EXECUTIVE SUMMARY

BACKGROUND.

Summary.

In 2005, bondholders invested $106 million in Rhode Island based on state law and a contract (the "Indenture of Trust") with the Central Falls Detention Facility Corporation (the "Corporation"). At the time, the Wyatt Detention Facility (the "Facility') was run by Cornell Corrections ("Cornell").

State law provides that the state "will not limit or alter the rights vested in the corporation to fulfill the terms of any agreements made with the holders" until the bonds are paid off (RIGL 45-54-21), and that the facility may be transferred to and become the property of the City when the bonds are paid off (RIGL 45-54-23).

In 2006, the Corporation ceased making full payments to Cornell. From 2007 through 2009, the Corporation paid the City $1.1 million in "impact fees", but during the same period incurred losses of $6.2 million and additional indebtedness of $3.5 million. By late 2009, the Corporation was in financial distress, in breach of financial covenants and a "going concern" risk. In 2011, bills were introduced in the General Assembly to strip the Corporation of its tax exempt status, and relating to the issue of impact fee payments to the City. Bondholders are now exercising rights they have under the Indenture of Trust.

History.

In 2007, the Corporation terminated Cornell, and transitioned Facility operations to an Executive Director which had served in the past as the Corporation's "Contract Monitor" and "Construction Representative". By August 2007, the Corporation owed Cornell $3,955,305, and converted the amount to additional debt in possible violation of the Indenture of Trust. In 2007, 2008 and 2009 (the year the Executive Director was terminated), the Corporation lost an aggregate of $6,253,708. During that period, the Corporation paid the City $1,106,136 in impact fees.

By 2009, the Corporation was in financial distress with millions in additional debt owed to Cornell, millions in recent net income losses, a significant accrual of accounts payable, capital improvement needs in the millions, litigation relating to the former Executive Director and a detainee's death, depleted reserve accounts, impact fee payments having been made to the City through February 2009, significant priority debt owed to the bondholders, and the termination of a contract with ICE (resulting in lower detainee numbers and revenues). The extent of such financial distress would not be realized until the new administration arrived in 2010.

By 2009, the Corporation was in breach of financial covenants, and appeared in default as it could not properly operate without accessing the last remaining reserve account – the "Reserve Fund". Bondholders exercised their right to review the operations and economic viability of the Corporation. MVF Consulting issued the report in November 2009. Bondholders had the right to require a follow-up report, and they exercised that right.

This report represents our follow-up report on the Corporation.

We reviewed all issues and findings in the November 2009 report, and certain matters rose to a particular level of concern to us in terms of importance. As such, we bring those matters to your attention in this "Executive Summary", and in a more detailed manner in the attached addendum. The body of the report following this "Executive Summary" deals with other issues and findings raised in the November 2009 report.

RECOMMENDATIONS.

We bring your attention to matters (1) - (12) below, and detailed in Tabs A – L in the attached addendum. These matters reflect important issues that merit your attention at the outset.

We feel this is important information which requires a review by the board and other stakeholders to follow up on potential areas for a claim on director and key employee insurance policies and other potential legal issues relating to the 3–4 year period preceding mid-2009. We feel a forensic and legal review should be conducted to examine these areas. The actual investigation is outside the scope of our engagement, and was not conducted by us. However, we strongly feel a legal review/investigation should be conducted on the information included in the addendum to determine if there are violations of State law and/or the Indenture of Trust.

These issues significantly impair the Corporation even as of today, and withholding such from disclosure would be a disservice to the Corporation, the bondholders, the City and the State. Prior to mid-2009, and in particular during 2007 and 2008, the Corporation appears to have been significantly and negatively impacted by:

(1) Potential Conflict-of-Interest Issues ***(Tab A)***;
(2) Potential Breaches of State Law ***(Tab B)***;
(3) Potential Breaches of Bond Covenants, including Failure to Preserve Project ***(Tab C)***;
(4) Potential Self-Dealing ***(Tab D)***;
(5) Potential Gross Negligence ***(Tab E)***;
(6) Potential Lack of Oversight and Accountability ***(Tab F)***.

Under the administration existing prior to mid-2009, and in particular during 2007 and 2008, the above matters and other factors have resulted in the existence and/or appearance of:

(7) Potentially Misleading Bondholders on Fiscal Health of Their Investment ***(Tab G)***;
(8) Potentially Misleading the City on "Impact Fee" Rights ***(Tab H)***;
(9) Lack of Disclosure and Non-Compliant Accounting & Reporting Practices ***(Tab I)***;
(10) Violations (Real and Potential) of Inter-Governmental Agreements ***(Tab J)***;
(11) Potentially Incurring Prohibited Indebtedness & Failing to Preserve Project ***(Tab K)***;
(12) Non-Compliance with Procurement Policies ***(Tab L)***.

POSITIVE FINDINGS.

Despite the above issues, many positive actions have been taken by the board taking over in mid-2009 under the Chairman at such time, new management arriving in 2010 under the present C.E.O., and related staff and legal counsel. We would like to state some of these to keep the update in perspective. Matters (1) - (12) above have been appropriately addressed in relatively short order by such administration, and the Corporation has made progress and has achieved the following as of July 2011:

(1) brought accrued accounts payable current;

(2) brought past due financial and other reports current;

(3) it appears required financial reports, statements and significant events have been prepared and disclosed in compliance with State law and the Indenture of Trust;

(4) increased the detainee population to meaningful levels (despite the loss of ICE);

(5) adopted and executed meaningful marketing plans;

(6) adopted a Capital Improvement Plan;

(7) did not incur additional debt;

(8) created a proper and effective table of organization for oversight, accountability, and checks and balances;

(9) installed improved procurement practices and policies;

(10) installed improved fiscal internal controls;

(11) removed significant accounting deficiencies reported in the 2008 and 2009 audits, and achieved a finding of no deficiencies in 2010;

(12) increased operating results for fiscal year 2010 from the operating results of 2009 by close to $900,000;

(13) defended the Corporation against perceived unlawful actions occurring prior to 2009; and

(14) reduced upper management compensation and benefits to what appears to be the Corporation's lowest levels in years.

CORPORATION'S ADDRESSING OF OTHER ISSUES AND FINDINGS.

In addition to the matters set forth in this "Executive Summary" and the attached addendum, please see the body of this report following this "Executive Summary" for details on the Corporation's efforts to address other issues and findings in the original consultant's report.

OUTSTANDING ISSUES AND CONCERNS.

Board Members – Financial Backgrounds.

The board still has a need to recruit additional board members with strong financial backgrounds. The City of Central Falls Receiver has appointed new members to the board as of July 2011, but we have not reviewed the credentials of these appointees.

Fiscal and Political Situation of City of Central Falls.

We are concerned with the fiscal and political situation in the host city of Central Falls. The board appointment power and the fiscal difficulties of the City could have a negative impact on the operation of the Wyatt Detention Facility if the fiscal needs of the City overpower the vision, mission and fiscal sustainability of the Facility.

Outstanding Debt; Capital Improvement Obligations; Depletion of Reserve Accounts.

