

SAN JOSE POLICE ACTIVITIES LEAGUE

FINANCIAL STATEMENTS

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
San Jose Police Activities League, Inc.

We have audited the accompanying statement of financial position of San Jose Police Activities League, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated April 12, 2010, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Police Activities League, Inc. as of June 30, 2010, and the changes in its net assets and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information, analysis of contributed and paid expenses, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Pleasanton, California  
April 4, 2011

San Jose Police Activities League  
Statement of Financial Position  
June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>	<u>Summarized 2009</u>
<b>ASSETS</b>				
Cash	\$385,362	\$13,055	\$398,417	\$564,865
Accounts receivable	29,914		29,914	2,099
Inventory				5,226
Prepaid expenses	<u>13,673</u>		<u>13,673</u>	<u>13,565</u>
TOTAL CURRENT ASSETS	<u>428,949</u>	<u>13,055</u>	<u>442,004</u>	<u>585,755</u>
Beneficial interest in a lead trust		82,620	82,620	75,954
Property & equipment, net	<u>875,392</u>		<u>875,392</u>	<u>955,898</u>
TOTAL LONG TERM ASSETS	<u>875,392</u>	<u>82,620</u>	<u>958,012</u>	<u>1,031,852</u>
TOTAL ASSETS	<u><u>\$1,304,341</u></u>	<u><u>\$95,675</u></u>	<u><u>\$1,400,016</u></u>	<u><u>\$1,617,607</u></u>
<b>LIABILITIES</b>				
Accounts payable	\$16,650		\$16,650	\$33,829
Accrued compensation	2,642		2,642	\$4,448
Deferred revenue	<u>26,269</u>		<u>26,269</u>	<u>43,695</u>
TOTAL LIABILITIES	<u>45,561</u>		<u>45,561</u>	<u>81,972</u>
<b>NET ASSETS</b>				
Unrestricted	1,258,780		1,258,780	1,435,248
Temporarily restricted		<u>\$95,675</u>	<u>95,675</u>	<u>100,387</u>
TOTAL NET ASSETS	<u>1,258,780</u>	<u>95,675</u>	<u>1,354,455</u>	<u>1,535,635</u>
TOTAL LIABILITIES and NET ASSETS	<u><u>\$1,304,341</u></u>	<u><u>\$95,675</u></u>	<u><u>\$1,400,016</u></u>	<u><u>\$1,617,607</u></u>

The accompanying notes are an integral part of this financial statement.

San Jose Police Activities League  
Statement of Activities  
For The Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>	<u>Summarized 2009</u>
NET ASSETS				
Support and Revenue				
In-kind donations	\$1,322,398		\$1,322,398	\$1,637,309
Contributions	100,215	\$18,401	118,616	326,537
Stadium income	90,447		90,447	181,484
Program fees	253,597		253,597	177,572
Special events, net	25,694		25,694	19,509
Stadium banner advertising	1,050		1,050	1,200
Merchandise sales, net				1,693
Change in value, lead trust		6,666	6,666	(15,948)
Interest & investment income	4,790		4,790	13,382
Miscellaneous income	216		216	
Net assets released from restrictions				
Expiration of time & purpose restrictions	<u>29,779</u>	<u>(29,779)</u>		
Total revenue & other support	<u>1,828,186</u>	<u>(4,712)</u>	<u>1,823,474</u>	<u>2,342,738</u>
Expenses				
Program services				
Recreation sports	1,770,977		1,770,977	2,010,905
Supporting services				
Management & general	167,465		167,465	174,523
Fundraising	<u>66,212</u>		<u>66,212</u>	<u>206,445</u>
	<u>2,004,654</u>		<u>2,004,654</u>	<u>2,391,873</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(176,468)</u>	<u>(4,712)</u>	<u>(181,180)</u>	<u>(49,135)</u>
NET ASSETS AT BEGINNING OF YEAR	1,435,248	100,387	1,535,635	1,584,770
NET ASSETS AT END OF YEAR	<u>\$1,258,780</u>	<u>\$95,675</u>	<u>\$1,354,455</u>	<u>\$1,535,635</u>

The accompanying notes are an integral part of this financial statement.

