



**SAN JOSE POLICE ACTIVITIES LEAGUE**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

June 30, 2023

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## **Cristian Borcan, CPA, PC**

71 Stevenson Street Suite 400 / San Francisco, CA 94105

P 415.619.1710

[cbxcpa.com](http://cbxcpa.com)

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
San Jose Police Activities League  
San Jose, California

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#### **Opinion**

We have audited the accompanying financial statements of San Jose Police Activities League which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Police Activities League as of June 30, 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of San Jose Police Activities League and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about San Jose Police Activities League's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue

an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 San Jose Police Activities League's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Jose Police Activities League's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Cristian Borcan, CPA, PC

San Francisco, California

October 25, 2023

**SAN JOSE POLICE ACTIVITIES LEAGUE**

Statement of financial position

**June 30, 2023**

**(in \$)**

<b>Assets</b>	
Cash and cash equivalents	190,552
Accounts receivable	661
Total current assets	191,213
Property, plant and equipment, net	6,892
Total assets	<u>198,105</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	2,612
Deferred revenue	65,138
Total current liabilities	67,750
Total liabilities	67,750
<b>Net assets</b>	
Unrestricted net assets	130,355
Total net assets	<u>130,355</u>
Total liabilities and net assets	<u>198,105</u>

## SAN JOSE POLICE ACTIVITIES LEAGUE

### Statement of activities

June 30, 2023

(in \$)

without donor restrictions

#### Revenues

Program and stadium revenues	282,111
Special events	1,000
Contributions	84,713
In-kind contributions	934,912
Total revenues	1,302,737

#### Expenses

Program services	1,174,908
Supporting services:	
Management and general	134,445
Total expenses	1,309,353

<b>Increase (decrease) in net assets</b>	<b>(6,616)</b>
<b>Net assets, beginning of year</b>	<b>136,970</b>
<b>Net assets, end of year</b>	<b>130,355</b>

## SAN JOSE POLICE ACTIVITIES LEAGUE

### Statement of functional expenses

June 30, 2023

(in \$)

	<b>Program services</b>	<b>Supporting services Management and general</b>	<b>Total</b>
Salary and related expenses	596,121	109,297	705,418
Sports and related expenses	53,933	-	53,933
Outside labor	8,724	-	8,724
Supplies and materials	71,033	-	71,033
Occupancy	301,735	-	301,735
Concession expenses	4,010	-	4,010
Insurance	-	6,382	6,382
Professional fees	126,156	-	126,156
Awards and gifts	13,195	-	13,195
Office expenses	-	18,766	18,766
Total expenses	1,174,908	134,445	1,309,353

## SAN JOSE POLICE ACTIVITIES LEAGUE

### Statement of Cash Flows

June 30, 2023

(in \$)

<b>Operating activities</b>	
Increase (decrease) in net assets	(6,616)
Adjustments to reconcile net income to net cash provided (used) by operations:	
Depreciation	2,907
(Increase) decrease in accounts receivable	(29)
(Increase) decrease in inventory	(100)
Increase (decrease) in accounts payable	(1,305)
Increase (decrease) in deferred revenue	1,002
Cash provided (used) by operations	(4,141)
<b>Investing activities</b>	
Purchase of equipment	(3,617)
Cash provided (used) in investing activities	(3,617)
<b>Net increase (decrease) in cash during the year</b>	<b>(7,757)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>198,309</b>
<b>Cash and cash equivalents, end of the year</b>	<b>190,552</b>

**SAN JOSE POLICE ACTIVITIES LEAGUE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended June 30, 2023**

## Note 1 - Organization and operations:

San Jose Police Activities League (“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 facility.

## Note 2 - Summary of significant accounting policies:

Organizational operating structure - PAL’s operational structure includes the following program and supporting services which are included in the accompanying statements of activities:

Program services:

- PAL provides amateur athletic programs under the direction of police officers for the purpose of promoting community involvement and preventing juvenile delinquency. Sports activities include boxing, baseball, football, martial arts, soccer, and softball. This category includes expenditures for the maintenance of the PAL stadium complex, which is owned by the City and discussed at Note 3, supplies and materials used for sports activities, and for the operation of concessions which are operated during the sports activities.

Supporting services:

- General and administrative - This supporting service category includes functions necessary to secure proper administrative functioning of PAL’s governing board, maintain an adequate working environment and maintain financial responsibilities of PAL.
- Fundraising - This supporting service category includes expenditures which provide the structure necessary to encourage and secure private financial support for PAL’s operations.

Basis of accounting - The financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Cash and cash equivalents - For the purpose of the statements of cash flows, PAL considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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.

Revenue recognition - 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 - Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

Contributed services - 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 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.

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

Net assets without donor restrictions - Net assets without donor restrictions are available for use at the discretion of the Board for general operating activities.

Net assets with donor restrictions - Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The organization reports gifts of cash or other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and are reported in the statement of activities as net assets released from restrictions.

Functional allocation of expenses - The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and outside labor costs which are allocated on the basis of estimates of time and effort.

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 principle 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.

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.

Long-lived assets - The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No such impairments have been identified to date.

Income taxes - The Internal Revenue Service determined that San Jose Police Activities League is exempt from federal 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, 2023.

Reclassifications - Reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported net income.

Subsequent events - Management has evaluated subsequent events through the date that these financial statements were available to be issued which is the date of the accountants' report. Significant subsequent events have occurred related to the COVID-19 pandemic, and its impact on the Company's operations and financial statements is summarized at Note 5.

Recently adopted accounting pronouncements - The organization has adopted Accounting Standards Update (ASU) No 2016-14, Not For Profit Entities (Topic 958): Presentation of

Financial Statements for Not-For-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures.

The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. There was no material impact on the Company's results of operations or financial condition upon adoption of this new standard.

- On November 17, 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. This new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. PAL is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

- In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014- 09, Revenue from Contracts with Customers (Topic 606), which is a new standard of revenue recognition. The new standard contains principles that an entity will need to apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods and services.

The standard has a five-step approach which includes identifying the contract or contracts, identifying the performance obligations, determining the transaction price, allocating the transaction price, and recognizing revenue. The standard also significantly expands the quantitative and qualitative disclosure requirements for revenue, which are intended to help users of financial statements understand the nature and, amount, timing, and uncertainty of revenue and the related cash flows. The standards are effective for annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of its pending adoption of these standards on its financial statements.

## Note 3 - Contract with the City of San Jose:

PAL conducts its operations and program 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 but not limited to 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.

In accordance with ASC 958-20: Financially Related Entities, the City and PAL are financially interrelated entities because the City can influence operating and financial decisions of PAL and has ongoing interest in PAL’s assets.

In accordance with ASU 2014-05: Service Concession Arrangements 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.

The City contract calls for sharing fifty percent of shared net proceeds as defined in the agreement 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.

## Note 4 - Contributed services and materials:

PAL recognized in-kind contributions including administrative and operational support from the City of San Jose. These contributions are recorded at the estimated fair market value in the period that the services or facilities are provided. These contributions include Police salaries and related benefits, maintenance services and related materials, and amount to \$934,912 for the year ended June 30, 2023 and are reflected in the statement of activities.

## Note 5 - Subsequent events:

Management has evaluated subsequent events through the date that these financial statements were available to be issued which is the date of the accountants’ report.

No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.