



To the Board of Directors  
of Morgan Hill Youth Sports Alliance, Inc.

In planning and performing our audit of the financial statements of Morgan Hill Outdoor Sports Center, a Division of Morgan Hill Youth Sports Alliance, Inc. as of and for the fiscal year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Morgan Hill Outdoor Sports Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Division's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Morgan Hill Outdoor Sports Center's internal control to be material weaknesses:

**Finding 2015-1:** For our test of receipts, 19 out of 40 were for concessions. Of the 19 concession receipts tested, 13 concession receipts were tested in during the July 2014- Dec 2014 period. During this period, 6 out of 13 concession receipts did not have a sales report or calculation to verify the amount collect. There were no deviations found in the remaining 6 concession receipts tested during the Jan 2015- June 2015 period.

**Recommendation:** With no proper documentation from the vendors, there is no evidence to substantiate the amount given, thus there could be a possibility the amounts could be materially misstated. The Division should require the vendors to submit sales reports along with the payment to verify the correct amount was received.

**Response:** Corrections were made in the second half of the fiscal year ending June 30, 2015. These corrections were successful as there were no errors found. We will continue to manage these transactions with vendor (Sales) reports along with back up documentation.

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 Morgan Hill Outdoor Sports Center's internal control to be significant deficiencies:

**Finding 2015-2:** During our test of payroll, it was noted that one timecard was not properly calculated before being sent to the CPA for payroll processing, resulting in one employee being underpaid 6 hours.

**Recommendation:** Timecards should be reviewed for accuracy and cross-referenced to the documents submitted to the CPA for payroll processing.

**Response:** The one error found was a result of an AM/PM miscalculation in our payroll calculation tool. That has since been corrected and will be double checked manually going forward.

**Finding 2015-3:** In our test of debit card transactions, it was noted that 15 out of 20 transactions did not have proper verification of approvals.

**Recommendation:** The Division should ensure that all debit card transaction have the proper verification of approval to help prevent misappropriation of assets.

**Response:** Not having approval verification tracking was a result of the Executive Director stopping that process. Feedback received in the first half audit was misunderstood that this step was no longer needed. Approval verification has been reinstated for the fiscal year ending June 30, 2016.

**Finding 2015-4:** Form 990 has not been filed with the IRS for fiscal year 14-15.

**Recommendation:** Form 990 should be completed and submitted to the IRS in a timely manner to avoid penalties.

**Response:** 990 will be filled in conjunction with the 501(c)(3) filing.

This communication is intended solely for the information and use of management to submit to the City of Morgan Hill, Board of Directors, and others within the Division, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Moss, Remy & Halzheim LLP*

Santa Maria, CA

January 11, 2016

**MORGAN HILL OUTDOOR SPORTS CENTER  
A DIVISION OF  
MORGAN HILL YOUTH SPORTS ALLIANCE, INC.**

**Financial Statements**

**June 30, 2015**

# MORGAN HILL OUTDOOR SPORTS CENTER

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## Financial Information



Moss, Levy & Hartzheim LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Morgan Hill Youth Sports Alliance, Inc.

We have audited the accompanying financial statements of the Morgan Hill Outside Sports Center, a Division of Morgan Hill Youth Sports Alliance, Inc. (the Division), which comprise the statement of assets, liabilities and net assets-modified cash basis as of June 30, 2015, and the related statements of support, revenues, and expenses-modified cash basis and cash flows-modified cash basis for the fiscal year 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence about the amounts collected from concession vendors for the fiscal year ended June 30, 2015, because the vendors were not required to submit documentation. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Morgan Hill Outdoor Sports Complex, a Division of the Morgan Hill Youth Sports Alliance, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Emphasis-of-Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the Division will continue as a going concern. As discussed in Note 9 to the financial statements, the Division has the continuing need for financing and a net deficiency in cash that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*Moss, Remy & Hartzheim LLP*

Santa Maria, California  
January 11, 2016

**MORGAN HILL OUTDOOR SPORTS CENTER**

Statement of Assets, Liabilities, and Net Assets- Modified Cash Basis

June 30, 2015

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Assets

Utilities Deposit	\$ 3,751
Fixed Assets, net of accumulated depreciation	49,299
Total assets	<u>\$ 53,050</u>

Liabilities and net assets

Liabilities

Bank overdraft	\$ 7,542
Line of Credit	95,000
Note Payable- OVYSL	19,370
Loan Payable- Parent company	11,348
Total liabilities	<u>133,260</u>