San Jose Police Activities League  
Statement of Functional Expenses  
For The Year Ended June 30, 2010

	Program Services		Supporting Services		2010	2009
	Recreation Sports	Management & General	Fund Raising	Total	Total	Summarized
Salaries	\$115,887	\$11,988	\$5,328	\$17,317	\$133,204	\$107,895
Payroll taxes	10,964	1,134	504	1,638	12,603	9,354
Salaries, in-kind	648,602	67,097	29,821	96,917	745,519	1,010,994
Fringe benefits, in-kind	255,136	26,393	11,730	38,124	293,260	368,365
Total compensation	1,030,589	106,613	47,383	153,996	1,184,586	1,496,608
Advertising						30,800
Awards & banquets	28,599				28,599	42,719
Conferences & meetings	550	199		199	749	6,415
Donations						7,884
Dues, fees & other charges	1,956	7,641		7,641	9,598	13,968
Equipment lease / purchase	22,827	515	229	743	23,570	32,078
Gifts to supporters			3,892	3,892	3,892	8,174
Insurance	23,563	2,438	1,083	3,521	27,084	30,516
Interest expense		155		155	155	
Maintenance & repair	68,645	1,305	580	1,885	70,530	58,303
Officials	73,959				73,959	89,798
Outside services	7,634	8,218		8,218	15,853	76,782
Postage	26	90		90	117	115
Printing		1,784		1,784	1,784	13,560
Scholarships	5,095				5,095	3,000
Stadium Occupancy	50,025	5,175	2,300	7,475	57,500	61,900
Supplies	42,562	2,294	1,019	3,313	45,875	46,016
Telephone & internet	11,620	1,202	534	1,736	13,356	17,577
Tournament costs	64,135				64,135	42,661
Travel	45,488	9,158		9,158	54,646	38,112
Uniforms	93,808				93,808	82,691
Utilities	123,713	12,798	5,688	18,486	142,199	110,170
Total before depreciation	1,694,796	159,585	62,709	222,294	1,917,090	2,309,846
Depreciation	76,181	7,881	3,503	11,383	87,564	82,027
Total Expenses	<u>\$1,770,977</u>	<u>\$167,465</u>	<u>\$66,212</u>	<u>\$233,677</u>	<u>\$2,004,654</u>	<u>\$2,391,873</u>

The accompanying notes are an integral part of this financial statement.

San Jose Police Activities League  
Statement of Cash Flows  
For The Year Ended June 30, 2010

	Total 2010	Summarized 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase/(decrease) in net assets	(\$181,180)	(\$49,135)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	87,564	82,027
Change in value, lead trust	(6,666)	15,948
(Increase) decrease in operating assets		
Accounts receivable	(27,815)	2,630
Inventory	5,226	223
Prepaid expenses	(108)	26,395
Increase (decrease) in operating liabilities		
Accounts payable	(17,179)	18,194
Accrued compensation	(1,806)	1,102
Deferred revenue	(17,426)	(8,690)
<b>NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES</b>	<b>(159,391)</b>	<b>88,694</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property and equipment	(7,058)	(101,792)
Distributions from charitable lead trust		4,284
<b>NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES</b>	<b>(7,058)</b>	<b>(97,508)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(166,449)</b>	<b>(8,814)</b>
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<b>564,866</b>	<b>573,680</b>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$398,417</b>	<b>\$564,866</b>
 Supplemental information:		
Cash paid for interest expense	\$155	\$0

The accompanying notes are an integral part of this financial statement.

SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010

NOTE A - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

San Jose Police Activities League provides amateur athletic programs under the direction of qualified police officers for the purpose of promoting community involvement and preventing juvenile delinquency. San Jose Police Activities League is a nonprofit voluntary health and welfare organization that was incorporated in 1968, in California.

Program Services

The Organization works closely with children residing in the community to provide sports recreation and delinquency prevention. Sports activities include boxing, baseball, football, law enforcement, martial arts, soccer, and softball.

Summary of Significant Accounting Policies:

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies that follow are described to enhance the usefulness of the financials statements to the reader.

San Jose Police Activities League prepares its financial statements in accordance with Accounting Standards for Nonprofit Organizations. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. The Organization has elected to report as an increase in unrestricted net assets any restricted revenue received in the current period for which the restrictions have been met in the current period. Temporary restricted net assets include those assets which are subject to a donor restriction and the applicable restriction was not met at the end of the current reporting period. Permanently restricted net assets are those assets which are subject to non-expiring donor restrictions. The Organization does not currently have any permanently restricted net assets.

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.

Income Taxes

San Jose Police Activities League is exempt from Federal and State Income Taxes under Section 501(c)3 of the Internal Revenue Code and similar state provisions. Accordingly, Income Taxes are not provided for in the financial statements. San Jose Police Activities League is not classified as a private foundation.

