

California Police Youth Charities, Inc.
Financial Statements
and Supplementary information
for the years ended December 31, 2008, 2007, and 2006

California Police Youth Charities, Inc.
Financial Statements
for the years ended December 31, 2008, 2007, and 2006



Independent Auditor's Report

To the Board of Directors
California Police Youth Charities, Inc.
Roseville, California

We have audited the accompanying statements of financial position of the California Police Youth Charities, Inc. as of December 31, 2008, 2007 and 2006, and the related statements of activities and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Police Youth Charities, Inc. as of December 31, 2008, 2007 and 2006, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gallina LLP

Roseville, California
March 9, 2010

California Police Youth Charities, Inc.
Statements of Financial Position
December 31, 2008, 2007, and 2006

Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Current assets:</u>			
Cash	\$ 114,249	\$ 164,239	\$ 378,174
Prepaid expenses	-	-	31,000
	<u>114,249</u>	<u>164,239</u>	<u>409,174</u>
<u>Property and equipment, net</u>	<u>96,187</u>	<u>75,524</u>	<u>39,342</u>
Total assets	<u>\$ 210,436</u>	<u>\$ 239,763</u>	<u>\$ 448,516</u>

Liabilities and Net Assets

<u>Current liabilities:</u>			
Accounts payable	\$ 123,832	\$ 88,053	\$ 215,230
Accrued expenses	29,442	39,576	49,624
Line of credit	25,388	-	-
Current maturities of long-term debt	<u>2,988</u>	<u>2,386</u>	<u>-</u>
Total current liabilities	181,650	130,015	264,854
<u>Long-term liabilities:</u>			
Notes payable, net of current maturities	<u>17,581</u>	<u>10,678</u>	<u>-</u>
Total liabilities	199,231	140,693	264,854
<u>Net assets</u>	<u>11,205</u>	<u>99,070</u>	<u>183,662</u>
Total liabilities and net assets	<u>\$ 210,436</u>	<u>\$ 239,763</u>	<u>\$ 448,516</u>

See accompanying notes.

California Police Youth Charities, Inc.
Statements of Activities and Net Assets
for the years ended December 31, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Revenue:</u>			
Telemarketing, net	\$ 611,868	\$ 696,277	\$ 903,344
Other fundraising events	162,058	73,607	79,314
Donations and other revenue	29,058	38,760	6,546
	<u>802,984</u>	<u>808,644</u>	<u>989,204</u>
<u>Cost of fundraising</u>	<u>58,451</u>	<u>45,400</u>	<u>32,288</u>
	<u>744,533</u>	<u>763,244</u>	<u>956,916</u>
<u>Expenses:</u>			
Program expenses	626,321	662,843	575,313
General and administrative expenses	204,298	185,682	159,348
	<u>830,619</u>	<u>848,525</u>	<u>734,661</u>
	<u>(86,086)</u>	<u>(85,281)</u>	<u>222,255</u>
<u>Other income (expense):</u>			
Other income	-	689	-
Interest expense	(1,779)	-	-
	<u>(1,779)</u>	<u>689</u>	<u>-</u>
	<u>(87,865)</u>	<u>(84,592)</u>	<u>222,255</u>
<u>Net assets, beginning of year</u>	<u>99,070</u>	<u>183,662</u>	<u>(38,593)</u>
<u>Net assets, end of year</u>	<u>\$ 11,205</u>	<u>\$ 99,070</u>	<u>\$ 183,662</u>

See accompanying notes.