We are concerned that debt burdens and financial issues accruing from years prior to mid-2009 (see "Background" above) remain significant, and will continue to place the Corporation in breach and default under the Indenture of Trust. Such debt and financial issues have resulted in (i) depletion of many reserve accounts/funds, including but not limited to the capital improvement fund and contingency reserve fund, and (ii) the following debts and upcoming requirements:

Outstanding Debts and Requirements	Amount	Due
Overdue Debt Claimed by Cornell:	$671,218.49	(June 2011)
Reserve Fund Deficit	$532,569.22	(July 2011)
Capital Improvement Necessities:	$946,364.00	(2011)
Capital Improvement Necessities:	$756,759.00	(2012)
Capital Improvement Necessities:	$600,850.00	(2013)

Although the Corporation since mid-2009 has been reducing administrative/professional costs, increasing revenues and replenishing reserve funds, the above matters will likely keep the Corporation in technical default for a period of time as Reserve Fund and Coverage Ratio requirements must be met. Although improving, both will likely remain below required amounts in the near future given the additional debt, losses and reserve account depletions incurred by the Corporation from 2007 – 2009; needed professionals to run/assist the facility; capital improvements needed to maintain the physical integrity of the facility; outstanding litigation; and the detainee per diem rate not likely increasing soon due to the economy.

PROCESS.

It appears that many financial and other documents were not prepared, were missing or were destroyed prior to the new administration arriving in 2009. Such administration has recovered critical documents, and has reconstructed financial statements back to 2008 which were valuable in our review. Our report was based on review of documents provided by heads of procurement, human resources, financial operations, corrections and legal counsel. It was also based on interviews of upper management, and on "unannounced" visits and inspections.

CONCLUSIONS.

Despite positive matters occurring in 2010 and 2011, resulting damage from matters occurring in prior years (particularly 2007 and 2008) may have been done and may continue with respect to the Corporation's fiscal health, the preservation of the project and the bondholders. The bondholders appear to have been misled on the Corporation's fiscal heath, and for a couple of years were not given notice of significant and adverse matters known to the Corporation, including the "going concern" risk existing as early as 2008.

As stated previously and in the main body of our report, the Corporation has to navigate its way through the host city's financial bankruptcy and related issues, and we feel the Corporation and its stakeholders should seriously consider a forensic investigation and legal review into many of the decisions made by the management team and board existing prior to mid-2009 that possibly led to the severe financial stress on the entity. We feel the information in this report requires a follow up on potential areas for a claim on director and key employee insurance policies and other potential legal issues relating to the time period previously noted.

OUR CONCLUSIONS RELATING TO OTHER ISSUES AND FINDINGS NOTED IN ORIGINAL CONSULTANT'S NOVEMBER 12, 2009 REPORT.

MVF Consulting issued a report on November 12, 2009 with respect to findings and issues relating to the operations and economic viability of the Corporation. The "Executive Summary" and the attached addendum (Tabs A – L) touch on many of the findings and issues raised by the original consultant, and on critical matters of concern presently impacting the Corporation or relating to such findings and recommendations. Set forth below are our conclusions and/or comments relating to the other issues and findings noted in the original consultant's November 12, 2009 report. Reference is made to the original report's section, or summary of the finding or issue, and our conclusion relating to such.

1. Original Report – Relating to Financial Management (p. 4-5).

The previous consultant accurately noted that many of the Corporation's financial issues related to operational matters and external forces. A summary of the section's highlights are described in the following two paragraphs.

"In the case of CFDCF, the most significant financial impact in 2009 has been the loss of revenues from the ICE contract, and the subsequent strain on cash flows... As a result management has not projected any payment of impact fees to the City for fiscal years 2009 or 2010... The Corporation is in jeopardy of receiving a "Going Concern" opinion by the auditors for 2008, and indication that the Corporation may not be able to continue to function as a business entity."

"[E]ven if the ICE contract had not been lost in 2008, the Corporation would not have met its required coverage ratio and possibly would still have faced a going concern opinion for 2008. The financial distress of the corporation goes beyond the loss of a contract - the 2008 budget was so tight that a mere 1% variance in cash flow (less than $100k) would have caused the Corporation to fall short of its required ratio. In 2008, the Corporation exceeded budget by $700k... The 2008 Annual Report for the Corporation was not filed nor was the Annual Financial Audit of the Corporation prepared and/or filed in accordance with state law."

1. Our Conclusion.

As predicted by the original consultant, the Corporation received a "Going Concern" opinion by the auditors for 2008 and 2009, an indication that the Corporation may not be able to continue to function as a business entity.

The new board and management team arriving in 2009 and 2010 has greatly reduced their operating expenses, implemented stronger internal control mechanisms including the adoption of the state purchasing guidelines, and engaged new outside auditors. Such board and management team also brought the annual financial audits up to date. This is a significant improvement by itself, but it is further enhanced because the most recent audit (2010) reported no significant deficiencies in the entity's financial statements.

There is still concern over the financial condition of the entity as reflected in the 2008, 2009 and 2010 auditors' reports containing a "going concern" paragraph, but overall there is positive news to report.

First, the new management team arriving in 2010 has developed and executed a plan to increase revenue. It has done so by reaching out in a more strategic and meaningful manner to other jurisdictions in order to increase the detainee population. The management team now features two former Directors of Corrections who have headed the States of Massachusetts and Connecticut, and who bring extensive regional and national knowledge, experience and relationships to the facility. This management team also features new finance personnel who have ensured and demonstrated compliance with financial reporting obligations, and who have successfully implemented fiscal oversight controls.

Second, management's efforts have already resulted in increased revenue to the organization. This has increased cash flow, and helped to commence the building of networks and opportunities relating to additional sources of revenue.

Third, despite the relatively short period of time the new management team has been in place (since 2010), average daily population has increased to approximately 675 and 670 during the first and second quarters of 2011.

The new management team greatly reduced the Corporation's operating expenses, and implemented stronger internal control mechanisms including the adoption of the State of Rhode Island purchasing guidelines. These are all positive steps in improving the operation of this organization which are evident in the Auditor's report. This is a clear distinction from the 2008 and 2009 Auditor reports which noted the existence of significant deficiencies under the previous administration.

The new management team addressed and corrected all the deficiencies noted in the previous Auditor's Report.

Although we find significant improvements from the original consultant's report, we have several concerns.

The organization has six major events that will impact the future operations.

First, there has to be a successful resolution of the pending litigation relating to the death of a detainee. Second, the organization needs to achieve the continued accreditation of the prison operations upon the review this year. However, such accreditation may require a look back to years 2009 and 2008 (the year that ICE determined the facility to be in noncompliance with ICE's detention facility standards and policies, and even those of the Wyatt Detention Facility itself). Third, the organization needs to successfully negotiate a new contract with the federal government at a daily rate which allows them to successfully meet their financial obligations – but such will not likely happen anytime soon due to the economy and federal policies. Fourth, the organization must find a way to restructure the debt to provide an opportunity for future growth, *viability and reduce the risk of failure. Fifth, the entity has to navigate its way through the host city's financial bankruptcy and any related issues. Finally, the entity should seriously consider a forensic investigation and legal review into many of the decisions made by the previous management team and the previous board decisions that possibly led to the severe financial stress on the entity.*

2. <u>Original Report – Relating to Management of the Organization (p. 2).</u>

The original Consultant's prediction for the success of the Wyatt Detention Facility and the Central Falls Detention Facility Corporation was dependent on the Corporation making some necessary changes in the way the facility and the Board were managed in the future.