Contributions

The Organization accounts for contributions received and contributions made in accordance with Accounting Standards for Not-for-profit Organizations. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and, or nature of any donor restrictions. Restricted contributions are reported as an increase in temporarily or permanently restricted net assets. When the restriction is met, the amount is shown as a reclassification from restricted net assets to unrestricted net assets.

SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010

Contributed Services

Contributed services received by the Organization are recorded if they meet the requirements for recognition in the financial statements: such as, if the services contributed enhance the Organization's non-monetary assets and would have been solicited and paid for, if not donated. The City of San Jose provides the following services and goods to operate and manage the Organization: seven employees, office space, utilities, communications, supplies, equipment, maintenance, vehicles and other items as considered necessary to support PAL programs.

Cash and Cash Equivalents

For purposes of the statement of cash flows the Organization considers cash and cash equivalents to include all cash accounts held in banks and other financial institutions.

Allowance for Doubtful Accounts

The Organization does not maintain an allowance on grants receivable, as reimbursements from funding sources for costs incurred on the various programs are likely to be received. Accounts receivable allowances are based on management's assessment of uncollectible balances at the end of the respective period. Balances still outstanding after management has used reasonable collection efforts are written off to bad debts expense. For the year ended June 30, 2010 a valuation allowance was not considered necessary.

Revenue Recognition

San Jose Police Activities League recognizes revenue on the accrual basis of accounting. Contract revenue and program fees are recognized as revenue in the period in which the service is provided. Grants are recorded as an increase in unrestricted revenue if the expenditures are incurred in the current period which effectively fulfill the conditions of the grant. The Organization's programs are supported by local governments, corporations, foundations and individuals.

Functional Allocation of Expenses

The costs of operating the Organization's various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates of time worked in each program.

Property and Equipment

Property and equipment is capitalized at its estimated fair market value when donated or at cost when purchased. Property and equipment donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment is depreciated using the straight-line method. The Organization's threshold for capitalizing equipment is \$1,000.

Beneficial Interest in a Lead Trust - Split Interest Agreement

The Organization is a beneficiary of a charitable lead trust in which it is entitled to receive a twenty percent share of the earnings annually and twenty percent of the corpus upon its termination. The trust was originally granted on September 5, 1980 by Hazel and Otto Hellwig and is administered by Union Bank of California. There are no restrictions under the terms of the trust mandating perpetual control of the corpus to the named trustee nor mandating against the termination of the trust.

Deferred Revenue

Deferred revenue represents cash deposits received prior to the period in which the related activity is performed. Accordingly, cash deposits received in advance of the activity commencing are deferred.

SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010

Fair Value of Financial Instruments

The Organization adopted the provisions of FASB ASC 820, Fair Value Measurements on July 1, 2008, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on inputs that are less observable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market exist. Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for assets and liabilities categorized in Level 3.

The Organization's financial assets recorded at fair value are categorized as follows:

	<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>
Cash		\$398,417	\$564,865
Accounts Receivable		\$29,914	\$2,099
Beneficial interest in lead trust		\$82,620	\$75,954

Accounting Standards Codification

FASB Accounting Standards Codification - On July 1, 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) 105-10, *Generally Accepted Accounting Principles* (Codification). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP in financial statements, except for SEC rules and interpretive releases, which are also authoritative for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. The Organization has included the references to the Codification, as appropriate, in these financial statements.

Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), subsequently included in the Codification as ASC 740. In December 2008, the FASB deferred the effective date of FIN 48 for nonpublic enterprises to the annual financial statements for fiscal years beginning after December 15, 2007. ASC 740 establishes standards for the recognition of income taxes for tax positions taken, in income tax returns. The Organization has adopted the provisions of ASC 740; there was no impact on the financial statements.

SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board issued ASC 820 (formerly SFAS No. 157, *Fair Value Measurements*) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. FASB has previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities measured at fair value on a non-recurring basis for which the effective date will be for fiscal years beginning after November 15, 2008. The adoption of ASC 820 for financial assets and liabilities and non-financial assets did not have an impact on the Organization's financial statements.

Fair Value Option

In February 2007, the Financial Accounting Standards Board issued ASC 825-10 (formerly SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*) which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings, caused by measuring related assets and liabilities without having to apply complex hedge accounting provisions. This statement is effective for an entity's first fiscal year that begins after November 15, 2007. The management of the Organization has evaluated this statement and there was no impact on its financial statements.

NOTE B - PRIOR YEAR FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was obtained. In addition, certain prior year amounts have been reclassified to conform to the 2010 presentation.