Net assets

Unrestricted	<u>(80,210)</u>
Total net assets	<u>(80,210)</u>

Total liabilities and net assets	<u>\$ 53,050</u>
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The accompanying notes are an integral part of these financial statements

**MORGAN HILL OUTDOOR SPORTS CENTER**

Statement of Support, Revenues, and Expenses- Modified Cash Basis

Fiscal Year Ended June 30, 2015

Revenues and Other Support

Program Revenues:

Field Rentals	\$ 375,350
Concessions	94,311
Hotel Commissions	3,715
Parking	185,810
Production Fee	8,000
Services	82,210
Tournament Team Fees	116,576
<b>Total program revenue</b>	<u>865,972</u>

Other Revenues

Interest	8
Miscellaneous	4,310
<b>Total other revenue</b>	<u>4,318</u>

<b>Total revenue and other support</b>	<u>870,290</u>
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Expenses:

Alarm	2,360
Administrative	3,415
Bank fees	2,632
Consulting	9,700
Contractors	38,340
Cost of goods sold	1,436
Depreciation	2,068
Equipment rental	55,491
Event Expense	9,216
Event Expense- equipment rental	15,854
Facility lease	10,286
Field maintenance	153,054
Insurance- General liability	19,936
Interest	2,626
Janitorial	16,484
License and permits	70,890
Marketing	6,775
Miscellaneous	15,570
Noncapitalized equipment	3,544
Office supplies	4,643
Parking security	1,728
Payroll taxes	19,583
Property taxes	2,506
Professional Services	3,800
Repairs and maintenance	7,365
Salaries	285,452
Travel and entertainment	420
Utilities	86,453
<b>Total expenses</b>	<u>851,627</u>

Increase in unrestricted net assets	18,663
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Net assets at beginning of fiscal year	<u>(98,873)</u>
Net assets at end of fiscal year	<u>\$ (80,210)</u>

The accompanying notes are an integral part of these financial statements

MORGAN HILL OUTDOOR SPORTS CENTER  
Statement of Cash Flow- Modified Cash Basis  
Fiscal Year Ended June 30, 2015

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Cash flows from operating activities:	
Increase in net assets	\$ 18,663
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:	
Depreciation	<u>2,068</u>
Net cash provided by operating activities	<u>20,731</u>
Cash flows from financing activities:	
Loan Payable- Parent company	10,000
Note Payable- Principal payment	<u>(23,436)</u>
Net cash used for financing activities	<u>(13,436)</u>
Net increase (decrease) in cash and cash equivalents	7,295
Cash and cash equivalents at beginning of fiscal year	<u>(14,747)</u>
Cash and cash equivalents at end of fiscal year	<u>\$ (7,452)</u>

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

**Note 1 - Significant Accounting Policies**

The following is a summary of significant accounting policies followed in the preparation of these financial statements. The policies conform to accounting principles generally accepted in the United States of America, applicable to voluntary health and welfare organizations, and have been consistently applied.

***Nature of operations***

The Morgan Hill Outdoor Sports Center was founded in 1994. The Division was created on July 1, 2010, when Morgan Hill Youth Sports Alliance Inc. was awarded the contract to manage the facilities. The Morgan Hill Outdoor Sports Center provides children of the City of Morgan Hill fields for recreational sports and events. The Division also provides facilities for various tournaments and events which supports tourism of the City of Morgan Hill.

***Basis of accounting***

The corporation prepares its financial statements on the basis of cash receipts and disbursements, except that property and equipment is capitalized and depreciated over its useful life, and long term debt i.e line of credit, loans payables and note payables are recorded. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America in that certain assets, such as prepaid expenses and receivables, and certain liabilities, such as accounts payable, accrued expenses, and deferred revenue are not recorded.

***Basis of presentation***

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization, pursuant to those stipulations or that expire by the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Division. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets.

***Use of estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

***Tax status***

The organization was exempt from federal income taxation under Section 501(c)(4) of the Internal Revenue Code; and from state franchise tax under the State of California Revenue and Taxation Code Section 23701f. Due to the delay in filing of the 990, the Organization was revoked the 501(c)(4) status. The Organization was reinstated 501(c)(3) status backdated to April 13, 2015.

***Uncertainty in income taxes***

Effective July 1, 2010, Morgan Hill Outdoor Sports Center implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, reclassification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2015, Morgan Hill Outdoor Sports Center had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

**MORGAN HILL OUTDOOR SPORTS CENTER**  
Notes to the Financial Statements  
Fiscal Year Ended June 30, 2015

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**Note 1 - Significant Accounting Policies (continued)**

**Cash**

All short-term investments with original maturities of three months or less are considered to be cash equivalents.