2. <u>Our Conclusion.</u>

The hiring in 2010 of the present C.E.O. and a professional management team has greatly improved the day to day operations of the facility which is still hampered by an overburdened debt structure. The board still has a need to recruit additional board members with a strong financial background. The City of Central Falls Receiver has appointed new members to the board as of July 2011, but we have not reviewed the credentials of these appointees.

3. <u>Original Report - Management of the Facility and the Corporation (p. 3).</u>

See "Management of the Facility and the Corporation" on pages 3 – 4 of the previous consultant's report.

3. <u>Our Conclusion.</u>

The Warden appears to possess and effectively execute appropriate authority. Communication appears to be good between the various levels of the organization. Management presence inside the facility is regular and effective; and when decisions are made, the results are implemented. There appears to be significant improvement since the timing of the previous consultant's report. We have reviewed several inspection reports both internal and external, and have conducted scheduled and surprise inspections. These reports state compliance with industry standards. In the incidence of any non-compliance, management quickly corrected the issue and the outside entity approved the correction.

4. <u>Original Report – Relating to Operations (p. 3; 47-49).</u>

See "Operations" section on pages 3, and pages 47 – 49, of the previous consultant's report.

4. <u>Our Conclusion.</u>

Several areas were addressed by the original consultant. Adjustments have been made in program offerings and record keeping; and the facility operates successfully with a population of primarily USMS detainees.

We feel the current operations of the detention facility are adequate and compliant with federal agencies.

We have conducted scheduled and surprise inspections, as well as reviewed the reports of various agencies' scheduled and surprise inspections. The facility has performed in a satisfactory manner in all inspections. Where there were findings, the issues were addressed by the Corporation and approved by the outside agencies' personnel including an inspection by the Office of the Federal Detention Trustee of the Department of Justice.

The CEO, the Warden and the management team have made tremendous improvements from the findings of the original consultant.

The facility has received national accreditation, and continues to prepare for ACA accreditation, including mock audits. The staff and management continue to prepare for the reaccreditation this year. The reaccreditation is a key element in the future success of this facility. The board and other stakeholders should pay close attention to this key event. A concern is that such accreditation may require a look back to years 2009 and 2008 (the year that ICE determined the facility to be in noncompliance with ICE's detention facility standards and policies, and even those of the Wyatt Detention Facility itself).

We feel management is taking this seriously, and allocating the proper attention to this matter.

5.. Original Report - Relating to Budget (p. 16) and Board Issues (p. 18-19).

See pages 16 and 18-19 of the previous consultant's report.

5. Our Conclusion.

We have reviewed the budgets, and have concluded management is using responsible budgeting practices.

The budget process has been greatly improved, and is more transparent and clearly communicated to the board. We strongly suggest management and the board address the serious debt constraints, and are careful with respect to the fiscal situation in the host city of Central Falls and its affect, if any, on the proper and professional budgeting and running of the facility. The budget should also reflect the impact of the "going concern" paragraph in the auditor's opinion of the financial statements.

The board still has a need to recruit additional board members with a strong financial background. The City of Central Falls Receiver has appointed new members to the board as of July, 2011 but we have not reviewed the credentials of these appointees.

6. **<u>Original Report – Relating to Options for Selecting an Operator Going Forward (p. 25 – 27).</u>**

The previous consultant noted the four options available to the Corporation when it was choosing a model to utilize going forward. The options were (1) contracting with an Executive Director/CEO to manage the organization on behalf of the Corporation; (2) contracting with a private prison operating company that would take over all operations and management functions; (3) maintaining status quo and to trying to manage the operation locally with the Warden and CFO providing the day-to-day management functions; and (4) dissolving the Corporation, defaulting on the bonds, and allowing the assets of the Corporation/City to go to auction which would cause the facility to no longer be a short-term or long-term asset of the City of Central Falls. Please see pages 25 – 27 for further details on the pros and cons of each option.

*6. **<u>Our Conclusion.</u>***

The board has chosen the CEO model. We conclude that this model has worked well for the entity. We feel the CEO has brought tremendous improvement to the scenario that was described in the previous consultant's report. We have observed in both scheduled and surprise inspections the following: (i) strengthened accounting and human resource policies, (ii) a commitment to finding additional revenue sources, and (iii) a commitment to control expenses while staying true to the mission of the organization. The organization continuously seeks ways to improve itself from both a financial and operational perspective.

7. **<u>Original Report – Relating to the Administration (p. 44).</u>**

Please see page 44 with respect to the details of the previous consultant's findings.

*7. **<u>Our Conclusion.</u>***

We agree with the previous consultant's findings. We have reviewed the skill sets of the individuals and have reviewed some of the work product prepared in the normal conduct of the administrative services. The Warden is highly competent and has had a major positive impact on the operations of the facility. The administrative and management team has performed their services in a professional and effective manner. The auditor's report contained no significant deficiencies which is another testament to the professional work being performed by the financial administrative staff and management.

8. **<u>Original Report – Relating to Termination of ICE Contract (p. 1).</u>**

The annual loss in revenue to the CFDFC without the 153 ICE inmates was over $ 5.67 M. CFDFC could not remain solvent without additional revenue sources.

*8. **Our Conclusion.***

The positive news is the new management team has developed and executed a plan to increase the revenue by reaching out to other jurisdictions to increase the prison population. The increased revenue has helped the organization with cash flow and has also helped to diversify the client base source in order to reduce the risks associated with concentration of revenue from one or two sources.

9. Original Report – Relating to "Damaged Goods" Reputation (p. 2).

There are no indications that ICE has any intentions in the near future to resume utilizing CFDFC beds at the Wyatt Detention Facility. The circumstances behind the departure of ICE have created a significant "damaged goods" reputation for the facility that will serve as an obstacle in its path to fill beds with detainees or inmates from other jurisdictions until such time as the market is convinced that real and substantive change has been made, and that those responsible for the serious incidents are no longer there.

*9. **Our Conclusion.***

As of today these changes have been implemented by the new management team and there has been significant improvement in the operation of the facility.

10. Original Report – Relating to Litigation (p. 2).

The pending civil lawsuits and criminal investigations surrounding the death of the Chinese national needs to be resolved so that the facility can extricate itself from the media spotlight and the resulting bad publicity that accompanies it.

*10. **Our Conclusion.***

The legal situation is still unresolved as of today. Although the media spotlight on this issue is not as bright as before, the case will continue to have a negative effect on revenues until the case is resolved.

11. Original Report – Relating to Flawed Roles, Relationships, Table of Organization and Oversight re: Board of Directors and Facility Management (p. 3 - 4).

