



February 6, 2015

To: Morgan Hill Youth Sports Alliance, Inc. Board of Directors
David Payne, Vice President and OSC GM
Chris Gerrity, Treasurer
Mark Waxman, Director, Business Development
Robert Airoidi, Director, Community Relations

CC: Morgan Hill City Council
Morgan Hill City Manager and Community Services Director

From: Jeff Dixon
President and Executive Director

Subject: OSC FY2013-14 Financial and FY2014-15 Internal Controls Audit Results

Please find attached the results of the FY2013-14 Financial Audit and FY2014-15 Internal Controls Review conducted by MOSS, LEVY & HARTZHEIM, LLP at the request of the City Council of the City of Morgan Hill. Please note the two reports are different in nature. The FY2013-14 Audit reviews all financial records and processes, while the FY2014-15 Review reviews only internal controls.

As board members are aware, OSC operations underwent a financial audit of FY2010-11, FY2011-12 and FY2012-13 in July of 2014. The resulting NO OPINION with Significant Deficiencies finding as well as the GOING CONCERN finding raised serious questions in the minds of Morgan Hill city staff and City Council. Internally we have been aware of the issues we faced for some time. In fact as shown in the attached narrative, corrective steps to address these issues had been underway since July 2013, but did not correct record retention and internal control process issues in time for the first audit. The impact was not apparent until FY2013-14.

Despite the timing of the FY2013-14 financial audit, there is an improved finding with the auditors able to give a QUALIFIED OPINION which is a significant improvement over NO OPINION. The QUALIFIED OPINION identifies (1) Material Weakness and again states a GOING CONCERN. The auditors identified the same deficiencies and more in the previous audit, but with NO OPINION was unable to “Officially” identify any as Material Weaknesses.

The FY2014-15 Internal Controls Review found No Exceptions in the Disbursements, Payroll as well as Employee Reimbursements processes with continuing deficiencies in Concession sales and Debit Card transactions. As noted in the Audit Narrative, deficient processes were being addressed in FY2014-15, but were not completely resolved by the time of the audit.

The most significant finding though is the continuing GOING CONCERN. While this indicates serious issues for the future of OSC operations, you will see in the Audit Narrative that without the 2013 Kihncert financial loss, we in fact would NOT have a GOING CONCERN in FY2013-14. Even with it, we have improved the OSC financial position tremendously in the first half of FY2014-15 and are on track to bring liabilities such as AP Aging and Line of Credit down to acceptable levels by the end of FY2014-15 while realizing a positive cash position on a month-to-month basis.

Audit Narrative

When the audit findings were presented at the September 17, 2014 City Council meeting MHYSA voluntarily committed to an additional financial audit of FY2013-14 with the caveat that resolution of the audit findings could not be expected in that fiscal year as the previous audit with recommendations had not been presented until after the fiscal year was complete. With City Council acknowledgement of said caveat, MHYSA committed to an internal controls review for FY2014-15 (July 1-December 31, 2014) as well.

FY2013-14 Going Concern

Per the auditors, the areas of GOING CONCERN for Outdoor Sports Center operations are:

- -\$14,747 Bank Balance – Cash flow timing coupled with stale checks caused a QuickBooks negative bank balance. At no time was Pinnacle account overdrawn.
- Profitability – As the board is aware, the Kihncert loss set our OSC operations back two years. Still with the incredible growth in calendar year 2014 bookings and by running our own events we have made significant progress in two important areas:
 - All Kihncert debt was paid off as of August 2014
 - AP Aging as of 12-31-2014 is \$50,694 down more than 50% from \$113,281 as of 6-30-2014

Furthermore, we have undertaken a series of actions that will position OSC operations for consistently, strong fiscal performance in the future:

- Future earnings – Bookings continue to look strong through 2016 and beyond, in addition to our more than 20 annual local/regional tournaments and events we are:
 - Engaging national tours such COPA ESPN, Alianza and Univision who will be at the OSC for a combined five tournaments in 2015 alone. Expectations are for more than 10 national tour tournaments per year by end of FY2016-17
 - Working with local hotels to develop a Hotel Partner Program
 - Starting marketing campaigns targeting festivals and alternative sports
- Cost reductions – We have implemented a water cannon irrigation system to reduce irrigation costs and save water. This project is funded by an OVYSL loan. Upcoming cost reductions include PGE usage analysis and tournament expense modeling.

In summary, OSC operations have turned the profitability corner. More specifically without Kihncert, we would have done so in FY2013-14 eliminating the GOING CONCERN.