NOTE C – BENEFICIAL INTEREST IN A LEAD TRUST - SPLIT INTEREST AGREEMENT

The Organization has a twenty percent beneficial interest in the Hellwig charitable lead trust. As such the Organization receives a distribution of the invested earnings annually. Union Bank of California administers the lead trust and provides annual statements detailing the components of the investment earnings. The fair market value of charitable lead trust at June 30, 2010 is \$82,620. The terms of the split interest agreement entitle the Organization to use the annual distribution for operating purposes. The distribution received for the year ended June 30, 2010 is \$4,283 and the change in the value of the lead trust is \$6,666, and is reported as temporarily restricted change in split interest agreement.

NOTE D – ACCOUNTS RECEIVABLE

At June 30, 2010 receivables are as follows: Donations receivable, \$21,884, Sport registration fees due, \$7,050, and Facility rental due \$980. All receivables are due within one year. Approximately 67% of accounts receivable is due from the Wasserman Foundation.

The ability of certain of the Organization's grants and awards to continue to provide amounts comparable with prior years may be dependent upon current and future economic conditions and budget constraints. While the Board of Directors believes the Organization has the resources to continue current and future programs, its ability to do so, and the extent to which it does, may be dependent on the above factors.

SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010

NOTE E- PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2010:

Fitness Center	\$654,109
Equipment & furniture	\$58,734
Field Renovations	\$91,985
Stadium improvements	<u>\$954,845</u>
Subtotal	\$1,759,673
Accumulated depreciation	<u>(\$884,281)</u>
Net book value	<u><u>\$875,392</u></u>

NOTE F - LEASE COMMITMENTS

The Organization entered into twenty year facility lease agreement for the use of the PAL Stadium with the City of San Jose on December 4, 2007, with a five year extension option. The terms of the agreement, in part, call for sharing fifty percent of all net proceeds greater than \$50,000 earned each fiscal year with the City of San Jose. These proceeds shall be set aside in a separate account and are to be used for future capital expenditures as agreed upon with the City of San Jose. Net proceeds are defined as stadium rentals and special events less the direct costs associated with the specific rental, adjusted annually based on the bay area consumer price index.

During the year ended June 30, 2010 the Organization's net proceeds, as defined under this contract, amounted to \$77,729, and no such money has been set aside in a separate account.

NOTE G - NET ASSETS RESTRICTED

For the year ending June 30, 2010, the Organization's restricted net asset activity consisted of the following:

	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Cadet Scholarships	\$9,150		(\$5,095)	\$4,055
Soccer	\$5,000		(\$5,000)	\$0
Baseball	\$6,000	\$9,000	(\$6,000)	\$9,000
Baseball Netting		\$9,401	(\$9,401)	\$0
Hellwig Trust	\$80,237	\$6,666	(\$4,283)	\$82,620
Total	<u>\$100,387</u>	<u>\$25,067</u>	<u>(\$29,779)</u>	<u>\$95,675</u>

NOTE H - IN-KIND DONATIONS

The Organization received and recorded the following in-kind donations for the year ending June 30, 2010.

City of San Jose Services	\$1,321,090
Sport & tournament costs	<u>\$1,308</u>
Recorded In-kind Donations	<u><u>\$1,322,398</u></u>
Supplies for Special Event	<u>\$2,448</u>
Recorded in Special Events	<u><u>\$2,448</u></u>

SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010

NOTE I – DEFERRED REVENUE

Deferred revenue represents payments received for sporting activities in advance of the services being provided. Accordingly, sport registration fees received before the services are provided are deferred until such service is conducted. At June 30, 2010 deferred revenue is \$26,259.

NOTE J – SPECIAL EVENTS

For the year ended June 30, 2010 the Organization participated in the following special events:

	<u>Golf Tourmmt</u>	<u>Circus Evnt</u>	<u>Total</u>
Donations	\$15,393		\$15,393
Revenue (registration, rental, etc)	\$8,428	\$29,655	\$38,083
Total Revenue	<u>\$23,821</u>	<u>\$29,655</u>	<u>\$53,476</u>
Facility & supplies	\$24,969	\$2,813	\$27,782
Total Expenses	<u>\$24,969</u>	<u>\$2,813</u>	<u>\$27,782</u>
Gross Proceeds	<u>(\$1,148)</u>	<u>\$26,842</u>	<u>\$25,694</u>

NOTE K – RELATED PARTIES

The board treasurer is also the Vice President of San Jose Credit Union, where the Organization maintains its cash.