The previous consultant reported the following, "The Board's interaction with the facility managers is quite another matter. The relationship between the facility management and the Board of Directors of the Corporation appears to be contentious at best. The facility management rarely communicates with the Board, and decisions are often made at the local facility level without even a courtesy notice to the Board. Many of these decisions have a direct impact on the fiscal well-being of the Central Falls Detention Facility Corporation, and its potential for success. For example, the Warden has altered the official Table of Organization for the Corporation by placing the Chief Financial Officer (CFO) of the Corporation under him as a direct report instead of having the CFO report to the Board as an equal to the Warden as it was originally established by the Board. This one act, implemented by the Warden without the benefit of discussion or approval from the Board, has placed the Warden in a position with much more authority and power than the Board ever conferred on him. With direct control of both fiscal policy and operations, the Warden functions independently with no accountability to the Board of Directors. Under this arrangement, the Board has lost the benefit of having a CFO since the Warden, not the Board, is able to direct the activities of the CFO who now functions more as a business manager of a facility than a Chief Financial Officer of a Corporation. Were the Warden the CEO of the Corporation this reporting relationship would make sense, but he is not the CEO of the Corporation - he is the Warden of the detention facility.

There is no sense of teamwork between the Board and the Facility management. The Consultant acknowledges that there have been numerous changes in the organizational and management structure over the past two years, and especially during the past six months. Systemic changes such as these can contribute to confusion and role conflicts; but the lack of communication and interaction between the Facility management and the Board coupled with the absence of accountability of the facility managers to the Board is highly problematic. The absence of an executive officer of the Corporation to provide leadership, management and liaison services between the Facility management and the Board itself has contributed to the problems that currently exist. The absence of an executive officer of the Corporation to interact with all of the external stakeholders on behalf of the Board of Directors is another problem. The Corporation needs to speak with one voice. An executive officer who can speak for the Board, implement the Board's strategic plan, and interact with the various stakeholders and external agencies/organizations is needed. An executive officer is needed to manage the warden and the fiscal officer and to hold them accountable to fulfill their statutory duties and to enforce their adherence to the policies and practices of the Corporation. As indicated above, an executive officer can come in the form of a capable, experienced individual executive director or in the format of a professional, private operator."

11. __Our Conclusion.__

This scenario has been corrected. The entity has hired a competent Chief Executive Officer who has implemented many positive governance measures, has hired competent personnel, and has communicated with the board.

We are concerned with the fiscal and political situation in the host city of Central Falls. The board appointment power and the fiscal difficulties of the City could have a negative impact on the operation of the Wyatt Detention Facility if the fiscal needs of the City overpower the vision, mission, and fiscal sustainability of the Facility.

12. <u>Original Report – Relating to Organizational Structure (p. 12)</u>.

The previous consultant noted the following issues:

"Financial management for the Central Falls Detention Facility Corporation is headed up by a Chief Financial Officer (CFO) whose credentials include CPA and CFE (Certified Fraud Examiner) certifications."

"Prior to April 24, 2009, the CFO had reported to the Executive Director (AVCORR) as a co-equal to the Warden. After the Board terminated its contract with AVCORR, the Board's minutes reflect the fact that the Warden would report directly to the Board for operations and the CFO would report directly to the Board for financial matters. However on April 24, 2009, the Warden promulgated a revised Table of Organization that placed the CFO under the Warden as a subordinate. There were no Board approvals or authorizations for this change in the organizational structure. The CFO for the Corporation is now a staff person under the Warden of the facility at a level equal to the Associate Warden, Training Captain, Human Resource Manager, Administrative Captain, Health Services Administrator, and Food Service Director. This shift in the organizational chart violates the Board's original intent of having a financial officer independent of the operations officer to make financial decisions in the best interest of the corporation. For additional information with respect to this matter, please refer to the Section entitled "Facility Management Assessment and Relations with the Board".

12. <u>Our Conclusion.</u>

The organization has hired a new management team including the new Chief Executive Officer and has greatly enhanced the oversight and execution of operational and financial functions through many features, including without limitation the adoption and implementation of a proper and effective organizational structure through a table of organization understood and followed throughout the organization.

13. <u>Original Report – Relating to Lack of Preparation and Reporting of Financial Audits and Records (p. 12 - 14)</u>.

The previous consultant noted that the 2008 annual report and independent audit was not prepared by the Corporation in violation of State law and bond document, and that such actions may have been done on purpose. The previous consultant stated the following:

"Based on conversations with the CFO, the accounting firm contracted to execute the audit, Batchelor, Frechette, McCrory, Michael & Co., has substantially completed the 2008 audit and has been waiting for the CFO to return the responses to the last of the auditor's requests. The CFO noted that she took a risk by withholding her responses thereby delaying the issuance of the audit report. She was aware that the audit opinion was to be a "Going Concern" and that she wanted to avoid such an opinion. A going concern opinion is an auditor's conclusion that after auditing the corporation, the auditors are expressing substantial doubt with regard to a company's ability to continue functioning as a business entity.

The CFO noted she was protecting the corporation, as a going concern opinion would result in increased insurance rates for the Board of Directors among other possible detrimental financial impacts. The plan was to wait one year and then issue the 2008 financial statements, as going concern opinions only cover one year of operations, and if Central Falls Detention Facility Corporation was still in existence after one year, the auditors would have to remove the going concern opinion."

13. *Our Conclusion.*

The new management team engaged a new audit firm and all Annual Financial Statements are current.

14. Original Report – Relating to Lack of Independence of Auditing Firm (p. 14, 19).

"At least in appearance, the fact that the CFO was previously employed by the auditing firm engaged to perform the audit, brings the independence of the accounting firm into question. In the area of independence, perception is as significant as reality. It was suggested to and agreed by the CFO that a change in accounting firms is appropriate for 2009."

"The independent accounting firm engaged to perform the audit of the annual financial statements needs to be independent in substance and appearance from management. In addition, the Board should have an opportunity to meet and approve the accounting firm that management recommends, and keep a line of communication open with the firm. After the firm presents its annual audit report, a best practice to consider is to schedule a private session between the independent auditor and the board that excludes the presence of CFDFC management."

14. Our Conclusion.

The new management team has hired a new independent auditor which meets all the requirements of an independent audit including a peer review report. Audit reports are current. The results of the audits have been adequately communicated to the board.

15. Original Report – Relating to New Recruits and Overtime Issues (p. 19).

The previous consultant recommended that management hire graduates from the new recruit class to fill some of the vacant positions at the facility which should alleviate some of the overtime currently being incurred.

15. Our Conclusion.

On April 1, 2011, the 30th class in the facility's history graduated 14 cadets. The graduates and placement of officers in vacant slots should help with forced overtime and reducing overtime levels.

16. Original Report – Relating to Quarterly Report Issues (p. 19).

The previous consultant reported the following: "[Q]uarterly reports are not optional. Disseminating financial information to the finance organization's customers (management and stakeholders) is the most critical responsibility charged to a finance organization." The previous consultant accurately noted that the bondholders are significant customers to the finance organization, and that such quarterly report had ceased being produced and distributed.

16. Our Conclusion.

The new management team since the beginning of 2010 has been corresponding with the stakeholders and providing the information needed for accountability purposes.