California Police Youth Charities, Inc.
Statements of Cash Flows
for the years ended December 31, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Cash flows from operating activities:</u>			
Increase (decrease) in net assets	\$ (87,865)	\$ (84,592)	\$ 222,255
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	14,188	9,600	6,976
Loss on disposition of equipment	3,986	14,275	-
Donated equipment	(24,220)	-	-
Changes in operating assets and liabilities:			
Prepaid expenses	-	31,000	(31,000)
Accounts payable	35,779	(127,177)	117,237
Accrued expenses	(10,134)	(10,048)	38,554
	<u>(68,266)</u>	<u>(166,942)</u>	<u>354,022</u>
<u>Cash flows from investing activities:</u>			
Cash paid for property and equipment	(5,567)	(60,140)	(14,224)
Proceeds from sale of property and equipment	-	14,000	-
	<u>(5,567)</u>	<u>(46,140)</u>	<u>(14,224)</u>
<u>Cash flows from financing activities:</u>			
Borrowings on line of credit	48,071	-	-
Repayments on line of credit	(22,683)	-	-
Repayment of long-term debt	(1,545)	(853)	-
	<u>23,843</u>	<u>(853)</u>	<u>-</u>
Increase (decrease) in cash	(49,990)	(213,935)	339,798
<u>Cash, beginning of year</u>	<u>164,239</u>	<u>378,174</u>	<u>38,376</u>
<u>Cash, end of year</u>	<u>\$ 114,249</u>	<u>\$ 164,239</u>	<u>\$ 378,174</u>

See accompanying notes.

California Police Youth Charities, Inc.
Statements of Cash Flows
for the years ended December 31, 2008, 2007, and 2006

Supplemental Disclosure of Cash Flow Information

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest paid	\$ 1,779	\$ -	\$ -

Schedule of Noncash Investing and Financing Activities

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acquisition of property and equipment	\$ 51,037	\$ 85,457	\$ 14,224
Less amount financed	21,250	13,917	-
Less net proceeds from trade-in	-	11,400	-
Less value of donated property and equipment	<u>24,220</u>	<u>-</u>	<u>-</u>
Cash paid for property and equipment	<u><u>\$ 5,567</u></u>	<u><u>\$ 60,140</u></u>	<u><u>\$ 14,224</u></u>

See accompanying notes.

California Police Youth Charities, Inc.
Notes to the Financial Statements
December 31, 2008, 2007, and 2006

Note 1: Summary of Significant Accounting Policies:

The following items comprise the significant accounting policies of the Organization. These policies reflect industry practices and conform to generally accepted accounting principles in the United States of America.

Organization's Activities:

The Organization operates within California and obtains funds through fund raising events and soliciting pledges over the phone. Funds are used to promote the mission of the Organization which is: to build relationships between the law enforcement community and California youth and to strive to provide opportunities for youth through various resources throughout the state of California. It is our goal to keep California's youth involved in productive activities run by positive role models.

Concentration of Credit Risk:

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash:

For purposes of the statements of cash flows, the Organization considers all cash, money market mutual funds, and short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Cash Restrictions:

The Organization maintains bank accounts that are used to pay for payroll and telemarketing operating costs provided by National Consultants Inc. (see Note 5) and cannot be used for general operations. The cash restricted for use for telemarketing operations at December 31, 2008, 2007, and 2006 was \$90,217, \$96,483 and \$187,764, respectively.

Property and Equipment:

Property and equipment, carried at cost, is depreciated over the estimated useful life of the related asset. Depreciation is computed substantially on the straight-line method for financial and income tax reporting purposes. Estimated useful lives are as follows:

	<u>Life</u>
Equipment	5 - 10 years
Vehicles	5 years

California Police Youth Charities, Inc.
Notes to the Financial Statements, continued
December 31, 2008, 2007, and 2006

Note 1: Summary of Significant Accounting Policies, continued:

Income Taxes:

The Organization was organized as a not-for-profit corporation in accordance with the laws of the State of California. The Organization is exempt from income tax under the provisions of Section 501(c) (3) of the Internal Revenue Code. However, any income from unrelated business activities is taxed at federal corporation tax rates. Accordingly, no provision for income tax has been recorded.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Organization will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, Accounting for Contingencies. SFAS No. 5 requires the Organization to accrue for losses it believes are probable and can be reasonably estimated.

Advertising:

The Organization's policy is to expense advertising costs as incurred. Total advertising costs for the years ended December 31, 2008, 2007, and 2006 were \$13,854, \$14,730 and \$11,761, respectively.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Thus, actual results could differ from those estimates.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 9, 2010, the date the financial statements were issued.

