

# **SAN JOSE POLICE ACTIVITIES LEAGUE**

**Financial Statements  
For the Years Ended June 30, 2016 & 2015**



## **TABLE OF CONTENTS**

For the Years Ended June 30, 2016 & 2015

INDEPENDENT ACCOUNTANTS' REPORT	1-2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities and Changes In Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-9



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
San Jose Police Activities League

We were engaged to audit the accompanying financial statements of San Jose Police Activities League (a nonprofit organization), which comprise the statements of financial position of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for Disclaimer of Opinion**

As discussed in Note 1 to the financial statements, the Organization's accounting records are not sufficient or adequate to enable us to form an opinion on these financial statements, and we were unable to satisfy ourselves by other auditing procedures.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Notes 5 and 6 to the financial statements, the Organization is in breach of its contract with the City. Because the City and PAL are financially interrelated entities and the City provides such a substantial amount of support to PAL, it is unclear what actions the City will take as a result and the impact that it will have on PAL. Those conditions raise substantial doubt about the Organization's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financials statements.

*Dunham Associates CPAs*

September 28, 2018

**SAN JOSE POLICE ACTIVITIES LEAGUE**  
**STATEMENTS OF FINANCIAL POSITION**

	June 30,	
	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 211,915	\$ 134,588
Accounts receivable	7,650	18,212
Prepaid expenses	20,575	21,772
Total current assets	240,140	174,572
Property and equipment	8,628	8,628
Accumulated depreciation	(7,659)	(6,542)
Property and equipment, net	969	2,086
Total assets	\$ 241,109	\$ 176,658
 <b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 2,373	\$ 19,095
Credit cards payable	6,148	4,896
Accrued payroll	-	650
Sales tax payable	1,615	1,486
Deferred revenue	80,709	87,601
Total current liabilities	90,845	113,728
Net assets:		
Unrestricted	150,264	62,930
Total liabilities and net assets	\$ 241,109	\$ 176,658

See accompanying notes to financial statements.

**SAN JOSE POLICE ACTIVITIES LEAGUE**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	Years Ended June 30,	
	2016	2015
Support and revenue:		
In-kind contributions	\$ 973,653	\$ 883,110
Other revenues:		
Program and stadium revenue	362,602	376,429
Concession revenue	57,030	72,875
Contributions	69,576	54,079
Special events	5,603	5,018
Other revenue	10,516	49
Total other revenues	505,327	508,450
Total support and revenue	1,478,980	1,391,560
Expenses:		
In-kind expenses:		
Salary and related expenses	774,108	706,368
Occupancy	152,372	116,225
Other expenses	47,173	60,517
Total in-kind expenses	973,653	883,110
Other expenses:		
Sports and related expenses	121,313	137,166
Salary and related expenses	93,351	103,150
Concession expenses	20,437	33,295
Insurance	37,221	37,243
Outside labor	31,597	27,262
Miscellaneous	16,004	32,620
Special events	6,920	13,046
Supplies	19,905	10,277
Occupancy	36,635	30,591
Professional fees	15,329	54,832
Awards and gifts	17,271	14,508
Donations	2,010	1,500
Total other expenses	417,993	495,490
Total expenses	1,391,646	1,378,600
Change in net assets	87,334	12,960
Net assets at beginning of year	62,930	49,970
Net assets at end of year	\$ 150,264	\$ 62,930

See accompanying notes to financial statements.

**SAN JOSE POLICE ACTIVITIES LEAGUE**  
**STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 87,334	\$ 12,960
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	1,117	1,922
Changes in assets and liabilities:		
Accounts receivable	10,562	(18,212)
Prepaid expenses	1,197	(8,818)
Accounts payable	(16,722)	7,125
Credit cards payable	1,252	4,896
Accrued payroll	(650)	(3,932)
Sales tax payable	129	(564)
Deferred revenue	(6,892)	17,365
Net cash provided by operating activities	77,327	12,742
Cash flows provided by (used in) investing activities:		
Purchase of property and equipment	-	(2,176)
Net increase in cash and cash equivalents	77,327	10,566
Cash and cash equivalents at the beginning of year	134,588	124,022
Cash and cash equivalents at the end of year	\$ 211,915	\$ 134,588

See accompanying notes to financial statements.

**SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 – NATURE OF ACTIVITIES**

San Jose Police Activities League (“PAL”) provides amateur athletic programs under the direction of police officers for the purpose of promoting community involvement and preventing juvenile delinquency. PAL is a nonprofit organization that was incorporated in 1968 in California. PAL works closely with children residing in the community to provide sports recreation and delinquency prevention. Sports activities include boxing, baseball, football, martial arts, soccer and softball. PAL’s main support is from the City of San Jose (“City”), program registrations and rental of the facilities.

PAL maintained insufficient and inadequate accounting records regarding program and stadium revenues and other expenses during the years ended June 30, 2016 and 2015 including missing supporting evidence and reconciliations of major revenue and expenditure sources. The lack of sufficient audit evidence resulted in issuance of a disclaimer of opinion for these periods by PAL’s independent auditors.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Statement Presentation**

For purposes of financial reporting, the PAL classifies resources into three categories of net assets pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the Organization are presented in the accompanying financial statements are classified in the following categories:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets include those assets over which the Board of Directors and City management have discretionary control in carrying out the operations of PAL. Under this category, PAL maintains an operating fund plus any net assets designated by the Board for specific purposes.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to the restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that they be maintained permanently.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include the value of in-kind contributions and expenses and shared revenue obligations due to the City of San Jose. It is at least reasonably possible that the estimates will change within the next year.

