended June 30, 2013). Total postage machine expense was $2,561 (including taxes) for the year ended June 30, 2014 ($2,326 for the year ended June 30, 2013).

The following represents future minimum lease payments, including applicable taxes as of June 30, 2014:

| For the Year Ended June 30, | |
|---|---|
| 2015 | $ 152,137 |
| 2016 | 1,626 |
| Total | $ 153,763 |

## 10. RETIREMENT PLAN

The Organization adopted a 401(k) retirement plan effective April 15, 2006. The plan covers all employees who are at least 21 years of age. The Organization contributes up to 3% of the annual gross salary of each eligible employee. For the year ended June 30, 2014, total contributions to the plan were $40,697 ($49,524 for the year ended June 30, 2013).

*(continued)*

## 11. DEFERRED COMPENSATION PLAN

Effective February 10, 2007, the Organization adopted the TREO Deferred Compensation Trust for the President and Chief Executive Officer. The plan states that the Organization will contribute $2,000 per month to a Rabbi Trust with a five-year vesting schedule and a one-year credit for service. Similar to a 401(k) plan, the Rabbi Trust limit is $17,500 per year ($23,000 for participants 50 years of age and over). The amount above the limitation is then paid to the President and Chief Executive Officer as additional salary. The funds in this account are considered assets of the Organization and a liability is accrued to show a corresponding payable to the employee. During the term of the Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested. The Organization has purchased assets having a fair value of $184,478 at June 30, 2014 ($142,753 at June 30, 2013). Investments are carried at fair value as determined by quoted security exchange prices. Realized and unrealized gains and losses are reflected in the statements of financial position. Investments in the plan consist of the following securities:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 17,564 | $ 17,631 |
| Investments – equities | 14,452 | 10,334 |
| Investments – mutual funds | 152,462 | 114,788 |
| Total deferred compensation plan | $ 184,478 | $ 142,753 |

Cost and fair market value of investment securities at June 30 are as follows:

| | Cost | Fair Value | Unrealized Appreciation (Depreciation) |
|---|---|---|---|
| June 30, 2014 | | | |
| Cash and cash equivalents | $ 17,564 | $ 17,564 | $ - |
| Common stocks | 13,568 | 14,452 | 884 |
| Mutual funds | 131,943 | 152,462 | 20,519 |
| Total | $ 163,075 | $ 184,478 | $ 21,403 |
| June 30, 2013 | | | |
| Cash and cash equivalents | $ 17,631 | $ 17,631 | $ - |
| Common stocks | 11,339 | 10,334 | (1,005) |
| Mutual funds | 109,429 | 114,788 | 5,359 |
| Total | $ 138,399 | $ 142,753 | $ 4,354 |

*(continued)*

## 11. DEFERRED COMPENSATION PLAN (continued)

Fair value measurements were reported based on the following:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2014 | | | | |
| Cash and cash equivalents | $ 17,564 | $ 17,564 | $ - | $ - |
| Common stocks | 14,452 | 14,452 | - | - |
| Mutual funds | 152,462 | 152,462 | - | - |
| Total | $ 184,478 | $ 184,478 | $ - | $ - |
| June 30, 2013 | | | | |
| Cash and cash equivalents | $ 17,631 | $ 17,631 | $ - | $ - |
| Common stocks | 10,334 | 10,334 | - | - |
| Mutual funds | 114,788 | 114,788 | - | - |
| Total | $ 142,753 | $ 142,753 | $ - | $ - |

## 12. SIGNIFICANT ESTIMATES

The valuation of non-cash donations represents a significant estimate. The amounts measure total support received during the year; however, the estimate has no effect on the change in net assets.

The functional allocation of expenditures is an estimate based on salaries and estimated levels of effort.

Management's estimate of the useful lives of the fixed assets acquired was based on management's experience with similar assets.

*(continued)*

## 13. CONTRIBUTIONS IN-KIND

A few volunteers have donated significant amounts of their time to the Organization's program services. These services include legal consultation, marketing, and consulting. The value of these donated services that are included in the financial statements and the corresponding expenses for the years ended June 30, 2014 and 2013 are $41,500 and $35,000, respectively.

## 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 17, 2014, the date the financial statements were available to be issued.