FY2014-15 Internal Controls

The two areas still being addressed are vendor concession sales and ACH/POS debit card transactions. As of January 1, 2015 all vendors have signed the revised Vendor Licensing Agreement and agreed to sales reports requirements. The ACH/Debit program started in July 2014 has improved the process, but still needs work. The Financial Processes project led by Treasurer Chris Gerrity documenting all financial processes will be completed this month. The Material Weakness noted in the audit and all remaining internal controls issues have been addressed in these documented processes. Salary agreements with all current employees will be completed this week. In all other financial processes, no exceptions were noted.



MORE KIDS IN MORE SPORTS

City Council Deliverables

In consecutive City Council Meetings on 9-17-14 and 10-1-14, the concerns of our FY 2010-2011 through FY2012-2013 audit results were discussed and an action plan was jointly developed with city staff. Here is our status:

Item	Commitment	Status
Complete FY2013-14 financial audit	1-31-2015	Done
Complete FY2014 Jul.-Dec. 2014 internal controls audit	1-31-15	Done
Complete past tax returns	March 2015	On track
File new 501c3 application	March 2015	On track

Historical Activities

The following information was presented to Morgan Hill City Council on September 17, 2014. Here is our status as of January 1, 2015:

Corrective Steps from First Audit

Item	Commitment	Status
Control disbursements	2014-15	On track
Purchases		
ACH/POS transactions		
Paying Invoices	2013-14	Done
Lack of archives	In Process	In place
Timecards	2014-15	In place
Employee disbursements, receipts	2014-15	In place
Timecard calculation	2013-14	Done
Cash and Vendor receipts	2014-15	On track
Monthly bank reconciliations	2013-14	Done
2013-14 event revenue summaries	2014-15	Done

Corrective Actions History and Plan

July 2013	Implemented new event revenue tracking process
September 2013	Implemented enhanced payroll system
December 2013	Hired CPA for taxes returns, guidance and controls for financial processes
March 2014	Addressed employee disbursement issues
April 2014	Hired back office clerk to review, update and file event records
April 2014	Revised cash receipts tracking system
May 2014	Addressed overdue tax returns
July 2014	Implemented formal ACH/Debit card process
July 2014	Implemented enhanced vendor agreement and tracking
September 2014	Brought in new Treasurer
October 2014	Centralized accounting and back office activity at OSC Office
October 2014	Moved all record storage to OSC building

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

Financial Statements

June 30, 2014

MORGAN HILL OUTDOOR SPORTS CENTER

Table of Contents

	<u>Page</u>
Financial Statements:	
Independent Auditors' Report	1
Statement of Assets, Liabilities, and Net Assets- Modified Cash Basis	3
Statement of Support, Revenues, and Expenses- Modified Cash Basis	4
Statement of Cash Flows- Modified Cash Basis	5
Notes to the Financial Statements	6-9

Financial Information



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RON A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

2400 PROFESSIONAL PARKWAY, SUITE 205
SANTA MARIA, CA 93455
TEL: 805-925-2579
FAX: 805-925-2147
www.mlhcpas.com

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, 2014, 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 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 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 auditor's 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, 2014, 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, 2014, 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 suffered recurring negative cash flow 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, Levy & Halperin LLP

Santa Maria, California
January 29, 2015

MORGAN HILL OUTDOOR SPORTS CENTER

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

June 30, 2014

Assets

Utilities Deposit	\$ 3,751
Fixed Assets, net of accumulated depreciation	51,367
Total assets	<u>\$ 55,118</u>

Liabilities and net assets

Liabilities

Bank overdraft	\$ 14,747
Line of Credit	95,000
Note Payable- OVYSL	42,896
Loan Payable- Parent company	1,348
Total liabilities	<u>153,991</u>

Net assets

Unrestricted	<u>(98,873)</u>
Total net assets	<u>(98,873)</u>

Total liabilities and net assets	<u>\$ 55,118</u>
----------------------------------	------------------

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, 2014

Revenues and Other Support

Program Revenues:

Field Rentals	\$	320,536
Concessions		83,854
Parking		226,821
Services		116,025
Tournament Team Fees		72,540
Event-Kihncert Sales		5,597
Total program revenue		<u>825,373</u>

Other Revenues

Interest		9
Miscellaneous		1,650
Total other revenue		<u>1,659</u>

Total revenue and other support

827,032

Expenses:

Alarm	2,367
Administrative	3,139
Bank fees	3,815
Consulting	700
Contractors	21,265
Cost of goods sold	5,806
Depreciation	345
Equipment rental	44,763
Event Expense- Kihncert performer	25,100
Event Expense- Kihncert equipment	54,148
Event Expense- Kihncert supplies	6,526
Facility lease	81,412
Field maintenance	153,809
Insurance- General liability	18,936
Insurance- Workers compensation	3,540
Interest	1,987
Janitorial	8,117
License and permits	2,648
Marketing	16,548
Miscellaneous	5,435
Noncapitalized equipment	3,586
Office supplies	6,371
Parking security	4,598
Payroll taxes	13,228
Property taxes	15,653
Repairs and maintenance	5,628
Salaries	212,442
Travel and entertainment	2,823
Utilities	92,836

Total expenses

817,571

Increase in unrestricted net assets 9,461

Net assets at beginning of fiscal year (108,334)Net assets at end of fiscal year \$ (98,873)

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, 2014

Cash flows from operating activities:

Increase in net assets \$ 9,461

Adjustments to reconcile increase in net assets
to net cash provided (used) by operating activities:

Depreciation 345

Net cash provided by operating activities 9,806

Cash flows from financing activities:

Loan Payable- Parent company- repayment (9,000)

Line of Credit- Proceeds 5,000

Note Payable- Principal payment (8,816)

Net cash used for financing activities (12,816)

Net increase (decrease) in cash and cash equivalents (3,010)

Cash and cash equivalents at beginning of fiscal year (11,737)

Cash and cash equivalents at end of fiscal year \$ (14,747)

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

MORGAN HILL OUTDOOR SPORTS CENTER

Notes to the Financial Statements

Fiscal Year Ended June 30, 2014

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 is currently in the process of applying for 501(c)(3) status.

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, 2014, 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, 2014

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, 2014.

Pinnacle Bank checking account	\$ <u>(14,747)</u>
--------------------------------	--------------------

Note 3 - Fixed Assets

Fixed Assets activity consisted of the following at June 30, 2014:

	Beginning Balance	Additions	Disposals	Ending Balance
Fixed assets activity 2014:				
Equipment and furnishings	\$ -	\$ 51,712	\$ -	\$ 51,712
Less: Accumulated depreciation		345		345
Net fixed assets	<u>\$ -</u>	<u>\$ 51,367</u>	<u>\$ -</u>	<u>\$ 51,367</u>

Note 4 - Line of Credit

Morgan Hill Outside Sports Center has a \$100,000 line of credit with Pinnacle Bank, dated June 22, 2013, with interest calculated at 3.4% at inception and adjusted to the current index rate of the bank and maturing on June 22, 2015. There was an outstanding balance on the line of credit at June 30, 2014 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, 2014

Note 5 - Loan Payable- Parent company

In the fiscal year ending June 30, 2013, Morgan Hill Youth Sports Alliance, Inc. provided Morgan Hill Outdoor Sports Center with a short term no interest loan, in the amount of \$14,000 to help the division with cash flow and operations. The balance remaining as of June 30, 2014 was \$1,348.

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. Future debt service payments are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 35,428	\$ 200	\$ 35,628
2016	<u>7,468</u>	<u>8</u>	<u>7,476</u>
Total	<u>\$ 42,896</u>	<u>\$ 208</u>	<u>\$ 43,104</u>

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.

Note 8 - Subsequent Events

Subsequent events have been evaluated through January 29, 2015, 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.

On December 1, 2014, the note payable to Orchard Valley Youth Soccer League was amended to decrease the monthly payment amount and extend the payment period to June 1, 2016.

MORGAN HILL OUTDOOR SPORTS CENTER

Notes to the Financial Statements

Fiscal Year Ended June 30, 2014

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, recurring negative cash flow and recurring bank overdraft liabilities. The negative cash flow for the current fiscal year was due to the Kihncert event which resulted in a substantial loss for the Division. Also the Division had a bank overdraft liability of \$14,747 at June 30, 2014.

Management has made the following changes for the fiscal year ending June 30, 2015:

1. The Kihncert was a substantial loss, and without that event the Division would have incurred positive cash flow and shown a substantial gain for the year. The Board decided not to be involved in concert production going forward.
2. The Division is reaching out for more weeklong events and national events. Also, management is forming strategic partnerships with various partners in the youth sports community to help fill additional weekends. The Division has started a hotel partnership with 5 local hotels for revenue sharing during tournament weekends.
3. The Division is also exploring various options to cut expenses. The Division has replaced irrigation pipes with water cannons, eliminating the cost of pipe rentals, and reducing in labor and water usage. With the use of water cannons, it frees up more fields for rental.



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERSRON A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA2400 PROFESSIONAL PARKWAY, SUITE 205
SANTA MARIA, CA 93455
TEL: 805-925-2579
FAX: 805-925-2147
www.mlhcpas.com

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, 2014, 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 2014-1: For our test of receipts, 9 out of 25 were for concessions. Of the 9 concession receipts tested, 6 receipts did not have a corresponding sale report to verify if the Division received the correct amount from the vendor.