17. Original Report – Relating to the Issues of Dependence on One Client (p. 19-20).

The previous consultant reported the following: "USMS represents virtually all of the detainees and revenue for CFDFC, which serves as a significant risk to the organization as the loss of the USMS contract would make CFDFC insolvent, with little to no time to replace the revenue. Being the sole client of an organization also could play a role when the USMS negotiates per diem rates, as the USMS possesses tremendous leverage and has other options readily available to them. Factoring in the "damaged goods" reputation of the facility with the federal government actually gives the USMS cause to terminate the contract and effectively shut down the facility. Regardless of the course of action chosen regarding the operations of the facility, it is critical that additional sources of detainees be identified. Although the Board has been presented with a representation of marketing and development efforts by the [previous]Warden, the Consultant was not provided evidence of any meaningful marketing or development efforts or results by management."

17. Our Conclusion.

There has been considerable improvement in this area as the management team created and implemented an effective marketing plan and has aggressively addressed the need for diversity of revenue for the organization. The detainees come from several different sources, and this leads to less reliance on one referral source.

18. Original Report – Relating to Program Services & Facility Management (p. 44-45).

Please see pages 44 - 45 with respect to the details of the previous consultant's findings.

18. Our Conclusion.

We agree with the previous consultant's findings.

ADDENDUM

Our report was based on review of documents provided by heads of procurement, human resources, financial operations, corrections and legal counsel. It was also based on interviews of upper management, and on "unannounced" visits and inspections.

Although our report touches on all issues and findings raised in the November 2009 report, we feel certain matters rose to a particular level of concern in terms of importance. As such and as previously stated, we bring these important matters to your attention in items (1) – (12) below and in a more detailed manner in Tabs A – L attached to this addendum.

We feel this is important information which requires a review by the board and other stakeholders to follow up on potential areas for a claim on director and key employee insurance policies and other potential legal issues relating to the 3–4 year period preceding mid-2009. We feel a forensic and legal review should be conducted to examine these areas and many of the decisions made by the management and the board existing prior to mid-2009 that possibly led to the severe financial stress on the entity. The actual investigation is outside the scope of our engagement, and was not conducted by us. However, we strongly feel a legal review/investigation should be conducted on the information included in the addendum to determine if there are violations of State law and/or the Indenture of Trust.

These issues significantly impact and impair the Corporation even as of today, and withholding such from disclosure would be a disservice to the Corporation, the bondholders, the City and the State. Our findings indicate that prior to mid-2009, and in particular during years 2007 and 2008, the Corporation appears to have been significantly and negatively impacted by:

(1) Potential Conflict-of-Interest Issues ***(Tab A);***
(2) Potential Breaches of State Law ***(Tab B)***;
(3) Potential Breaches of Bond Covenants, including Failure to Preserve Project ***(Tab C);***
(4) Potential Self-Dealing ***(Tab D)***;
(5) Potential Gross Negligence ***(Tab E)***;
(6) Potential Lack of Oversight and Accountability ***(Tab F).***

Under the administration existing prior to mid-2009, and in particular during years 2007 and 2008, the above matters and other factors have resulted in the existence and/or appearance of:

(7) Potentially Misleading Bondholders on Fiscal Health of Their Investment ***(Tab G)***;
(8) Potentially Misleading the City on "Impact Fee" Rights ***(Tab H)***;
(9) Lack of Disclosure and Non-Compliant Accounting & Reporting Practices ***(Tab I)***;
(10) Violations (Real and Potential) of Inter-Governmental Agreements ***(Tab J)***;
(11) Potentially Incurring Prohibited Indebtedness & Failing to Preserve Project ***(Tab K)***;
(12) Non-Compliance with Procurement Policies ***(Tab L).***

TAB A: POTENTIAL CONFLICT – OF - INTEREST ISSUES.

Relationships between/among AVCORR, Corporation, Attorney and Developer.

AVCORR: Served in various capacities with the Corporation:

- "Contract Administrator" or "Contract Monitor" providing contract monitoring services through 2007 (the year in which Cornell Corrections' contract was terminated).
- "Construction Representative and Monitor" relating to the $48 million facility expansion project by a developer during the same time period that it also served as "Contract Administrator" or "Contract Monitor". The position of "Construction Representative and Monitor" was created without an "RFP" process on advice of Corporation's attorney, and consisted of overseeing developer selection, negotiations, performance and payments in consideration of 2% of the overall construction costs.
- Executive Director subsequent to Cornell Corrections' termination and through 2009.

Developer: Responsible for the construction of the $48 million facility expansion project.

AVCORR and the principal of the developer were partners in an outside company during the period of developer selection and facility expansion/construction.

Attorney: The attorney for the Corporation during this time period was also the registered attorney for AVCORR and for the outside company owned by AVCORR and the principal of the developer.

Governmental Agreements and Federal Funds.

- AVCORR disclosed its relationship with the principal of the developer; however, the existence or appearance of a conflict of interest is a significant matter with respect to governmental contracts involving federal funds, and is often strictly prohibited.
- The United States Marshals Service Intergovernmental Service Agreement that was in

existence with the Corporation, and relied on by bondholders in the June 21, 2005 Official Statement, provides the following:

"Article XIV – Conflict of Interest"

"1. Advice. No official or employee of the recipient, a sub-recipient, or a contractor shall participate personally through decisions, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise in any proceeding, application, … contract, grant, cooperative agreement, … or other particular matter in which Department of Justice funds are used, where to his/her knowledge, … his/her partner … has a financial interest …".

"2. Appearance. In the use of Department of Justice project funds, officials or employees of the recipient, a sub-recipient or a contractor, shall avoid any action which might result in, or create the appearance of:

a. Using his or her official position for private gain;
b. Giving preferential treatment to any person;
c. Losing complete independence or impartiality; … or
e. Affecting adversely the confidence of the public in the integrity of the government or the program."

<u>Construction Costs and Beds</u>.

- The refinancing provided for construction costs of $45,811,784 resulting in 336 beds being added pursuant to June 21, 2005 Official Statement prepared by PiperJaffray. This represents a cost of $136,344 per bed.

- We note that on page 47 of the November 12, 2009 MVF Consulting Report that consultant stated that the cost of construction translated into a cost of $147,000 per bed.

- Whether the cost was $136,344 or $147,000 per bed, the debt structure placed on the Corporation was significant and we have not done any study as to whether such cost per bed is in line with industry standards.

TAB B: POTENTIAL BREACHES OF STATE LAW.

Rhode Island General Laws Section 45-54-22.

"Within one hundred twenty (120) days from the close of its fiscal year, the corporation shall make an annual report to the chief executive officer and legislative body of the municipality of its activities for the preceding year. Each report shall present a complete operating financial statement covering its operation during the year. The corporation shall cause an annual audit of the books, records, and accounts of the corporation to be made and the costs shall be treated as part of the cost of operation."

Compliance failure existed with respect to 2008 and 2009, as annual reports and independent auditors' reports were not prepared. The 2008 Independent Auditors' Report was only completed on February 2, 2010, and the 2009 Independent Auditors' Report was only completed on August 17, 2010.

TAB C: POTENTIAL BREACHES OF BOND COVENANTS, INCLUDING FAILURE TO PRESERVE PROJECT.

Section 7.11. Preparation of Annual Budget, Periodic Financial Statements, Other Reports.

The Corporation is obligated to prepare annual budgets, quarterly financial statements, monthly average daily population statistics, Fiscal Year Summary and other reports by specified times and to provide such reports to any Significant Owner.

