

**Perris
Community Economic
Development Corporation**

Perris, California

**Independent Auditors' Report
and Financial Statements**

For the Year Ended June 30, 2020



Perris Community Economic Development Corporation
Financial Statements
For the Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Perris Community Economic Development Corporation
Perris, California

We have audited the accompanying financial statements of the Perris Community Economic Development Corporation (the "Corporation"), a California not-for-profit organization, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, and cash flows for the year then ended, the related 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.

Auditors' 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2020, 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.

A handwritten signature in black ink that reads "The Pun Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
April 2, 2021

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FINANCIAL STATEMENTS

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Perris Community Economic Development Corporation
Statement of Financial Position
June 30, 2020

ASSETS

Cash and cash equivalents	\$	2,792,696
Accounts receivable		2,676
Unconditional promise to give, net		962,502
Interest receivable		1,760
Total assets		\$ 3,759,634

**LIABILITIES AND
NET ASSETS**

Liabilities:

Accounts payable	\$	178,213
Unearned revenue		2,676
Total liabilities		180,889

Net Assets:

With donor restrictions - time restrictions		962,502
Without donor restrictions		2,616,243
Total net assets		3,578,745
Total liabilities and net assets		\$ 3,759,634

Perris Community Economic Development Corporation
Statement of Activities
For the Year Ended June 30, 2020

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:

Revenues and gains:

Rental and lease revenue	\$	95,244
Investment earnings		80,058
Contribution of nonfinancial assets		71,163
Net assets released from donor restriction		138,145
		138,145
Total revenues and gains without donor restrictions		384,610

Expenses:

General administrative		71,163
Program services:		
Professional fees		234,333
Rent		138,145
Economic development programs		410,045
Community sponsorships		15,000
Education programs		52,253
		52,253
Total program services		849,776
Total expenses		920,939
Decrease in net assets without donor restrictions		(536,329)

CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:

Contribution revenue with donor restrictions		50,516
Net assets released from restrictions		(138,145)
		(138,145)
Decrease in net assets with donor restriction		(87,629)

DECREASE IN TOTAL NET ASSETS

(623,958)

NET ASSETS:

Beginning of year		4,202,703
End of year		3,578,745
		3,578,745

Perris Community Economic Development Corporation
Statement of Cash Flows
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$	(623,958)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable		(2,676)
(Increase) Decrease in receivables from the City of Perris		47,044
(Increase) Decrease in unconditional promise to give		87,629
(Increase) Decrease in interest receivable		3,943
Increase (Decrease) in accounts payable and accrued expenses		166,349
Increase (Decrease) in unearned revenue		2,676
Net cash used in operating activities		<u>(318,993)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (318,993)

CASH AND CASH EQUIVALENTS:

Beginning of year		<u>3,111,689</u>
End of year	\$	<u><u>2,792,696</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

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Perris Community Economic Development Corporation
Notes to the Financial Statements
For the Year Ended June 30, 2020

Note 1 – Organization

The Perris Community Economic Development Corporation (the “Corporation”) was formed on April 16, 2014 as a nonprofit public benefit corporation under Section 501(c)(3) of the Internal Revenue Code by the City of Perris (the “City”). 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 City Council of the City is the governing board of the Corporation and exercises control over the operations of the Corporation. Upon dissolution, any assets or liabilities remaining shall be distributed to the City 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.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Corporation have been prepared based on the accrual basis of accounting. Financial statement presentation follows the guidance of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) Topic 958, Presentation of Financial Statements of Not-For-Profit Organizations as updated in August 2016. Under this pronouncement, the Corporation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions. The significant accounting policies with respect to these two classes of net assets are described in Note 2 F.

B. Basis of Accounting

The Corporation prepares its financial statements in accordance with U.S. GAAP, which are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues and gains are recognized as earned and expenses and losses are recognized as incurred.

C. Cash and Cash Equivalent

Cash is pooled with the City’s internal investment pool and is considered to be cash and cash equivalent due to the funds can be withdrawn upon request.

D. Uncollectible Accounts Receivable

Accounts receivable consists mainly receivables from tenants for rent. The Corporation uses the allowance method for uncollectible accounts receivable but deemed no allowance is necessary based on prior collection experience.

Perris Community Economic Development Corporation
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Promise to Give

An unconditional promise to give shall be recognized when it is received. However, to be recognized there must be sufficient evidence in the form of verifiable documentation that a promise was made and received. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, shall be recognized when the conditions on which they depend are substantially met, that is, when a conditional promise becomes unconditional. Imposing a condition creates a barrier that must be overcome before the recipient of the transferred assets has an unconditional right to retain those promised assets.

F. Net Assets

Net assets without donor restrictions – Utilized to record fees and other forms of unrestricted revenue and expenses related to the general operations of the Corporation which are not subject to donor-imposed restrictions (donors include other types of contributions, including makers of certain grants).

Net assets with donor restrictions – Utilized to account for donor-imposed restrictions (donors include other types of contributions, including makers of certain grants).