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: A new vendor agreement was developed and implemented in Q1 2014-2015 requiring all vendors to provide a sales report. Of the five existing vendors, two were already in compliance, one implemented the new procedures immediately, one provided partial compliance immediately and then began working through the final stages in Q2 and one vendor is being moved off the site. All new vendors will sign and show proof of compliance before allowed on site.

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 2014-2: During our test of disbursements, it was noted that 3 out of 25 disbursements did not have the proper approvals on the backup documentation.

Recommendation: The Division should approve all disbursements to ensure all transactions are proper.

Response: Division will ensure all disbursements will be approved in fiscal year 2014-2015.

OFFICES: BEVERLY HILLS · CULVER CITY · SANTA MARIA

MEMBER AMERICAN INSTITUTE OF CPAs · CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS · CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

Finding 2014-3: During our test of payroll, it was noted that two time cards were not entered properly in the payroll documents sent to the CPA for payroll processing, resulting in one employee being underpaid 0.25 hours and one employee being overpaid 0.50 hours.

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

Response: Division will ensure all timecards are accurate before submitting to the CPA in fiscal year 2014-2015.

Finding 2014-4: For payroll, the Division did not have signed agreements on wages.

Recommendation: The Division should have on file a signed form agreeing on wages between the employee and management.

Response: The Division implemented signed agreements with employees for fiscal year 2014-2015.

Finding 2014-5: For our test of receipts, 1 out of 25 transactions did not have proper backup.

Recommendation: The Division should keep proper records for receipts to prevent misappropriation of assets.

Response: The Division will ensure all receipts have proper backup.

Finding 2014-6: In our test of debit card transactions, it was noted that 4 out of 10 transactions did not have proper documentation.

Recommendation: The Division should keep receipts for all debit card transactions to ensure every transaction is proper and to prevent misappropriation of assets.

Response: For fiscal year 2014-2015, additional approval documentation was implemented. Final review and approval of all debit card, ACH and electronic transactions is controlled by the MHYSA Treasurer.

Finding 2014-7: For our test of employee reimbursements, it was noted that 1 out of 10 transactions did not have any documentation. It was also noted that 4 out of the 10 transactions had detail on the transactions but only had partial backup documentation.

Recommendation: The Division should keep proper records on file to prevent misappropriation of assets.

Response: The Division will ensure all reimbursements will have the proper documentation attached.

Finding 2014-8: Form 990 has not been filed with the IRS for fiscal year 13-14.

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

Response: 990 will 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 & Halverson LLP

Santa Maria, CA
January 29, 2015



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RON A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

2400 PROFESSIONAL PARKWAY, SUITE 205
SANTA MARIA, CA 93455
TEL: 805-925-2579
FAX: 805-925-2147
www.mlhcpas.com

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

We have performed the procedures enumerated below, which were agreed to by the Morgan Hill Outdoor Sports Center, a Division of Morgan Hill Youth Sports Alliance, Inc., solely to assist in accessing and testing the internal controls of the Morgan Hill Outdoor Sports Center for the period July 1, 2014 to December 31, 2014 and providing this letter to you to provide to the City of Morgan Hill. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings for the testing of internal controls are as follows:

1) **Procedure:** Selected 25 disbursements from the check register and tested to see if proper controls were used.

Finding: No exceptions were noted.

2) **Procedure:** Selected 25 payroll transactions from the payroll register and tested to see if proper controls were used.

Finding: No exceptions were noted.

3) **Procedure:** Selected 25 receipts, 12 from the deposit listings and 13 from the general ledger, and tested to see if the proper controls were used.

Finding: Of the 25 receipts selected, 13 were for concessions. Of those 13 concession receipts, 6 did not have a sales report or calculation to verify the amount collected.

4) **Procedure:** Selected 10 debit card transactions from the bank statement and tested to see if proper controls were used.

Findings: Of the 10 transactions, 2 transactions did not have backup, and 5 did not have an approval signature. It was also noted one transaction from Home Depot had cash back.

5) **Procedure:** Selected all employee reimbursements from the check register and tested to see if proper controls were used.

Finding: No exceptions were noted.

OFFICES: BEVERLY HILLS · CULVER CITY · SANTA MARIA

MEMBER AMERICAN INSTITUTE OF CPAs · CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS · CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users listed above and is not intended to be and should not be used by anyone other than those specified parties.

Moss, Ryan & Spillheim, LLP

Santa Maria, California
January 29, 2015