



INTERNAL AUDIT

Central Valley Community Sports Foundation – Granite Park

Report 2019-02

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Internal Audit Unit

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Internal Audit presents this audit report regarding the Central Valley Community Sports Foundation's (CVCSF) request for an additional \$150,000 per year to manage Granite Park. The purpose of the audit was to provide an independent, reasonable assurance that CVCSF has, in its financial statements, presented a true and fair view of its financial performance and position. Internal Audit performed the audit procedures for the assessment period of January 1, 2016 through July 31, 2018. Results in Brief are presented on page 1 and the detailed Audit Results begin on page 4. We would like to thank the staff from CVCSF for their assistance and cooperation during the course of the audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Kriti Chadha Agrawal". The signature is written in a cursive style with a horizontal line underlining the name.

Kriti Chadha Agrawal

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Results in Brief

Internal Audit's review of CVCSF's management of Granite Park identified a lack of standard operating policies and procedures, financial management, and internal controls. Specifically, the nonprofit has not established effective procedures for monitoring revenues earned and expenses incurred. CVCSF's bookkeeper described the nonprofit's policies and procedures to be informal and communicated verbally.

In addition, several errors were identified in CVCSF's financial statements and some transactions were questionable. Internal Audit identified the following issues:

1. CVCSF's general ledger did not reconcile to the given bank statements.
2. The financial statements did not reflect expenses incurred prior to 2017.
3. Adequate supporting documentation to support revenues and expenses was not maintained.
4. Appropriate written agreements were not existent to support the income and loans CVCSF received.
5. Some transactions were accounted for multiple times in the general ledger.
6. Bank statements reflected transactions that either were not reflected in the general ledger or were reflected in a different amount in the general ledger.
7. Expenses were made without the proper segregation of duties/operations.

Additional details on the errors and issues are further described in the Audit Results. As a result of the inaccuracies, Internal Audit is unable to rely on the financial statements provided to assess CVCSF's financial and operational position. Furthermore, a lack of appropriate financial procedures and internal controls prevent the City from ensuring CVCSF's revenues and expenses from Granite Park are appropriately accounted for and properly managed.

Introduction

In December 2015, the Board of Directors (henceforth referred to as Corporate Officers) of Central Valley Community Sports Foundation (CVCSF), a nonprofit organization, presented a proposal to the Fresno City Council for managing and maintaining Granite Park. In the proposal, CVCSF stated it would invest \$2.7 million in capital improvements at Granite Park that would include a small restaurant, new volleyball courts, restoration of the three existing baseball fields, and the addition of a fourth baseball field. CVCSF would then operate Granite Park, including hosting sports tournaments throughout the year. The City, in exchange, would fund the costs of providing various programs that would be available to the community totaling \$150,000 per year. During the presentation to City Council, the former City Manager explained that in 2015 the City paid \$104,000 just to maintain the empty grounds, so the City would essentially pay another \$46,000 per year to receive a fully operating park. The City subsequently entered into two agreements with CVCSF; a ground lease and a service agreement. The ground lease provided CVCSF the right to develop Granite Park over an initial term of 25 years. The service agreement, effective for ten years, stipulated that the City would compensate CVCSF an annual fee of \$150,000 for satisfactory performance of all services required according to the agreement. Those services included the following:

- Spring and winter softball leagues
- Spring sand volley ball league
- Four weekend youth sand volleyball clinics
- Four weekend youth baseball clinics
- Four weekend youth basketball clinics
- A minimum of 400 hours of After-School Programming per year
- Free public access to basketball/volleyball courts, sand volleyball courts, and walking paths/trails on weekdays.

After the improvements were constructed, CVCSF was able to begin operating Granite Park in 2017. However, in August 2018, a Corporate Officer of CVCSF informed City management that CVCSF needed an additional \$150,000 per year in order for it to break even and continue operating the park. As a result, City management requested that Internal Audit perform a review of CVCSF's finances and operations to provide an independent, reasonable assurance that CVCSF had, in its financial statements, presented a true and fair view of its financial performance and position to justify the additional annual contribution. Internal Audit, therefore, conducted a review of CVCSF's policies and procedures, financial statements and supporting documentation, and other records and reports for the audit period January 1, 2016 through July 31, 2018.

Scope and Methodology

Given CVCSF’s request for additional funding of \$150,000 per year to manage Granite Park, the City Manager directed the Internal Audit Unit to assess CVCSF’s financial position and performance. The table below outlines the audit objectives and Internal Audit’s methods for addressing them.