G. Contribution of Nonfinancial Assets

The Corporation recognized contributed nonfinancial assets within contributed service revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Contributed services recognized comprise general administrative services from the City of Perris. Contributed services are valued and are reported at the estimated fair value in the financial statements based on the current rates for similar services.

H. Income Taxes

The Corporation submitted its application to the Internal Revenue Service (the “IRS”) in recognizing the Corporation as a not-for-profit corporation as described in §501(c)(3) of the Internal Revenue Code (“IRC”) and received the exempt status from the IRS on December 7, 2015; effective April 29, 2014. The Corporation is exempt from federal and state income taxes on related income pursuant to §501(a) and §170(b)(1)(A)(i) of the IRC and California Revenue Taxation Code §23701d as a public charity.

The Corporation utilizes a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement.

The Corporation has determined that its major tax jurisdictions are Federal and California. At June 30, 2020, management believed that there were no uncertain tax positions.

I. Functional Allocation of Expenses

The financial statements report categories of expenses that are attributable only one program or supporting function. The general and administrative function of the Corporation is carried out through shared employees from the City. Only direct charges are paid for by the Corporation. The costs of providing the programs and the activities have been summarized on a functional basis in the Statement of Activities for the year ended June 30, 2020. Accordingly, only actual charges are reported for the program services.

Perris Community Economic Development Corporation
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Summary of Significant Accounting Policies (Continued)

J. Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Implementation of New Accounting Standards

ASU No. 2018-08

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit-Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The guidance is issued to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional, which affects the timing of the revenue recognized. Contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. The Corporation implemented this guidance effective July 1, 2019 on a modified prospective basis.

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2020 was in the amount of \$2,792,696. The Corporation does not own specifically identifiable securities in the City's pool. Interest income is allocated based on average cash balances. Investment policies and associated risk factors applicable to the Corporation are those of the City and are included in the City's basic financial statements.

Note 4 – Unconditional Promise to Give

Effective February 12, 2014, the City entered into a master lease agreement with a California limited liability company for a 9,978 square feet space at \$1.00 per annum for 180 months, with five option terms of 60 months each. The leased space is a portion of a larger affordable multifamily residential project and the lease was subsequently assigned to the Corporation. As part of the lease agreement, the Corporation is obligated to pay the real property taxes allocated to the leased space. The Corporation subleased the space to other entities and generated rent revenue to provide program services.

Unconditional promise to give at June 30, 2020 was in the amount of \$1,185,740, net of unamortized discount in the amount of \$223,238. The effective interest rate for the contribution receivable is 5% annum. The contribution receivable amounts are as follows:

Perris Community Economic Development Corporation
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 4 – Unconditional Promise to Give (Continued)

For the year ending June 30,	Amount
2021	\$ 138,145
2022	138,145
2023	138,145
2024	138,145
2025	138,145
2026-2029	495,015
Total	<u>\$ 1,185,740</u>

Note 5 – Liquidity and Availability of Financial Assets

The Corporation had of financial assets in the amount of \$2,797,132 available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash and cash equivalents in the amount of \$2,792,696, receivable in the amount of \$2,676 and interest receivables in the amount of \$1,760 at June 30, 2020. It is sufficient to meet cash needs for general expenditure within one year.

The Corporation has a goal to maintain financial assets, which consist of cash and cash equivalents to meet one year of normal operating expense, which are, on average, approximately \$300,000. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due by keeping the surplus cash with the City’s internal investment pool that can be withdrawn upon request.

Note 6 – Net Assets With Donor Restriction – Time Restrictions

For the year ended June 30, 2020, changes in net assets with donor restriction – time restrictions were as follows:

	<u>July 1, 2019</u>	<u>Addition</u>	<u>Deletion</u>	<u>June 30, 2020</u>
Free use of facilities	<u>\$ 1,050,131</u>	<u>\$ 50,516</u>	<u>\$ (138,145)</u>	<u>\$ 962,502</u>

The Corporation received free use of the facilities (see Note 4) and reported \$138,145 rent expense and net assets released from donor restriction for the year ended June 30, 2020. The time restrictions are released based upon the lease terms through the free use of facilities.

Perris Community Economic Development Corporation
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 7 – Related Party Transactions

Conditional Promise to Give

On March 27, 2018, the Corporation entered into a master lease agreement with the City where the City will build the Perris Downtown Skills Training and Job Placement Center and lease the building to the Corporation under the condition of substantial completion of the building. The term of the lease is for 55 years at \$1.00 per annum, upon completion of the construction, the date barriers to entitlement are overcome. The free use of facilities upon completion of the construction is considered a conditional promise to give in the amount of \$16,196,491. The Corporation will sublease the building to subtenants for commercial and education uses related to skill training and job placement at market rate. As part of the lease agreement, the Corporation is obligated to pay the real property taxes allocated to the leased space.

Note 8 – Commitment and Contingencies

The Corporation did not have any major contractual commitments or contingencies as of June 30, 2020.

Note 9 – Subsequent Events

Management has evaluated subsequent events to determine if events or transactions occurring through April 2, 2021, the date the financial statements were available to be issued, required adjustment to, or disclosure in the financial statements. No such events or transactions were identified.

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