NOTE L – CONCENTRATION OF CREDIT RISK

At June 30, 2010 the Organization’s cash holdings at San Jose Credit Union exceeded the National Credit Uniion Association’s deposit insurance coverage rules of cash deposits. The amount exceeding the cash deposit insurance coverage limit is \$155,148. Management believes the organization is not exposed to any significant credit risk related to cash.

NOTE M - SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions subsequent to June 30, 2010 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2010. Subsequent events have been evaluated through the date the financial statements became available to be issued, April 4, 2011. The entity has not evaluated subsequent events after April 4, 2011.

San Jose Police Activities League  
 Analysis of Contributed and Paid Expenses  
 For the year ended June 30, 2010

	<u>Total Expenses</u>	<u>In-kind Contributed</u>	<u>Paid Expenses</u>
Salaries & payroll taxes	\$891,326	\$745,519	\$145,807
Fringe benefits	293,260	293,260	0
Total compensation	<u>1,184,586</u>	<u>1,038,779</u>	<u>145,807</u>
Awards & banquets	28,599		28,599
Conferences & meetings	749		749
Dues, fees & other charges	9,598	491	9,107
Equipment lease / purchase	23,570	2,579	20,991
Gifts to supporters	3,892		3,892
Insurance	27,084		27,084
Interest expense	155		155
Maintenance & repair	70,530	54,125	16,405
Officials	73,959		73,959
Outside services	15,853	2,638	13,215
Postage	117		117
Printing	1,784	1,084	700
Scholarships	5,095		5,095
Stadium Occupancy	57,500	57,500	0
Sport & tournament costs	45,875	1,308	44,567
Supplies	13,356	12,537	819
Telephone & internet	64,135		64,135
Travel	54,646	9,158	45,488
Uniforms	93,808		93,808
Utilities	142,199	142,199	0
Total before depreciation	<u>1,917,090</u>	<u>1,322,398</u>	<u>594,692</u>
Depreciation	87,564		87,564
Total expenses	<u><u>\$2,004,654</u></u>	<u><u>\$1,322,398</u></u>	<u><u>\$682,256</u></u>



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## **Communication of Significant Deficiencies**

To the Board of Directors of San Jose Police Activities League:

In planning and performing our audit of the financial statements of San Jose Police Activities League as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered San Jose Police Activities League's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in San Jose Police Activities League's internal control to be significant deficiencies:

### **Lease Agreement Compliance**

The lease agreement for the PAL stadium, with the City of San Jose, states in part that an audit and a budget shall be submitted to the City within 90 days of the Organization's fiscal year. In addition, the agreement also calls for setting aside fifty percent of special event proceeds in excess of \$50,000 in a separate account for future stadium repairs and maintenance expenditures. Neither one of these provisions were met.

### **Temporarily Restricted Net Assets**

During our review of temporarily restricted donations received and released we were informed that the Accountant has not tracked temporarily restricted sources and uses. We recommend management ensure all accounting rules relating to nonprofit organization's are being followed.

### **Cash Receipts**

During our review of controls over cash receipts we determined, based on our tests and inquiry procedures, cash collected at the gate is sometimes higher than what is reported at the gate, as per the register tape. Upon inquiry we were informed that not all people entering the facility are tracked at the gate. This appears to be a weakness in the control environment as there could be people taking cash and not accounting for that cash. In another instance, we noted a cash deposit that was less than the tape register at the gate and no reconciliation was provided to account for the variance. Although, the amounts in question were immaterial overall, we recommend management implement controls over cash receipts at stadium events.

### **General Accounting Issues**

The prior year auditor proposed adjustments were not recorded in the accounting software. The Fixed Asset schedule was not maintained during the year, assets were not depreciated, depreciation was not recorded, and assets qualifying for capitalization were expensed. Several accounts required adjustment in order for them to be in compliance with generally accepted accounting principles. We recommend management hire a bookkeeper who has knowledge of nonprofit accounting to ensure management receives accurate financial information on a timely basis.



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#### Bookkeeper Authority

The Organization's bookkeeper, is also a member of the board of directors, has signature authority on the Organization's bank account. As such, the Organization puts itself at risk of loss, as the bookkeeper can write out a check to an unqualified vendor and record it in the general ledger without anyone else noticing. We recommend the bookkeeper not be a signor on the bank account.

This communication is intended solely for the information and use of management of San Jose Police Activities League, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Deborah Daly, Certified Public Accountant

April 4, 2011