

BRAWLEY COMMUNITY FOUNDATION

AUDITED FINANCIAL STATEMENTS

Year ended June 30, 2017

OSBORNE· RINCON
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BRAWLEY COMMUNITY FOUNDATION
Year ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brawley Community Foundation
Brawley, California

We have audited the accompanying consolidated financial statements of Brawley Community Foundation and its subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brawley Community Foundation and its subsidiary as of June 30, 2017, and the activities and 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.

Osborne Rincon

May 31, 2018

BRAWLEY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 152,682	\$ 75,600	\$ -	\$ 228,282
Restricted cash	13,239,281	-	-	13,239,281
Accounts receivable, net	3,078,940	-	-	3,078,940
Prepaid expenses	-	-	-	-
Total Current Assets	<u>16,470,903</u>	<u>75,600</u>	<u>-</u>	<u>16,546,503</u>
Land	4,076,555	-	-	4,076,555
Property and equipment, net	74,384,639	-	-	74,384,639
Construction in progress	132,792	-	-	132,792
TOTAL ASSETS	<u><u>\$ 95,064,889</u></u>	<u><u>\$ 75,600</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 95,140,489</u></u>
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 3,699,256	\$ -	\$ -	\$ 3,699,256
Interest payable	596,457	-	-	596,457
Current portion of long-term debt	1,830,000	-	-	1,830,000
Total Current Liabilities	<u>6,125,713</u>	<u>-</u>	<u>-</u>	<u>6,125,713</u>
Long-term debt, less current portion	99,768,665	-	-	99,768,665
TOTAL LIABILITIES	<u>105,894,378</u>	<u>-</u>	<u>-</u>	<u>105,894,378</u>
NET ASSETS:				
Unrestricted	(10,829,489)	-	-	(10,829,489)
Temporarily restricted	-	75,600	-	75,600
Permanently restricted	-	-	-	-
TOTAL NET ASSETS	<u>(10,829,489)</u>	<u>75,600</u>	<u>-</u>	<u>(10,753,889)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 95,064,889</u></u>	<u><u>\$ 75,600</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 95,140,489</u></u>

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

BRAWLEY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS				
REVENUES				
Detention center fees	\$ 37,977,654	\$ -	\$ -	\$ 37,977,654
Contributions and donations	8,400	75,600	-	84,000
Interest income	12,130	-	-	12,130
Other income	-	-	-	-
	<u>37,998,184</u>	<u>75,600</u>	<u>-</u>	<u>38,073,784</u>
EXPENSES				
Program Services				
Detention center costs	28,745,782	-	-	28,745,782
Community expenses	-	-	-	-
Supporting Services				
General and administrative	70,931	-	-	70,931
Depreciation and amortization	2,618,729	-	-	2,618,729
Interest expense	7,208,959	-	-	7,208,959
Total expenses	<u>38,644,401</u>	<u>-</u>	<u>-</u>	<u>38,644,401</u>
OPERATING LOSS BEFORE OTHER				
REVENUE AND EXPENSES	<u>(646,217)</u>	<u>75,600</u>	<u>-</u>	<u>(570,617)</u>
OTHER INCOME (EXPENSES)				
Rental and other expenses	(195,064)	-	-	(195,064)
Building expansion reimbursement	278,410	-	-	278,410
Non-income taxes	(11,411)	-	-	(11,411)
Total other revenue (expenses)	<u>71,935</u>	<u>-</u>	<u>-</u>	<u>71,935</u>
DECREASE IN NET ASSETS	(574,282)	75,600	-	(498,682)
NET ASSETS, beginning of year	(10,291,915)	-	-	(10,291,915)
PRIOR PERIOD ADJUSTMENT	36,708	-	-	36,708
NET ASSETS, end of year	<u>\$ (10,829,489)</u>	<u>\$ 75,600</u>	<u>\$ -</u>	<u>\$ (10,753,889)</u>

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

BRAWLEY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (498,682)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	2,618,729
Bond discount amortization	39,157
(Increase) decrease in assets:	
Accounts receivable	75,680
Prepaid expenses	4,960
Increase (decrease) in liabilities:	
Accounts payable	(1,136,640)
Interest payable	(7,518)
Net cash provided by operating activities	<u>1,594,368</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(278,410)
Net cash used for investing activities	<u>(278,410)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of 2014 Series bonds	(1,735,000)
Net cash used for financing activities	<u>(1,735,000)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (917,724)

CASH AND CASH EQUIVALENTS, Beginning of year 14,385,287

CASH AND CASH EQUIVALENTS, End of year \$ 13,467,563

Reconciliation to Consolidated Statement of Financial Position

Cash and cash equivalents	228,282
Restricted cash	13,239,281
	<u>\$ 13,467,563</u>

SUPPLEMENTAL CASH DISCLOSURES

Accrued additions to fixed assets	18,700
Cash paid for interest	7,202,592

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

BRAWLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Brawley Community Foundation (the Foundation) was incorporated on December 9, 2003, under the laws of the State of California as a nonprofit corporation and is located in Brawley, California. The Foundation was granted tax exempt status effective December 21, 2004. The Foundation's purpose is to improve the quality of life of the citizens of that specific area of Northern Imperial County which most directly affects and is affected by the City of Brawley, California and to lessen the burdens of Government through the development, management, and operations of a correctional facility for prisoners held by the State of California and political subdivisions thereof and various federal agencies.