**SAN JOSE POLICE ACTIVITIES LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**Support and Revenues**

PAL recognizes support and revenue on the accrual basis of accounting. Program revenue, facility rental income and concession revenue are recognized in the period in which the services are provided or goods are delivered.

Contributions are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e. the donor-imposed purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as temporarily restricted revenues and released to unrestricted net assets to reflect the expiration of such restrictions.

Donated services and facilities are recognized as contributions if they (a) create or enhance nonfinancial assets or (b) require specialized skills, and would otherwise be purchased by the Organization. These contributions are recorded at the estimated fair market value in the period that the services or facilities are provided. The in-kind contributions include salaries and related benefits for police officers and City employees, facilities and occupancy expenses such as utilities, maintenance, supplies, and various office expenses. Equipment, fixtures, facilities, and improvements to the PAL complex provided by the City are the property of the City. PAL may also receive donated services that do not require specific expertise but which are nonetheless central to its operations. These contributed services are not reflected in the financial statements.

**Cash and Cash Equivalents**

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Cash in excess of FDIC and similar insurance coverages are subject to the usual banking risks of funds in excess of those limits.

**Fixed Assets**

Property and equipment purchased are capitalized at cost or in the case of donated equipment, at estimated market value on the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the underlying assets which range from three to five years for furniture and equipment. PAL capitalizes all expenditures for equipment in excess of \$1,000.

**SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**Deferred Revenue**

Deferred revenue consists of payments made for sports programs that have not yet been completed as of the respective year end.

**Income Tax Status**

The Internal Revenue Service has determined that San Jose Police Activities League is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. It is also exempt from state income tax.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by PAL for uncertain tax positions as of June 30, 2016 and 2015.

**NOTE 3 – FAIR VALUE MEASUREMENTS**

Fair value is defined under generally accepted accounting principles as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. PAL has adopted fair value accounting guidance for all applicable assets and liabilities to define fair value, establish a framework from measuring fair value, and enhance fair value measurement disclosure. The application of this guidance does not have a significant impact on PAL's financial statements.

**NOTE 4 – CONCENTRATIONS**

PAL maintained deposits in a single bank that exceed the federally insured deposit limit during the years ended June 30, 2016 and 2015.

PAL's operations are heavily dependent on the in-kind contributions from the City including administrative and operational support. Any future economic conditions or budget constraints can negatively impact the future funding provided by the City. The failure to generate sufficient revenues or raise additional contributions could have a material adverse effect on PAL's ability to carry out its intended mission.

**SAN JOSE POLICE ACTIVITIES LEAGUE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 – CONTRACT WITH CITY OF SAN JOSE**

PAL conducts its operation and programs from the PAL stadium complex (“Complex”) under a 20-year agreement with the City entered into in 2007, with a five year extension option. The agreement specifies that the City is responsible for overseeing the City’s Complex including scheduling, management, staffing, operations and maintenance of the Complex. The City also provides vision direction, planning, design and capital development of the Complex. Per the agreement, PAL has a supportive role and may operate concessions, raise funds and host special events under the City’s direction. The City and PAL are financially interrelated entities under generally accepted accounting principles because the City can influence the operating and financial decisions of PAL and has an ongoing interest in PAL’s assets (see Accounting Standards Codification 958-20-20). Accordingly, PAL recognizes revenue and an equal amount of expenses for in-kind contributions from the City including staffing costs for management, administration and operations and costs for maintenance, utilities and supplies (see Accounting Standards Codification 958-20-25-32). PAL appropriately does not recognize a contribution for the use of the Complex because there is no lease arrangement with the City which owns and operates the Complex (see Accounting Standards Update 2014-05 Service Concession Arrangements).

The City contract calls for sharing fifty percent of all shared net proceeds greater than \$50,000 earned each fiscal year with the City. These proceeds shall be set aside in a separate account and used for future capital expenditures as agreed with the City. Shared net proceeds are defined as facility use fees and special events revenues less the direct service cost associated with these activities.

For the years ended June 30, 2016 and 2015, PAL has not determined the eligible shared net proceeds or submitted annual audit reports to the City by the contract deadlines. As a result, it is in breach of its contract with the City and there is uncertainty regarding the shared proceeds that should be set aside from the June 30, 2016 and 2015 years, and years prior to that. This also presents uncertainty about the actions the City will take with respect to the breach and the effect it will have on future funding and support from the City.

**NOTE 6 - SUBSEQUENT EVENTS**

PAL was delinquent in filing its annual information tax returns for the fiscal year ended June 30, 2016. While PAL was able to get the IRS late filing penalties abated, this type of missed or delinquent filings can affect the tax-exempt status of the organization with each taxing authority.

In January 2018, PAL brought the contract breach to the City’s attention in an attempt to resolve the matter. The City conducted its own performance audit and issued a report dated June 7, 2018 that recommended that the City re-examine its current relationship with PAL. It was further recommended that the City reconsider who should manage the PAL facilities and associated activities, and revise its 2007 agreement with PAL as appropriate.

In preparing its financial statements, the Organization has evaluated subsequent events through September 28, 2018, which is the date the financial statements were available to be issued.