California Police Youth Charities, Inc.
Notes to the Financial Statements, continued
December 31, 2008, 2007, and 2006

Note 2: Property and Equipment:

Property and equipment consists of the following at December 31,:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Equipment	\$ 80,826	\$ 56,973	\$ 34,027
Vehicles	<u>32,459</u>	<u>25,392</u>	<u>14,224</u>
Accumulated depreciation	<u>113,285</u> <u>(17,098)</u>	<u>82,365</u> <u>(6,841)</u>	<u>48,251</u> <u>(8,909)</u>
	<u>\$ 96,187</u>	<u>\$ 75,524</u>	<u>\$ 39,342</u>

Depreciation charged to general and administrative expenses amounted to \$14,188, \$9,600 and \$6,976 for the years ended December 31, 2008, 2007, and 2006, respectively.

Note 3: Line of Credit:

The Organization has a \$27,000 line of credit agreement with a bank, which had a maturity date of May 22, 2009. The outstanding balance on the line of credit was \$25,388 at December 31, 2008. The line of credit agreement was closed in May 2009 after the balance was paid in full.

Note 4: Notes Payable:

Notes payable consists of the following at December 31,:

	<u>Interest Rate</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Note payable, secured by a vehicle, monthly principal and interest payments of \$290.	8.90%	\$ -	\$ 13,064	\$ -
Note payable, secured by a vehicle, monthly principal and interest payments of \$374.	7.99%	<u>20,569</u>	<u>-</u>	<u>-</u>
		20,569	13,064	-
Current portion		<u>(2,988)</u>	<u>(2,386)</u>	<u>-</u>
		<u>\$ 17,581</u>	<u>\$ 10,678</u>	<u>\$ -</u>

California Police Youth Charities, Inc.
Notes to the Financial Statements, continued
December 31, 2008, 2007, and 2006

Note 4: Notes Payable, continued:

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,:

2009		\$	2,988
2010			3,236
2011			3,504
2012			3,795
2013			4,109
Thereafter			2,937
			\$ 20,569

Note 5: Telemarketing Revenue and Activities:

The Organization has entered into an agreement with National Consultants Inc. (NCI) to run their telemarketing activities. Under this agreement NCI is responsible for providing the office, facilities, equipment, and phone numbers of individuals who have donated before, as well as management of employees. As compensation under the agreement NCI is entitled to 40% of all collections as a result of telemarketing for payroll (any shortage is paid by NCI). In addition all operating costs (rent, utilities, and other operating costs) are paid before distribution of donated funds to CPYC. After all payroll and operating costs are paid, CPYC and NCI split the additional revenue evenly.

The following is a summary of gross telemarketing revenue and expenses for the years ended December 31,:

	2008	2007	2006
Total telemarketing revenue	\$ 3,671,751	\$ 4,353,424	\$ 4,282,371
<u>Telemarketing costs:</u>			
CPYC payroll costs	1,792,964	2,046,383	1,692,851
Rent, equipment and other costs	998,683	1,142,254	892,474
Total telemarketing costs	2,791,647	3,188,637	2,585,325
NCI commission	570,156	726,003	793,702
CPYC Payroll costs funded by NCI	(301,920)	(257,493)	-
NCI commission, net	268,236	468,510	793,702
Net telemarketing revenue	\$ 611,868	\$ 696,277	\$ 903,344

California Police Youth Charities, Inc.
Notes to the Financial Statements, continued
December 31, 2008, 2007, and 2006

Note 6: Related Party Transactions:

During the years ended December 31, 2008, 2007, and 2006 payments were made as part of program costs to the California Police Activities League (CalPAL) and its local chapters in the amounts of \$400, \$3,921, and \$39,560, respectively.

Note 7: Commitments and Contingencies:

On May 29, 2009, the State of California Attorney General's Office filed a lawsuit against the Organization, a California non-profit corporation, for allegations including conspiracy to defraud donors, deceptive and misleading solicitations, breach of fiduciary duty and charitable trust, filing and distributing false and incomplete records, fraud and deceit, failure to comply with Government Code 12586, failure to file annual reports, negligence, unfair business practices and false and misleading statements. The majority of the allegations stem from the contractual business arrangement the Organization has with a telemarketing consultant.

The Organization has retained legal counsel and denies and intends to defend itself against these allegations.