**Fixed assets**

Purchases of fixed assets costing \$1,000 or more are capitalized. Donated fixed assets valued at \$1,000 or more are capitalized, and recorded at fair value at the time of receipt. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation accounts, and any resulting gain or loss is recorded in the fiscal year of disposal. Depreciation is calculated utilizing the straight-line method over the estimated useful lives of the assets, that range from three to seven years for furnishings, equipment, and a vehicle.

**Revenue recognition**

Revenues are recognized in the period they are received.

**Note 2 - Cash**

All cash was covered by depository insurance, and consisted of the following at June 30, 2015.

Pinnacle Bank checking account	\$ (8,142)
Pinnacle Bank savings account	600
Total cash in bank	<u>\$ (7,542)</u>

**Note 3 - Fixed Assets**

Fixed Assets activity consisted of the following at June 30, 2015:

	Beginning Balance	Additions	Disposals	Ending Balance
Fixed assets activity 2015:				
Equipment and furnishings	\$ 51,712		\$ -	\$ 51,712
Less: Accumulated depreciation	345	2,068		2,413
Net fixed assets	<u>\$ 51,367</u>	<u>\$ (2,068)</u>	<u>\$ -</u>	<u>\$ 49,299</u>

**Note 4 - Line of Credit**

Morgan Hill Outside Sports Center has a \$100,000 line of credit with Pinnacle Bank, dated June 26, 2015, with interest calculated at 3.4% at inception and adjusted to the current index rate of the bank and maturing on June 22, 2017. There was an outstanding balance on the line of credit at June 30, 2015 of \$95,000. The line of credit is secured by the assets of Board President Jeff Dixon.

**MORGAN HILL OUTDOOR SPORTS CENTER**  
Notes to the Financial Statements  
Fiscal Year Ended June 30, 2015

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**Note 5 - Loan Payable- Parent company**

In the fiscal year ending June 30, 2015, Morgan Hill Youth Sports Alliance, Inc. provided Morgan Hill Outdoor Sports Center with a short term no interest loan, in the amount of \$40,000 to help the division with cash flow and operations. The balance remaining as of June 30, 2015 was \$11,348.

**Note 6 - Note Payable**

On January 31, 2014, the Organization entered into a long term note payable of \$51,712 with Orchard Valley Youth Soccer League for the acquisition of water cannons. Monthly payments of principal plus interest of 0.75% total \$2,969. On October 1, 2014, the note was adjusted to extend the payment schedule to June 30, 2016 and lower monthly payments of principle with no interest to \$1,614. Future debt service payments are as follows:

Fiscal Year Ended	Principal	Interest	Total
2016	\$ 19,370	\$ -	\$ 19,370
Total	\$ 19,370	\$ -	\$ 19,370

**Note 7 - Related Party Transactions**

Morgan Hill Outdoor Sports Center was given a loan by its parent company, Morgan Hill Youth Sports Alliance, Inc. See Note 5 for details. On September 30, 2014, Chris Gerrity, Vice President of Pinnacle Bank was elected to the Morgan Hill Youth Sports Alliance, Inc. Board of Directors. All banking for Morgan Hill Outdoor Sports Center in the fiscal year ending June 30, 2015 was done at Pinnacle Bank.

**Note 8 - Subsequent Events**

Subsequent events have been evaluated through January 11, 2016, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financials statements would be required.

**Note 9 - Financial Condition**

The accompanying financial statements have been prepared assuming that the Division will continue as a going concern. The Division has a continuing need for financing to fund operations and recurring bank overdraft liabilities. Also the Division had a bank overdraft liability of \$7,542 at June 30, 2015.

Management has made the following changes for the fiscal year ending June 30, 2016:

1. The Division will continue to engage several national tours such as COPA ESPN, Alianza, and Univision who will be at the OSC for a combined four tournaments in 2016 alone. Expectations are for more than 10 national tour tournaments per year by the end of the fiscal year 2016-2017.
2. The Division is developing co-marketing partnerships to defer cost of national marketing campaigns and trade show participation. The Division will also be starting marketing campaigns targeting festivals and alternative sports.
3. The Division implemented a water cannon irrigation system to reduce irrigation costs and water usage. While the usage and thus cost of water have been reduced, electrical usage has increased due to the booster pumps. The Division will be evaluating electrical usage plans for the most cost effective solution.