The Foundation has one subsidiary, Imperial Valley Gateway Center, LLC (the Center). This single member LLC was created for the purpose of constructing, owning and operating a detention facility in Imperial County. The Foundation's primary revenue stream is from detainees held by the Center. The Center completed construction and began operations in September 2014.

Accounting Method

The consolidated financial statements of the Foundation are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net Assets

Net assets are classified into three categories according to donor-imposed restrictions.

The Unrestricted Net Assets represent all resources that are not subject to donor-imposed restrictions and as such over which the Board of Directors has discretionary control for use in operating the Foundation, as well as all property, plant and equipment of the Foundation. Contributions and donations which are used for the restricted purpose in the year of receipt are recognized as unrestricted net assets.

The Temporarily Restricted Funds represent those resources that are received with temporary donor restrictions that limit the use of the donated assets. When a donor restriction expires (i.e., when a time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

The Permanently Restricted Funds represent funds that are subject to permanent restriction by the donor requiring that the principal is invested and only the income is used for specific purposes. The restrictions do not expire either through the passage of time or fulfillment of actions by the Foundation.

Cash and Cash Equivalents

For the purpose of financial statement reporting, the Foundation considers all highly liquid investments with a maturity of three months or less to be considered cash equivalents. Income from these accounts is recognized as interest income in the consolidated statement of activities and changes in net assets.

Restricted Cash

Restricted cash is maintained with U.S. Bank. Deposits held with this bank may exceed the amount of insurance provided on such deposits.

Continued

BRAWLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Building, fixtures, and equipment are carried at historical cost or, in the case of donated assets, at market value on the date of donation and are depreciated using the straight-line method based on the estimated useful lives of the various classes of assets, ranging from five to 35 years. Expenditures for maintenance and repairs are charged to operations as incurred.

Continued

Income Taxes

As a public benefit corporation, the Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is, however, liable for certain income taxes on any unrelated business taxable income to both the Internal Revenue Service and Franchise Tax Board.

Accounts Receivable and Revenues

The Foundation, through the Center, bills and collects for detainee holding fees, guard services, and transportation services on a monthly basis. Detainee fees are charged on a per person per day basis and subject to a monthly cap set by the contracts with the governmental agencies. Guard service is billed based on per person per hour basis. A single fee for monthly transportation is billed each month. The Foundation also recognizes receivables from donations made to the Foundation. Accordingly, accounts receivable are included in the accompanying financial statements. The Foundation does not have an allowance for doubtful accounts at the current time as the primary revenues are from fees to a federal government agency and all revenues are considered collectible.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value.

The Foundation is required to measure the following types of assets and the related revenues at fair value: short term investments, unconditional promises to give, grants and accounts receivable and non-cash contributions.

Concentration of Risk

Cash balances and restricted cash balances are maintained with multiple financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

The Foundation, through the Center, derives its revenues from an agreement with a single detention center client. Fees charged to this client were \$37,997,654 for the year ended June 30, 2017.

The Foundation, through the Center, employs a single vendor for the management of the detention center. The management of the detention center is required to be executed by this entity in order to retain the current detention center client. Costs charged by this vendor were \$28,745,782 for the year ended June 30, 2017.

Continued

**BRAWLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

During the current year-end, June 30, 2017, the Center implemented the requirements under ASU 2015-03 – Simplifying the Presentation of Debt Issuance Costs. This presentation requires that debt issuance costs be presented as a reduction to the overall debt balance, rather than as a long-term asset in the consolidated statement of financial position. In the current year, this amount is presented as required. There is no effect to net assets as a result of this presentation change.

NOTE 2. ACCOUNTS RECEIVABLE

The only source of receivables for the year ended 2017 is the fees received through the Center. The fees are billed to the City of Holtville and paid by the federal agency with whom the operation agreement is currently effective. Based on the historical evidence and that management has not written off any receivables related to the detention center, no allowance has been recorded.

NOTE 3. LAND AND PROPERTY AND EQUIPMENT, NET

The Foundation's primary assets consist of the detention facility owned by the Center located in Calexico, California and a theatre located in Brawley, California. The land was purchased in 2013 for the purpose of building and operating the detention facility. Fixed assets are recorded at historical cost and depreciated on a straight-line basis over the estimated useful life.

	<u>Range of Estimated Lives</u>
Building & Building Improvements	35 years
Furniture & Fixtures	7 years
Automobiles	7 years
Equipment	7 years
Computer Equipment	5-7 years

Property and equipment are summarized as follows:

Building & Building Improvements	\$ 79,480,413
Furniture & Fixtures	180,408
Automobiles	490,122
Equipment	218,895
Computer Equipment	<u>454,863</u>
Subtotal	80,824,701
Less: Accumulated Depreciation	<u>(6,440,062)</u>
Property & Equipment, Net	<u>74,384,639</u>

NOTE 4. CONSTRUCTION IN PROGRESS

Construction in progress consist of the following at June 30, 2017:

Brawley Theatre	\$ 132,792
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The Foundation is in the process of renovating a theatre located in Brawley, California.

**BRAWLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5. BORROWING ARRANGEMENTS

The following tables sets forth the long-term debt as shown in the consolidated statement of financial position and the associated discount on the bonds.

	<u>Rates</u>	
Industrial Development Authority of the County of La Paz, Arizona Senior Lien Refunding Project Revenue Bonds (Federally Taxable) Series 2014	4.25% - 7.00%	\$ 106,215,000
Less: Current Portion		<u>(1,830,000)</u>
Subtotal		104,385,000
Less: Unamortized Discount		(916,933)
Less: Unamortized Debt Issuance Costs		<u>(3,699,402)</u>
Long-term Debt, Less Current Portion		<u>99,768,665</u>

The following tables sets forth the associated debt issuance costs shown above.

Debt issuance costs		\$ 4,107,522
Less: Accumulated Amortization		<u>(408,120)</u>
Deferred charges, net		<u>3,699,402</u>

In 2015, the Center, issued a series of taxable revenue bonds to finance the completion of the Facility, repay the Series 2013A and 2013B bonds and to construct an expansion for administrative offices. These bonds were issued by the Industrial Development Authority of the County of La Paz, Arizona. These bonds are identified as Industrial Development Authority of the County of La Paz, Arizona, Senior Lien Refunding Project Revenue Bonds (Federally Taxable) Series 2014.

Annual bond principal payments are required in the following fiscal years:

2018		\$ 1,830,000
2019		1,930,000
2020		2,045,000
2021		2,180,000
2022		2,290,000
Thereafter		<u>95,940,000</u>
Total Due		<u>106,215,000</u>

The Series 2014 Bonds contain various covenants, including maintenance of various funds for managing repayment of the bonds. The Center is required to maintain a restricted cash balance in separate accounts for the future debt service associated with the Series 2014 bonds. This balance was \$13,239,281 at June 30, 2017. The Center is in compliance with all covenants as of June 30, 2017. In the event of default, the bond holders may call the bonds and take ownership of the Facility.

NOTE 6. OPERATING LEASE

The Center has a lease agreement with the City of Holtville in connection with the operation of the Facility. This agreement is based on a per person charge and is subject to the cap.

Continued

BRAWLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6. OPERATING LEASE (continued)

The minimum future payments depend upon the number of persons housed in the Facility and is calculated on a monthly basis. Rent expense under this lease was \$189,600 for the year ended June 30, 2017. The lease exists for the term of the bond indenture and as such expires in the fiscal year ending June 30, 2041.

NOTE 7. INCOME TAXES

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23401 of the California Tax Code. Additionally, the Foundation is classified by the Internal Revenue Service as other than a private foundation. The Foundation is, however, liable for income taxes on unrelated business taxable income to both the Internal Revenue Service and Franchise Tax Board. The Foundation's unrelated business taxable income consists primarily of certain activities that are not deemed covered by their tax-exempt status. The provision for income taxes on unrelated business taxable income for the year ended June 30, 2017 \$0, to the Internal Revenue Service and Franchise Tax Board, respectively.

The Foundation has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance from the accounting and disclosure about uncertain tax positions taken by an organization. Management believes that all of the positions taken by the Foundation in its federal and state income tax returns are more likely than not to be sustained upon examination. The Foundation's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally, for three years and four years, respectively after they are filed.

NOTE 8. RELATED PARTY TRANSACTIONS

The Foundation made payments to Imperial Valley Economic Development Corporation (IVEDC) of \$15,500 for administrative services, \$8,400 for grant writing services and \$5,000 sponsorship of the IVEDC dinner during the year ended June 30, 2017.

NOTE 9. CONDITIONAL PROMISES TO GIVE

During the year ended June 30, 2017, the Foundation received a grant from Imperial Irrigation District for a total of \$161,000. These funds are to be used for the construction and renovation of the Brawley Theatre. A payment of \$84,000 was received during the current year. Of the amount received \$8,400 was spent as such this amount has not been recognized as temporarily restricted net assets. The Foundation is required to meet certain conditions in order to receive the remaining \$77,000, as such no receivable has been recorded in the consolidated statement of financial position as of June 30, 2017.

NOTE 10. PRIOR PERIOD ADJUSTMENT

Upon completion of the fixed asset inventory at the detention center during the year ended June 30, 2017, it was determined that computer equipment with a useful life of five years, which met the capitalization threshold had been erroneously expensed during the first year of operation. The total value of these assets identified is \$56,474. The total depreciation expense which was not recorded during the years ending June 30, 2015 and 2016 was \$19,766. As such, an increase to opening net assets of \$36,708 was recognized in the current year. Current year depreciation expense was recognized in appropriately in the consolidated statement of activities and changes in net assets.

NOTE 11. SUBSEQUENT EVENTS

Events subsequent to June 30, 2017, have been evaluated by management through May 31, 2018, the date at which the Foundation's audited financial statements were available to be issued.