Compliance failure existed in 2009 as such reports were never generated by the CFO.

Section 7.14. Coverage Ratio Requirement.

The Corporation is obligated to fix, prescribe and collect fees and charges in connection with the Project and conduct its operations so as to yield, to the extent permitted by law, Net Operating Revenues equal to not less than the Coverage Ratio Requirement.

The Cover Ratio Requirement was not met in 2008 and 2009.

Section 7.20. Additional Indebtedness.

Except as permitted in the Indenture, or to refund all outstanding Bonds, the Corporation shall not incur any additional debt not in existence on the date of issuance of the Bonds unless approved in writing by the Majority Owner.

In 2006, the Corporation ceased making full payments to Cornell to run the facility, and by mid-2007 the Corporation owed Cornell $3,955,305. In mid-2007, the Corporation formally terminated its relationship with Cornell, transitioned facility operations to AVCORR, and converted the $3,955,305 into $3.5 million of additional debt on the Corporation to be paid by June 2011 in possible violation of the Indenture of Trust.

As a result, the new administration in 2010 was faced with an outstanding debt burden of $1,816,390 to satisfy within 18 months, including a balloon payment of $586,363.70 in June 2011.

Section 7.23. Preservation of Project.

The Corporation covenanted to keep the Project in good repair, working order and safe condition and to make, or cause to be made, all needed and proper repairs, renewals, replacements, betterments and improvements thereto; and to pay all operating costs, utility charges and other costs and expenses arising out of ownership, possession, use or operation of the Project.

Beginning in 2007, it appears that payment of necessary operating costs was being neglected while additional indebtedness was being incurred, and that impact fee payments were being made while net income losses were being incurred in the millions. During this time, it appeared that the preservation of the project was not only being neglected, but was beginning to deteriorate rapidly.

By 2010, the Corporation was facing significant and long overdue capital improvements to the physical plant, and facing significant accounts payable accruals relating to operating and maintenance expenses. Such had begun accruing in 2007 and 2008. However, capital improvement and other funds were not available to address such needs, as:

i. additional indebtedness was being paid at the rate of $85,000 per month;

ii. impact fees of $413,170 were being paid to the City in 2007;

iii. impact fees of $558,607.44. were being paid to the City in 2008;

iv. impact fees of $134,358.56 were being paid to the City in early 2009; and

v. the Corporation was experiencing net income losses aggregating over $6.2 million in the same years (2007 through 2009), and knew it was a "going concern" risk as early as 2008 (although such was not disclosed to the bondholders).

By 2010, the Corporation no longer had meaningful cash reserves, and:

i. the Corporation was in need of over $940,000 for overdue and necessary physical plant maintenance/repairs/needs;

ii. the Corporation was in need of over $1.3 million over the next two years to address physical plant maintenance/repairs/needs; and

iii. the Corporation, with operating and maintenance accounts payable having accrued for so long, was no longer able to transact business with outside vendors in a normal commercial manner, no longer able to operate on credit and no longer able to access lines of credit (even if the bondholders consented).

Section 7.31. Covenant to be Bound by the Bond Documents.

The Corporation is obligated to perform all of its obligations under each Bond Document and agrees to be bound by the provisions of the Bond Documents.

Please refer to all of the above matters in this Tab C with respect to potential violations of the Indenture of Trust.

TAB D: POTENTIAL SELF-DEALING.

Through the course of our review, it appeared there may be irregular practices prior to mid-2009 that could have an adverse impact on the Corporation even as of today. Based on the potential of self-dealing which possibly led to severe financial stress on the entity, we reiterate our recommendation for a forensic audit and legal review relating to decisions made by management and the board prior to mid-2009. For example:

1. Conflict-of-interest issues appear to exist during the time periods and decision-making process relating to:

   - construction of the facility expansion;
   - failure to make full payments to Cornell commencing in 2006;
   - termination by Cornell of the Warden in mid-2007;
   - hiring of the Warden by AVCRR in mid-2007;
   - termination by the Corporation of Cornell in mid-2007; and
   - transition of Facility operations to AVCORR in 2007 and 2008.

   Such potential conflicts-of-interest appear to be strictly prohibited under the USMS federal government contract, and gives the appearance of self-dealing.

2. Management personnel prior to 2009 held multiple roles with both the same organization and different organizations, all of which could have resulted in potential self-dealing.

3. Different tables of organization appear to have been implemented prior to 2009, which resulted in a weak system of checks-and-balances and may have created the opportunity for self-dealing.

4. The manner in which the Corporation contracted for outside services prior to 2009 gives the appearance of, and may have allowed for, potential self-dealing.

5. The former Warden has pending criminal charges for obtaining money under false pretenses relating to irregular practices and self-dealing involving the human resource department.

6. From 2007 to early 2009, the manner in which (a) City impact fees were paid, (b) certain operating and maintenance expenses were not paid and allowed to accrue, (c) \$6.2 million in net income losses occurred, (d) \$3.5 million of additional debt was incurred, and (e) financial reports and other events were not disclosed, may have represented an environment or culture of self-dealing.

There may be other areas that require further analysis through a forensic audit and legal review.

TAB E: POTENTIAL GROSS NEGLIGENCE.

Financial Reporting Requirements, Additional Indebtedness, Impact Fee Payments.

Due to the matters described below, the bondholders likely would not be aware of the severity of the negative consequences of many board and management actions taken and/or not taken in 2008 and previous years until financial statements and facts began to be properly prepared and disclosed in 2010.

Failure to prepare, deliver and/or disclose financial statements, other reports and/or significant events in 2008 and 2009 may be evidence of gross negligence in that:

(i) in 2008, one year after completion of the expansion projection and termination of Cornell Corrections, an independent auditor would have raised "substantial doubt about the Corporation's ability to continue as a going concern" (see 2008 Independent Auditor's report dated February 2, 2010);

(ii) additional debt in the amount of $3,500,000 was taken on by the Corporation in 2007 (see Note 7 to 2008 Independent Auditor's report dated February 2, 2010) ;

(iii) impact fees were being made to the City in 2007 ($413,170), in 2008 ($558,607.44) and in 2009 ($134,358.44) when the Corporation was experiencing annual net income losses at such times of $1,440,099, $2,175,200 and $2,638,409, respectively;

(iv) the above matters appear to violate provisions of Rhode Island law and the Indenture of Trust, provisions which typically exist to protect investors and the project itself from potentially harmful actions and consequences (i.e. RIGL 45-54-22; Indenture of Trust Sections 7.11, 7.20, 7.23 and 7.31); and

(v) on page 13 of the November 2009 MVC Consulting Report, we note that the CFO in 2008 "noted that she took a risk by withholding her responses thereby delaying the issuance of the audit report. She was aware that the audit report was to be a "Going Concern" and that she wanted to avoid such an opinion."

Non-Compliance with Intergovernmental Agreements.

The U.S. Immigration and Customs Enforcement ("ICE") terminated its contract with the Corporation in 2008 not due to the death of a detainee, but due to an investigation by ICE that revealed numerous failures to adhere to the Wyatt Detention Facility rules and policies, and non-compliance with ICE National Detention Standards.

Consequences.