Table 1 - Audit Objectives and the Methods Used to Address Them

Audit Objective	Procedures
1. Determine if CVCSF has presented a true and fair view of its financial performance and position.	A. Assessed CVCSF’s financial statements for Granite Park.
	B. Reconciled CVCSF’s general ledger to its bank statements to ensure it had appropriately recorded all revenues and expenses.
	C. Reconciled the notes payable transactions to the bank statement to ensure CVCSF had accurately recorded loans and re-payments.
	D. Selected 143 transactions based on importance rather than on a statistical basis; requested the supporting documentation to determine the appropriateness of the revenue or expense.
2. Determine if CVCSF’s policies and procedures are sufficient to appropriately track its revenue and expenses.	<p>A. Interviewed CVCSF’s bookkeeper to determine its policies and procedures related to revenue and expense recognition.</p> <p>B. Assessed those policies and procedures to determine their appropriateness.</p>
3. Review CVCSF’s management practices to ensure it is operating efficiently and effectively to provide the sustainable sports complex it proposed to the City.	<p>A. Reviewed CVCSF’s bylaws and board meeting minutes to determine if management had met regularly to discuss the finances and operations of Granite Park.</p> <p>B. Reviewed loan agreements between Granite Park and its lenders to assess its management of borrowed funds.</p> <p>C. Reviewed agreements for third parties’ use of Granite Park to assess the profit share received by CVCSF.</p>

Source: Internal Audits

AUDIT RESULTS

Finding 1: CVCSF Lacks Adequate Policies, Procedures, and Internal Controls

During the initial review, Internal Audit determined that CVCSF's internal controls were deficient to nonexistent. Per discussion with CVCSF's bookkeeper, the nonprofit does not currently maintain formal documented procedures. There is a lack of formalized monitoring procedures for the general ledger and bank reconciliation process. As a result of Internal Audit's review, 31 errors were identified resulting in an over statement of the general ledger's balance by \$8,599.99. In addition, CVCSF has not established sufficient document retention procedures. Internal Audit made several requests to the nonprofit to provide documentation to support transactions shown on the financial statements and general ledger. CVCSF was unable to provide sufficient documentation as requested and therefore, Internal Audit is unable to do the following:

1. Rely on the financial statements provided.
2. Determine if revenues and expenses are appropriate.
3. Understand the financial errors identified.

Internal Audit determined CVCSF does not currently have a process of creating contracts when entering into an agreement with a third party for functions such as tournaments or loans. Contracts could not be provided detailing the services CVCSF provided and received. Therefore, Internal Audit could not determine if all services were complete and if all income was properly received. In addition, Internal Audit was unable to conclude if the terms and conditions of the agreements had been met. As a result, it could not be determined if some payments were appropriate.

Internal Audit identified transactions that represented a lack of segregation of duties and operations. Per the nonprofit's bylaws, one Corporate Officer is responsible for approving and signing all checks; however, in several instances Internal Audit determined a different Corporate Officer approved and signed off on transactions, including those made to himself.

Recommendations

CVCSF should immediately establish the following internal controls to enable the nonprofit to manage Granite Park finances according to established accounting procedures:

- Create a consistent process of reconciling the general ledger to the monthly bank statements.
- Require that a Corporate Officer review and approve the monthly reconciliation. If variances are identified, review and resolve those differences prior to approving.
- Establish formal policies and procedures on documentation retention. The procedures should include details on the documentation required to justify expenses and account for revenue.
- Create a process of establishing formal contracts for all agreements made with third parties including all terms and conditions to be met.
- Develop a delegation of spending authority detailing the spending thresholds and approval process.

Finding 2: CVCSF’s Financial Statements Contained Numerous Errors

A. CVCSF’s General Ledger Did Not Reconcile to Its Bank Statements

According to CVCSF’s bookkeeper, the general ledger is reconciled to the bank statements each month for the previous month’s transactions in the form of a report generated from QuickBooks—an accounting software. However, the cash balance according to the QuickBooks report did not match the cash balance in the general ledger. Therefore, Internal Audit performed a reconciliation of the general ledger to the bank statements and found multiple errors that made it evident an appropriate reconciliation had not occurred during the audit period. Table 2 below summarizes the types of errors Internal Audit found in CVCSF’s general ledger.

Table 2 – CVCSF General Ledger Errors

Type of Error	Number of times the error occurred
Transaction in bank statement was not accounted for in the general ledger	5
No evidence of general ledger transaction listed in bank statements	12
Incorrect amount accounted for in the general ledger	2
Transaction accounted for multiple times in the general ledger	12
Total:	31

Source: Internal Audits, based on a review of CVCSF’s general ledger and bank statements.

