

**Perris**  
**Community Economic**  
**Development Corporation**

Perris, California

**Independent Auditors' Report**  
**and Financial Statements**

*For the Year Ended June 30, 2019*





**Perris Community Economic Development Corporation**  
**Financial Statements**  
**For the Year Ended June 30, 2019**

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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, 2019, 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, 2019, 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.

*The Pun Group, LLP*

Santa Ana, California  
December 23, 2019

200 E. Sandpointe Avenue, Suite 600, Santa Ana, California 92707  
Tel: 949-777-8800 • Fax: 949-777-8850 • [www.pungroup.com](http://www.pungroup.com)

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## **FINANCIAL STATEMENTS**

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**Perris Community Economic Development Corporation**  
**Statement of Financial Position**  
**June 30, 2019**

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**ASSETS**

Cash and cash equivalents	\$ 3,111,689
Receivable from the City of Perris	47,044
Unconditional promise to give, net	1,050,131
Interest receivable	5,703
<b>Total assets</b>	<b><u>\$ 4,214,567</u></b>

**LIABILITIES AND  
NET ASSETS**

**Liabilities:**

Accounts payable	\$ 11,864
<b>Total liabilities</b>	<b><u>11,864</u></b>

**Net Assets:**

With donor restrictions - time restrictions	1,050,131
Without donor restrictions	3,152,572
<b>Total net assets</b>	<b><u>4,202,703</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 4,214,567</u></b>

**Perris Community Economic Development Corporation**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

**CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:**

**Revenues and gains:**

Rental and lease revenue	\$ 106,834
Investment earnings	74,185
Contribution	93,458
Miscellaneous	260
Net assets released from donor restriction	<u>127,406</u>
<b>Total revenues and gains without donor restrictions</b>	<b><u>402,143</u></b>

**Expenses:**

General administrative	31,458
Program services:	
Professional fees	184,900
Rent	127,406
Property taxes	19,342
Economic development programs	10,163
Community sponsorships	15,000
Education programs	<u>85,171</u>
<b>Total program services</b>	<b><u>441,982</u></b>
<b>Total expenses</b>	<b><u>473,440</u></b>

<b>Decrease in net assets without donor restrictions</b>	<b><u>(71,297)</u></b>
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**CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:**

Contribution revenue with donor restrictions	195,088
Net assets released from restrictions	<u>(127,406)</u>
<b>Increase in net assets with donor restriction</b>	<b><u>67,682</u></b>

<b>INCREASE IN TOTAL NET ASSETS</b>	<b>(3,615)</b>
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**NET ASSETS:**

Beginning of year, as restated (Note 10)	<u>4,206,318</u>
End of year	<b><u><u>4,202,703</u></u></b>

**Perris Community Economic Development Corporation**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	\$	(3,615)
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		28,350
(Increase) Decrease in receivables from the City of Perris		(47,044)
(Increase) Decrease in unconditional promise to give		(67,682)
(Increase) Decrease in interest receivable		(437)
Increase (Decrease) in accounts payable and accrued expenses		(324,791)
Increase (Decrease) in unearned revenue		(28,350)
<b>Net cash used in operating activities</b>		<u>(443,569)</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (443,569)

**CASH AND CASH EQUIVALENTS:**

Beginning of year		<u>3,555,258</u>
End of year	\$	<u><u>3,111,689</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, 2019**

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**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 below. The Corporation has only net assets without donor restrictions at June 30, 2019.

**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**

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

**E. Promise to Give**

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Perris Community Economic Development Corporation**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2019**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**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. 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, 2019, management believed that there were no uncertain tax positions.

**H. 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, 2019. Accordingly, only actual charges are reported for the program services.

**I. Implementation of New Accounting Standards**

On August 18, 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities project by issuing Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Corporation has adopted this accounting policy in the current year. The effect of the implementation was to restate the beginning net assets and to report net assets without donor restrictions and net assets with donor restrictions – time restrictions in the amounts of \$3,223,869 and \$982,449, respectively (Note 6 and 10).



**Perris Community Economic Development Corporation**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2019**

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**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.

**Note 3 – Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2019 was in the amount of \$3,111,689. 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, 2019 was in the amount of \$1,323,885, net of unamortized discount in the amount of \$273,754. The effective interest rate for the contribution receivable is 5% annum. The contribution receivable amounts are as follows:

For the year ending June 30,	Amount
2020	\$ 138,145
2021	138,145
2022	138,145
2023	138,145
2024	138,145
2025-2029	<u>633,160</u>
Total	<u>\$ 1,323,885</u>

**Note 5 – Liquidity and Availability of Financial Assets**

The Corporation had of financial assets in the amount of \$3,164,436 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 \$3,111,689, receivable from the City of Perris in the amount of \$47,044, and interest receivables in the amount of \$5,703 at June 30, 2019. 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.

**Perris Community Economic Development Corporation**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2019**

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**Note 6 – Net Assets With Donor Restriction – Time Restrictions**

For the year ended June 30, 2019, changes in net assets with donor restriction – time restrictions were as follows:

	July 1, 2018 (As Restated)	Addition	Deletion	June 30, 2019
Free use of facilities	\$ 982,449	\$ 195,088	\$ (127,406)	\$ 1,050,131

The Corporation received free use of the facilities (see Note 4) and reported \$127,406 rent expense and net assets released from donor restriction for the year ended June 30, 2019. The time restrictions are released based upon the lease terms through the free use of facilities.

**Note 7 – Related Party Transactions**

Receivables

The receivable from the City in the amount of \$47,044 was to provide contribution to the Corporation for professional services.

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 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, 2019.

**Note 9 – Subsequent Events**

Management has evaluated subsequent events to determine if events or transactions occurring through December 23, 2019, 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.

**Note 10 – Prior Period Adjustment**

Net assets at July 1, 2018 was restated to \$4,206,318 to report net assets without donor restriction in the amount of \$3,223,869 and net assets with donor restriction for the free use of facilities in the amount of \$982,449 and related unconditional promise to give and unamortized discount in the amount of \$1,267,206 and \$284,757, respectively.