

**PERRIS
COMMUNITY ECONOMIC DEVELOPMENT
CORPORATION**

FINANCIAL STATEMENTS

Year Ended June 30, 2016

Perris Community Economic Development Corporation
Financial Statements
Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Perris Community Economic Development Corporation
Perris, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Perris Community Economic Development Corporation (the "Corporation"), a component unit of the City of Perris, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 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 statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Emphasis of Matter

As described in Note 1A to the basic financial statements, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2017, on our consideration of the City of Perris’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation’s internal control over financial reporting and compliance.



Riverside, California
January 24, 2017

Perris Community Economic Development Corporation
Statement of Net Position
June 30, 2016

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,375,549
Interest Receivable	15,042
Taxes Receivable	10

Total Assets 6,390,601

LIABILITIES

Accounts Payable	215,987
Retentions Payable	7,910
Unearned Revenue	6,476

Total Liabilities 230,373

NET POSITION

Unrestricted 6,160,228

Total Net Position \$ 6,160,228

The accompanying notes are an integral part of this statement.

Perris Community Economic Development Corporation
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

OPERATING REVENUES

Rental and Lease Income	\$ 96,500
Miscellaneous Revenue	10
	10
Total Operating Revenues	96,510

OPERATING EXPENSES

Legal and Contractual Services	76,448
Community Sponsorship and Events	126,000
Economic Development	575,284
Building Improvements	213,361
Property Tax Expense	32,673
	32,673
Total Operating Expenses	1,023,766

Operating Income (Loss)	(927,256)
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NON-OPERATING REVENUES (EXPENSES)

Investment Earnings	80,411
	80,411
Total Non-Operating Revenue (Expenses)	80,411

Change in Net Position	(846,845)
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Net Position, Beginning of Year	7,007,073
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Net Position, End of Year	\$ 6,160,228
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The accompanying notes are an integral part of this statement.

Perris Community Economic Development Corporation
Statement of Cash Flows
Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 102,976
Cash Payments to Suppliers for Goods and Services	<u>(812,426)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(709,450)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Earnings	<u>72,884</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>72,884</u>

Net Increase (Decrease) in Cash and Cash Equivalents (636,566)

Cash and Cash Equivalents - Beginning of Year 7,012,115

Cash and Cash Equivalents - End of Year \$ 6,375,549

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Operating Income (Loss)	\$ (927,256)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Taxes Receivable (Increase) Decrease	(10)
Accounts Payable Increase (Decrease)	203,430
Retentions Payable (Decrease)	7,910
Unearned Revenue (Increase)	<u>6,476</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (709,450)</u></u>

The accompanying notes are an integral part of this statement.

Perris Community Economic Development Corporation
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Perris Community Economic Development Corporation (Corporation), a component unit of the City of Perris, was formed on April 16, 2014. The Corporation was formed as a nonprofit public benefit corporation under Section 501(c)(3) of the Internal Revenue Code. The specific and primary purpose of this corporation is to provide physical, economic, and educational development and revitalization efforts resulting in expanded employment, economic prosperity and, business and housing opportunities, for businesses and residents to provide such services that are associated with such specific purpose as allowed by the law.

The Corporation's office and records are located at City Hall, 101 North "D" Street, Perris, California, telephone number (951) 943-6100.

The Corporation is a component unit of the City of Perris and, accordingly, the financial statements of the Corporation are included in the financial statements of the City of Perris. The Corporation is an integral part of the reporting entity of the City of Perris. The City Council of the City of Perris is the governing board of the Corporation and exercises control over the operations of the Corporation. Upon dissolution, any assets remaining shall be distributed to the City of Perris or a designated nonprofit fund, foundation or corporation by the governing body. Only the funds of the Corporation are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Perris. The Corporation is reported as a discrete component unit of the City of Perris.

B) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Corporation's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Corporation reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Corporation is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through fees and capital acquisition proceeds. The Corporation's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business services.