After correcting the errors identified by Internal Audit, the bookkeeper provided an updated general ledger and reconciliation report. However, the updated reconciliation report was still inaccurate and the general ledger still contained errors. The updated

reconciliation report erroneously listed fourteen transactions as “Uncleared checks and payments” that should have been voided as they were some of the errors identified by Internal Audit. As of the deadline given to CVCSF to provide all requested documentation, an accurate general ledger and reconciliation report were not provided to Internal Audit.

B. CVCSF Did Not Account for Expenses It Incurred In 2016

At the start of the audit, CVCSF stated that although it had entered into the Granite Park agreement with the City in December 2015, it was not until January 2017 that CVCSF had any financial transactions. In fact, the first entry into the general ledger is dated January 24, 2017 when CVCSF’s bank account for Granite Park was first opened.

In February 2017, two Corporate Officers of CVCSF withdrew \$145,140.76 and \$75,000 respectively as “loan repayments”. However, these withdrawals were made before there was evidence that the individuals had provided any such loans to the non-profit. When Internal Audit questioned CVCSF about the transactions, the bookkeeper explained that the two Corporate Officers of CVCSF had used their own funds to cover some expenses for Granite Park in 2016, but those expenses were not accounted for in the general ledger. As a result, CVCSF’s financial statements, for example the statement of cash flows, do not provide an accurate account of its financial position.

C. CVCSF Incorrectly Categorized Several Transactions

CVCSF provided the City’s management with Balance Sheets that included negative equity held by two of CVCSF’s Corporate Officers. Negative equity would indicate that the Corporate Officers owed CVCSF the amount listed in the Balance Sheet. However, by definition no individuals can have equity in CVCSF since it is a non-profit organization. According to CVCSF’s bookkeeper, the former bookkeeper incorrectly categorized loans provided by the Corporate Officers as capital injections which created equity transactions in the Balance Sheet. However, this error was not recognized until Internal Audit questioned why CVCSF had provided the City with a Balance Sheet that included negative equity rather than the non-profit appropriate, Statement of Financial Position.

There were also several other transactions that were categorized incorrectly. In 2017, a total of \$32,081.25 was labeled as “Uncategorized expenses”. Second, according to CVCSF, the former bookkeeper incorrectly labeled income that CVCSF made from its ATM machine as “Snack Bar Income”. Finally, CVCSF erroneously accounted for an expense of \$10,000 for Gateway Ice Center—a separate project operated by CVCSF—in its general ledger for Granite Park. Per the audit team’s discussion with the bookkeeper Granite Park’s financials are currently commingled with Gateway Ice

Center. Such commingling prevents CVCSF from accurately recognizing revenues and expenses.

Recommendations

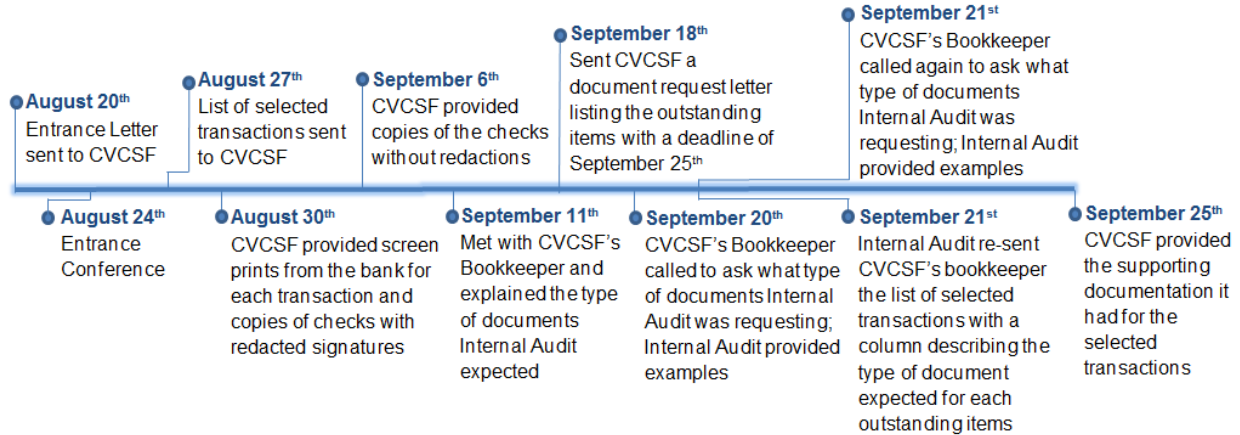
To ensure that it presents a true view of its financial performance and position, CVCSF should do the following:

- Balance the general ledger to the bank statements each month and immediately resolve variances identified.
- Account for all expenses incurred in 2016 and update all financial statements.
- Review the expenses labeled as uncategorized and create appropriate categories for those expenses.
- Create a separation of funds and accounting for each entity – Granite Park and Gateway Ice Center.

