

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

**Financial Statements**

**June 30, 2016**

# MORGAN HILL OUTDOOR SPORTS CENTER

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## Financial Information

## 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, 2016, 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 audit opinion.

### Opinion

In our opinion, 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, 2016, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with the modified cash basis of accounting described in Note 1.

**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 & Haugheim LLP*

Santa Maria, California  
May 16, 2017

**MORGAN HILL OUTDOOR SPORTS CENTER**

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

June 30, 2016

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## Assets

Utilities Deposit	\$	3,751
Fixed Assets, net of accumulated depreciation		47,231
Total assets	\$	<u>50,982</u>

## Liabilities and net assets

## Liabilities

Bank Overdraft	\$	24,783
Line of Credit		99,750
Note Payable- OVYSL		4,843
Loan Payable- Parent company		38,348
Total liabilities		<u>167,724</u>

## Net assets

Unrestricted		<u>(116,742)</u>
Total net assets		<u>(116,742)</u>

Total liabilities and net assets	\$	<u>50,982</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, 2016

## Revenues and Other Support

## Program Revenues:

Field Rentals	\$ 349,373
Concessions	64,805
Hotel Commissions	1,172
Parking	132,491
Services	43,497
Tournament Team Fees	78,212
Total program revenue	<u>669,550</u>

## Other Revenues

Interest	10
Miscellaneous	17,132
Total other revenue	<u>17,142</u>

Total revenue and other support 686,692

## Expenses:

Alarm	1,298
Administrative	403
Bank fees	2,660
City of Morgan Hill- Capital improvements contributions	9,332
City of Morgan Hill- Revenue sharing	1,866
Consulting	8,706
Contractors	24,186
Depreciation	2,068
Equipment rental	14,406
Event expense	1,435
Event expense- Equipment rental	650
Facility lease	32,500
Field maintenance	98,134
Insurance- General liability	22,807
Interest	3,892
Janitorial	26,064
License and permits	21,403
Marketing	5,415
Miscellaneous	15,049
Noncapitalized equipment	7,931
Office supplies	4,389
Parking security	2,398
Payroll taxes	42,068
Property taxes	4,189
Professional services	6,000
Refunds	1,263
Repairs and maintenance	19,005
Salaries	261,692
Travel and entertainment	1,006
Utilities	81,009

Total expenses 723,224

Decrease in unrestricted net assets (36,532)

Net assets at beginning of fiscal year (80,210)

Net assets at end of fiscal year \$ (116,742)

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, 2016

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Cash flows from operating activities:	
Decrease in net assets	\$ (36,532)
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:	
Depreciation	<u>2,068</u>
Net cash used by operating activities	<u>(34,464)</u>
Cash flows from financing activities:	
Loan Payable- Parent company proceeds	27,000
Line of Credit- Proceeds	4,750
Note Payable- Principal payment	<u>(14,527)</u>
Net cash provided by financing activities	<u>17,223</u>
Net increase (decrease) in cash and cash equivalents	(17,241)
Cash and cash equivalents at beginning of fiscal year	<u>(7,542)</u>
Cash and cash equivalents at end of fiscal year	<u>\$ (24,783)</u>

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

## **MORGAN HILL OUTDOOR SPORTS CENTER**

Notes to the Financial Statements

June 30, 2016

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### **Note 1 - Significant Accounting Policies**

The following is a summary of significant accounting policies followed in the preparation of these financial statements.

#### ***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)(3) of the Internal Revenue Code; and from state franchise tax under the State of California Revenue and Taxation Code Section 23701f.

#### ***Uncertainty in income taxes***

Effective July 1, 2011, 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, 2016, 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

June 30, 2016

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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, 2016.

Pinnacle Bank checking account	\$ (24,786)
Pinnacle Bank savings account	3
Total cash in bank	<u>\$ (24,783)</u>

### Note 3 - Fixed Assets

Fixed Assets activity consisted of the following at June 30, 2016:

	Beginning			Ending
Fixed assets activity 2016:	Balance	Additions	Disposals	Balance
Equipment and furnishings	\$ 51,712	\$ -	\$ -	\$ 51,712
Less: Accumulated depreciation	2,413	2,068		4,481
Net fixed assets	<u>\$ 49,299</u>	<u>\$ (2,068)</u>	<u>\$ -</u>	<u>\$ 47,231</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, 2016 of \$99,750. The line of credit is secured by the assets of Board President Jeff Dixon.

## MORGAN HILL OUTDOOR SPORTS CENTER

Notes to the Financial Statements

June 30, 2016

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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. In the fiscal year ending June 30, 2016, an additional loan of \$27,000 was provided. The balance remaining as of June 30, 2016 was \$38,348.

### 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. On June 1, 2016, Orchard Valley Youth Soccer League agreed to a one month extension for the repayment to July 31, 2016. Future debt service payments are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,843	\$ -	\$ 4,843
Total	<u>\$ 4,843</u>	<u>\$ -</u>	<u>\$ 4,843</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. 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, 2016 was done at Pinnacle Bank.

### Note 8 - Subsequent Events

Subsequent events have been evaluated through May 16, 2017, 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.

## **MORGAN HILL OUTDOOR SPORTS CENTER**

Notes to the Financial Statements

June 30, 2016

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### **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 \$24,783 at June 30, 2016.

Management has made the following changes for the fiscal year ending June 30, 2017:

In 2015-16, financial operations were impacted for the first time by outright cancellation of local tournaments, financial failure of operators and competitive pressures from Twin Creeks Sports Complex in Sunnyvale. These trends continued in 2016-17. At the same time, local and regional partnerships grew stronger as Orchard Valley Youth Soccer League went through a rebranding and came under new leadership. This caused an increase in local usage and an interest to partner in tournaments and events. A relationship was also formed with the Silicon Valley Cricket Group. Converting our fields to accommodate cricket will enable us to expand our service offerings while retaining current users. The current plan is to evolve the cricket component with the end goal of an ICC Association match to be held at the Outdoor Sports Center by 2019.