The lack of financial reporting and disclosure, the incurring of millions of additional debt, and the payment of impact fees to the City while the Corporation was losing over $6.2 million from 2007 through 2009 has contributed to:

(i) the Corporation falling into a going-concern risk as early as 2008;

(ii) the Corporation not being able to address operating and maintenance expenses in a timely manner violating the Corporation's covenant under Section 7.23 to preserve the project; and

(iii) the Corporation in 2010, with operating and maintenance accounts payable having accrued for so long and with millions of dollars worth of capital improvements needing to be addressed without adequate funds available, was no longer able transact business with outside vendors in a normal commercial manner, no longer able to operate on credit and no longer able to access lines of credit (even if the bondholders consented).

TAB F: POTENTIAL LACK OF OVERSIGHT AND ACCOUNTABILITY.

As previously indicated, irregular and substandard practices existed at the Corporation prior to 2010. Certain practices appear to have resulted in lack of oversight and accountability within the corporate organization, and potentially harmed the Corporation operationally and financially, including without limitation the following:

1. Prior to new management taking over in 2010, different tables of organization resulted in the Warden having direct authority and oversight over human resources, most operations and corrections matters (including investigations), and even the CFO and financial functions of the Corporation at one point.

2. The manner in which the Corporation contracted for outside services prior to 2009 potentially led to non-compliance with procurement laws and best-practices, as reported in the Independent Audits.

3. The practice, which appeared to exist prior to 2009, of having vendors of the Corporation contract with a third party rather than directly with the Corporation itself invites the appearance and potential of self-dealing.

The above does not lend itself to an adequate system of checks and balances, and results in a lack of oversight and accountability. As such, 2007 and 2008 were marked by a series of harmful events, including without limitation non-compliance with intergovernmental agreements, pending criminal charges relating to management in connection with obtaining money under false pretenses, lack of financial statement preparation and reporting, noncompliance with procurement policies, and other matters and issues in Tabs A – L of this addendum.

A standard system of proper checks and balances, and the presence of strong internal fiscal controls, could have reduced the risk of many of the matters and related consequences described in Tabs A – L from occurring.

The new management team that existed at the beginning of 2010 did institute a recognized and accepted table of organization, managerial functions creating a necessary system of checks and balances and proper internal fiscal controls.

TAB G: POTENTIALLY MISLEADING BONDHOLDERS ON FISCAL HEALTH OF THEIR INVESTMENT.

Misleading Impressions.

In years 2007 through 2009 under prior management, bondholders received full and timely debt service payments, and the City received impact fee payments of $413,170 in year 2007, $558,607.44 in year 2008, and $134,358 in year 2009.

As a result, it would be natural and logical of the bondholders to conclude that the facility, although losing its entire ICE detainee population in 2008, was still generating revenue sufficient:

(i) to more than cover operating and maintenance expenses, as full and timely debt service payments from the Corporation to the bondholders were continuing to be made in years 2007, 2008 and 2009; and

(ii) to yield a net income, as impact fee payments from the Corporation to the City were continuing to be made in years 2007, 2008 and 2009.

We again note that on page 13 of the November 2009 MVC Consulting Report, the CFO in 2008 "noted that she took a risk by withholding her responses thereby delaying the issuance of the audit report. She was aware that the audit report was to be a "Going Concern" and that she wanted to avoid such an opinion."

Fiscal Realities.

Prior to 2010, the Corporation's payments to the bondholders and the City, the Corporation's failure to generate financial reports and disclose significant events, and the Corporation incurring $3.5 million of additional debt likely denied the bondholders a full and accurate financial picture of the Corporation, and the opportunity to take timely, full and corrective actions. As a result, the foregoing facts, among the other matters described in this addendum, likely contributed to the following:

(i) the bondholders not realizing until February 2, 2010 (the date of completion of the 2008 Independent Auditors' Report) that:

   a. in 2008, the Corporation became a "going-concern" risk;

   b. in 2008, the Corporation had a net loss of $2,175,200;

   c. in 2008, the Corporation had significant accounting practice irregularities and deficiencies throughout such year;

d. in 2008, the Corporation was paying additional indebtedness of over $85,000 per month on a parity basis with its debt service payments to the bondholders; and

e. in 2008, the Corporation's operating and maintenance accounts payable were accruing beyond standard lengths of times, and millions of dollars worth of capital improvement needs were beginning to arise, likely resulting in the Corporation failing to preserve the project pursuant to Section 7.23 of the Indenture of Trust.

(ii) the bondholders not realizing until August 17, 2010 (the date of completion of the 2009 Independent Auditors' Report) that:

a. in 2009, the Corporation still existed as a "going-concern" risk;

b. in 2009, the Corporation had a net loss of $2,638,409;

c. in 2009, the Corporation again had significant accounting practice irregularities and deficiencies throughout such year; and

d. in 2009, issues with respect to the accruing of operating and maintenance accounts payable and increasing capital improvement needs were becoming more severe.

(iii) the bondholders not realizing that by the time the new administration took over in 2010, that:

a. in 2010, the Corporation was in immediate need of over $750,000 for overdue and necessary physical plant repairs;

b. in 2010, the Corporation was in need of over $2,000,000 over the next five years to address physical plant issues; and

c. in 2010, with operating and maintenance accounts payable having accrued for so long, the Corporation was no longer able transact business with outside vendors in a normal commercial manner, no longer able to operate on credit and no longer able to access lines of credit (even if the bondholders consented).

Improvements.

On a positive note, the Board of Directors and management team existing in late 2009 have achieved the following as of July 2011:

(i) brought accrued accounts payable current;

(ii) brought past due financial and other reports current;

(iii) it appears required financial reports, statements and significant events have been prepared and disclosed in compliance with State law and the Indenture of Trust;

(iv) increased the detainee population to meaningful levels (despite the loss of ICE);

(v) adopted and executed meaningful marketing plans;

(vi) adopted a Capital Improvement Plan;

(vii) did not incur additional debt;

(viii) created a proper and effective table of organization for oversight, accountability, and checks and balances;

(ix) installed improved procurement practices and policies;

(x) installed improved fiscal internal controls;

(xi) removed significant accounting deficiencies reported in the 2008 and 2009 audits, and achieved a finding of no deficiencies in 2010;

(xii) increased operating results for fiscal year 2010 from the operating results of 2009 by close to $900,000;

(xiii) defended the Corporation against perceived unlawful actions occurring prior to 2009; and

(xiv) reduced upper management compensation and benefits to what appears to be the Corporation's lowest levels in years.

TAB H: POTENTIALLY MISLEADING THE CITY ON "IMPACT FEE" RIGHTS.

Missed Opportunity to Prioritize Impact Fee Payments.

In 2005, the Board of Directors, management and officials of the Corporation had the opportunity to ensure that payments to the City not be subordinated to all other payments or expenses. The Board of Directors, management and officials did not do so. They signed off on the $106,380,000 refinancing deal, including the Indenture of Trust, in a manner that provided the City with no priority in terms of local impact fee payments.

Misleading and/or Prohibited Actions.

Any attempt by the Corporation, individuals or others to create efforts, contracts or agreements to prioritize impact fee payments without approval of the bondholders could be unlawful, in violation of bond document provisions and misleading to the City.