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

Perris Community Economic Development Corporation
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

Governmental Accounting Standard Board Statement No. 72

In February of 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 72 is effective for periods beginning after June 15, 2015. The Corporation has implemented GASB No. 72 which is reflected on the Corporation's financial statements.

D) Cash and Cash Equivalents

In accordance with GASB Statement 9, for purposes of the Statement of Cash Flows, all cash and investments with original maturities of 90 days or less are considered cash or cash equivalents.

E) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the Corporation's investments are stated at fair value except for interest-earning investment contracts.

F) Uncollectible Accounts Receivable

The Corporation uses the allowance method for uncollectible accounts receivable but deemed no allowance is necessary.

G) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Corporation does not report any deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Corporation does not report any deferred inflows.

H) Net Position

GASB No. 63 requires that the difference between assets, liabilities and deferred outflows/inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Perris Community Economic Development Corporation
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Net Position - Continued

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position is the net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

I) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, deferred outflows/inflows of resources, liabilities, revenues, and expenses/expenditures, as appropriate, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

2) CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Cash Equivalents \$ 6,375,549

Cash and investments consist of the following:

City of Perris

Pooled Investments \$ 6,375,549

Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized by the Corporation's investment policy. The table also identifies certain provisions of the California Government Code (or the Corporation's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity ⁽¹⁾	Maximum Percentage Of Portfolio ⁽²⁾	Maximum Investment In One Issuer
Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40% of market value	5%

Perris Community Economic Development Corporation
Notes to Financial Statements
Year Ended June 30, 2016

2) CASH AND INVESTMENTS - Continued

Investments Authorized by the California Government Code and the Authority's Investment Policy - Continued

<u>Authorized Investment Type</u>	<u>Maximum Maturity⁽¹⁾</u>	<u>Maximum Percentage Of Portfolio⁽²⁾</u>	<u>Maximum Investment In One Issuer</u>
Commercial Paper	270 days	25% of market value	5%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	92 days	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	80%	None
Bank/Time Deposits	5 years	25%	None

⁽¹⁾ No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.

⁽²⁾ Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

⁽³⁾ The City of Perris's pooled investments are subject to the same above restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Corporation's investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Corporation manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The Corporation had the following investments:

	<u>Maturity Date</u>
City of Perris Pooled Investments	\$ <u>6,375,549</u> N/A
Total	\$ <u><u>6,375,549</u></u>

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Perris Community Economic Development Corporation
Notes to Financial Statements
Year Ended June 30, 2016

2) CASH AND INVESTMENTS - Continued

Presented below is the minimum rating required by (where applicable) the California Government Code, the Corporation's investment policy, or debt agreements, and the actual rating as of the year end for each investment type:

		Minimum Legal Rating	Not Required To Be Rated	Rating as of Period Ended			
				AAA	AA	A	Unrated
City of Perris							
Pooled Investments	\$ <u>6,375,549</u>	N/A	\$ _____	\$ _____	\$ _____	\$ _____	\$ <u>6,375,549</u>
Total	\$ <u>6,375,549</u>		\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>6,375,549</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Corporation contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Government Code. The Corporation has no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Corporation's investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Corporation's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Corporation deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, no deposits of the Corporation with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Perris Community Economic Development Corporation
Notes to Financial Statements
Year Ended June 30, 2016

3) FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value with Level 1 given the highest priority and Level 3 the lowest priority. The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within *Level 1* that are observable for the asset or liability, either directly or indirectly. *Level 2* inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 inputs are unobservable inputs for the asset or liability.

Fair value of assets measured on a recurring basis at June 30, 2016, are as follows:

	Fair Value	Uncategorized
Investments:		
City of Perris Pooled Investments	\$ 6,375,549	\$ 6,375,549
Total Investments	\$ 6,375,549	\$ 6,375,549

The above investments are uncategorized under the fair value hierarchy. The City of Perris Pooled Investments is exempt under GASB No. 72 fair value measurements.

4) COMMITMENTS AND CONTINGENCIES

As of June 30, 2016, there are no outstanding matters which would have a significant affect on the financial condition of the funds of the Corporation.