During the years ended December 31, 2008, 2007, and 2006 the Organization entered into sponsorship agreements with various organizations. At December 31, 2008 the Organization is committed to pay \$96,000 to the Oakland Athletics for participation in the Home Run Reader program during the year end December 31, 2009.

California Police Youth Charities, Inc.
Notes to the Financial Statements, continued
December 31, 2008, 2007, and 2006

Note 8: Operating Leases:

During the years ended December 31, 2008, 2007, and 2006 the Organization entered into operating lease agreements for office and storage space. At December 31, 2008 all lease agreements were on a month to month basis. Rent expense under these leases amounted to \$35,900, \$28,970 and \$27,224 for the years ended December 31, 2008, 2007, and 2006 respectively.

In July 2009 the Organization entered into an operating lease agreement for the rental of office space.

The minimum future annual lease payments are as follows:

<u>Year Ending December 31,:</u>	
2009	\$ 15,000
2010	30,000
2011	30,000
2012	<u>15,000</u>
	<u>\$ 90,000</u>

The Organization has also recorded rent expense in relation to operating lease agreements entered into as a result of their telemarketing agreement. See Note 5 for additional details. The Organization has no reportable commitments under these lease agreements.



Independent Auditor's Report on Supplementary Information

To the Board of Directors
California Police Youth Charities, Inc.
Roseville, California

Our report on our audits of the basic financial statements of California Police Youth Charities, Inc. for the years ended December 31, 2008, 2007 and 2006 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages S-2 through S-4 of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gallina LLP

Roseville, California
March 9, 2010

California Police Youth Charities, Inc.
Schedule of Program and General and Administrative Expenses
for the year ended December 31, 2008

	<u>Program</u>	<u>General & Administrative</u>	<u>Total</u>
Salaries and employee benefits	\$ 104,544	\$ 144,370	\$ 248,914
Advertising	11,083	2,771	13,854
Vehicle expense	10,270	1,141	11,411
Memberships	395	44	439
Insurance	37,290	9,323	46,613
Repairs and maintenance	-	2,383	2,383
Rent	28,720	7,180	35,900
Postage	2,780	927	3,707
Office expense	4,942	1,647	6,589
Telephone	30,443	3,383	33,826
Travel	2,937	326	3,263
Depreciation	-	14,188	14,188
Other	-	16,615	16,615
Program expenses	<u>392,917</u>	<u>-</u>	<u>392,917</u>
	<u>\$ 626,321</u>	<u>\$ 204,298</u>	<u>\$ 830,619</u>

California Police Youth Charities, Inc.
Schedule of Program and General and Administrative Expenses
for the year ended December 31, 2007

	Program	General & Administrative	Total
Salaries and employee benefits	\$ 106,790	\$ 147,472	\$ 254,262
Advertising	11,784	2,946	14,730
Vehicle expense	6,228	692	6,920
Memberships	993	110	1,103
Insurance	34,183	8,546	42,729
Repairs and maintenance	-	2,848	2,848
Rent	23,176	5,794	28,970
Postage	5,672	1,890	7,562
Office expense	9,227	3,076	12,303
Telephone	9,161	1,018	10,179
Travel	7,561	840	8,401
Depreciation	-	9,600	9,600
Other	-	850	850
Program expenses	448,068	-	448,068
	<u>\$ 662,843</u>	<u>\$ 185,682</u>	<u>\$ 848,525</u>

California Police Youth Charities, Inc.
Schedule of Program and General and Administrative Expenses
for the year ended December 31, 2006

	Program	General & Administrative	Total
Salaries and employee benefits	\$ 115,995	\$ 120,730	\$ 236,725
Advertising	9,409	2,352	11,761
Vehicle expense	6,576	731	7,307
Memberships	417	46	463
Insurance	30,558	7,639	38,197
Repairs and maintenance	-	2,751	2,751
Rent	21,779	5,445	27,224
Postage	3,518	1,172	4,690
Office expense	10,083	3,361	13,444
Telephone	9,140	1,015	10,155
Travel	1,829	203	2,032
Depreciation	-	6,976	6,976
Other	-	6,927	6,927
Program expenses	366,009	-	366,009
	<u>\$ 575,313</u>	<u>\$ 159,348</u>	<u>\$ 734,661</u>