The closest, and potentially unlawful, attempts to make the payment of impact fees contractual (or appear to be contractual) and prioritized in nature are in the following documents:

(i) In the Consulting Agreement between the Corporation and the Executive Director dated January 1, 2008, the Executive Director's year-end bonus arrangement is associated with the City receiving an "annual base impact fee of Five Hundred Twenty Five Thousand Dollars ($525,000.00)."

The provision tying a year-end bonus payment to a $525,000 impact fee payment was removed in a subsequent amendment to the Consulting Agreement on May 22, 2008. In 2008, the Corporation experienced a net loss of $2,175,200 and knew it was a "going concern" risk; however, the Corporation paid impact fees to the City in the aggregate amount of $558,607.44, and the Executive Director demanded a bonus payment in the amount of $164,382.

The bonus payment demand is presently the subject of litigation between the Corporation and the Executive Director.

(ii) In a letter dated February 15, 2007, the Executive Director instructed the City Finance Director how to structure budget categories, formulas and the like so that "everything will total an annual value of approximately $525K so that the City can get the maximum impact fee."

In 2007, the Corporation terminated its management agreement with Cornell Corrections, agreed to incur $3,500,000 of additional indebtedness from Cornell Corrections, transitioned day-to-day management of the facility to the Executive Director, experienced a net income loss of $1,440,099, and paid the City impact fees in the aggregate amount of $413,170.

TAB I: LACK OF DISCLOSURE AND NON-COMPLIANT ACCOUNTING & REPORTING PRACTICES.

The lack of disclosure and non-compliant accounting and reporting practices in 2008 and 2009 not only had the likely effect of misleading stakeholders as to the financial and operational condition of the facility, and potentially resulting in expenses and payments that likely should not have occurred, but also resulted in new management in 2010 spending significant time and resources attempting correct past issues and at the same time attempting to reduce costs and increase revenues to assist the Corporation climb out of a financial hole (efforts of which continue today).

The facts are as follows, all of which appear to be in violation of statutory requirements, bond document requirements (i.e. flow of fund and reporting provisions) and/or best practices standards:

1. 2007 Failure to pay operating and maintenance expenses (i.e. Cornell Corrections) on an ongoing basis in accordance with what should have been a predictable budget, and converting and treating such as long-term debt.

2. 2008 Failure to conduct an annual audit of the books, records and accounts of the Corporation.

3. 2008 Failure to prepare an annual report.

4. 2008 Failure to deliver an annual audit and report to the City and bondholders.

5. 2008 Failure to notify bondholders of the Corporation's "going concern" risk status when the CFO was aware of such (per her admission in the previous consultant's report).

6. 2009 Failure to conduct an annual audit of the books, records and accounts of the Corporation.

7. 2009 Failure to prepare an annual report, quarterly financial statements and monthly average daily population statistics.

8. 2009 Failure to deliver the annual audit and annual report to the City and bondholders, and failure to deliver financial statements and reports and statistics to the bondholders.

TAB J: VIOLATIONS (REAL AND POTENTIAL) OF INTER-GOVERNMENTAL AGREEMENTS.

ICE Agreement.

The U.S. Immigration and Customs Enforcement ("ICE") terminated its contract with the Corporation in 2008 not due to the death of a detainee, but due to an investigation by ICE that revealed numerous failures to adhere to the Wyatt Detention Facility rules and policies, and non-compliance with ICE National Detention Standards.

U.S. Marshals Agreement.

Please see Tab A with respect to the United States Marshals Service Intergovernmental Service Agreement

TAB K: POTENTIALLY INCURRING PROHIBITED INDEBTEDNESS & FAILING TO PRESERVE PROJECT.

Potentially Incurring Additional Indebtedness.

Except as permitted in the Indenture, or to refund all outstanding Bonds, the Corporation shall not incur any additional debt not in existence on the date of issuance of the Bonds unless approved in writing by the Majority Owner.

In 2006, the Corporation ceased making full payments to Cornell to run the facility, and by mid-2007 the Corporation owed Cornell $3,955,305. In mid-2007, the Corporation formally terminated its relationship with Cornell, transitioned facility operations to AVCORR, and converted the $3,955,305 into $3.5 million debt instrument which had to be paid off by the Corporation by June 2011 in possible violation of the Indenture of Trust.

As a result, the new administration in 2010 was faced with an outstanding burden of $1,816,390 to satisfy within 18 months, including a balloon payment of $586,363.70 in June 2011.

Failing to Preserve Project.

The Corporation covenanted in the bond documents to keep the Project in good repair, working order and safe condition and to make, or cause to be made, all needed and proper repairs, renewals, replacements, betterments and improvements thereto; and to pay all operating costs, utility charges and other costs and expenses arising out of ownership, possession, use or operation of the Project.

Beginning in 2007, it appears that payment of necessary operating costs was being neglected while additional indebtedness was being incurred, and that impact fee payments were being made while net losses were being incurred in the millions. During this time, it appeared that the preservation of the project was not only being neglected, but was beginning to deteriorate rapidly.

By 2010, the Corporation was facing significant and long overdue capital improvements to the physical plant, and facing significant accounts payable accruals relating to operating and maintenance expenses. Such had begun accruing in 2007 and 2008. However, capital improvement and other funds were not available to address such needs, as:

i. additional indebtedness was being paid at the rate of $85,000 per month;

ii. impact fees of $413,170 were being paid to the City in 2007;

iii. impact fees of $558,607.44. were being paid to the City in 2008;

iv. impact fees of $134,358.56 were being paid to the City in early 2009; and

v. the Corporation was experiencing net losses aggregating over $6.2 million in the same years (2007 through 2009), and knew it was a "going concern" risk as early as 2008 (although such was not disclosed to the bondholders).

By 2010, the Corporation no longer had meaningful cash reserves, and:

i. the Corporation was in need of over $940,000 for overdue and necessary physical plant maintenance/repairs/needs;

ii. the Corporation was in need of over $1.3 million over the next two years to address physical plant maintenance/repairs/needs; and

iii. the Corporation, with operating and maintenance accounts payable having accrued for so long, was no longer able transact with outside vendors in a normal commercial manner, no longer able to operate on credit and no longer able to access lines of credit (even if the bondholders consented).

TAB L: NON-COMPLIANCE WITH PROCUREMENT POLICIES.

As previously noted and prior to mid-2009, the procurement practices of the Corporation appear to have been irregular and not in compliance with law (i.e. RIGL 45-54-6(14)) or best practices. In particular, the following are noteworthy:

1. AVCORR often acted as a middleman by submitting invoices to the Corporation for reimbursement to AVCORR of outside vendors' fees relating to vendor services being rendered directly to the Corporation. Such practice was still occurring as of January 30, 2009.

2. AVCORR claims to have provided a "one stop service to the CFDFC Corporation, significant savings have been gained from not having to engage additional companies to generate RFP's for specific services".

3. Finding 2008-3 of the 2008 Independent Auditors Report notes that the Corporation did not follow regulations governing procurement practices of the Corporation consistently. The audit states "[t]he cause of this appears to be a lack of a documented policy requiring that all contracts are subjected to the state purchasing guidelines when applicable. ... In addition, the Corporation may unknowingly pay more for services than required."