Finding 3: CVCSF Failed to Maintain Sufficient Documentation to Support Its Expenses

In order to assess the appropriateness of CVCSF's revenues and expenses, Internal Audit selected 143 transactions based on their importance rather than on a statistical basis that occurred within the scope period for testing. The items selected from the general ledger were materially significant, had little or no description, or occurred frequently. CVCSF was asked to provide the supporting documentation for the selections. However, the documentation initially provided by CVCSF was not sufficient. In almost every instance, the support provided included a screen print from CVCSF's bank of a payment rather than invoices from vendors. Internal Audit made multiple attempts to explain the type of support it expected—including Internal Audit adding an explicit note stating what type of documentation would be sufficient for every item requested. Figure 1 summarizes the efforts made to give CVCSF opportunities to provide supporting documentation.

Figure 1 – Timeline of Contact Made to Request Supporting Documentation



In spite of Internal Audit's efforts, CVCSF was unable to provide such documentation in most instances. Table 3 below summarizes, by dollar amount, the portion of the transactions that were supported by appropriate documents, the portion in which the documentation was not sufficient to support the transaction, and the portion in which no documentation was provided at all.

Table 3 – Selected Transactions Supported or Unsupported by Appropriate Documentation

2017				
Determination	Number of transactions	Percentage of Total	Dollar Amount	Percentage of Total Dollar Amount
Supported	14	20%	\$792,028.68	51%
Not Supported	49	69%	\$719,910.78	46%
No Documentation	8	11%	\$53,914.74	3%
2017 Total	71	100%	\$1,565,854.20	100%
2018				
Supported	14	20%	\$214,527.31	36%
Not Supported	42	58%	\$135,568.89	23%
No Documentation	16	22%	\$239,047.74	41%
2018 Total	72	100%	\$589,143.94	100%

Source: Internal Audits, based on a review of the supporting documentation provided by CVCSF for the selected transactions.

Some examples of documents provided that were insufficient include: invoices that did not match the amount that was paid, bid proposals or estimates that did not match the amount paid rather than an invoice, expense reimbursement forms that did not include the required receipts of purchase, invoices from individuals rather than an expense reimbursement form with the appropriate receipts, and a sheet of paper that was hand written by one individual that listed multiple staff members and the apparent hours they worked. Additionally, even when invoices were provided, they did not include sufficient information to determine the expenses appropriateness. For example, in 2018 there were four invoices from a fencing company that totaled \$20,000 that included the description: "Progress payment for installation of green privacy link fence and wrought iron gates". CVCSF should have required such invoices to include itemized details to ensure they were being charged the appropriate amount for products received. Additionally, the bookkeeper explained that in many instances CVCSF had to reach out to the vendors in an attempt to get a copy of the invoice indicating that CVCSF had not maintained the original invoices. Given that Internal Audit only received sufficient supporting documentation for 20 percent of 2017 and 2018 transactions, it cannot with any certainty determine if CVCSF's expenses were appropriate.

Recommendations

In order to justify all expenses, CVCSF should create written policies and procedures that include the following:

- Require an appropriate and accurate invoice be received before payment is issued.
- Require all staff to fill out individual timecards that must be signed by the staff member and a manager.
- Require all requested expense reimbursements be submitted on the appropriate reimbursement form and require that the receipts of purchase be provided to issue repayment.
- Establish a document retention policy to maintain all expense and revenue related supporting documentation for seven years for audit purposes, either by the City or other entities.

Finding 4: CVCSF Lacked Appropriate Written Agreements

One of CVCSF's sources of revenue is income received for the numerous baseball tournaments it holds at Granite Park throughout the year. According to the bookkeeper, if an entity other than CVCSF hosts a tournament, the revenue received is shared

between CVCSF and the entity. The bookkeeper gave an example that an entity hosting a tournament may receive the revenue generated from the tournament fees paid by the teams playing while CVCSF's revenue would be generated by snack bar and ticket sales. However, CVCSF's bookkeeper was unable to provide written agreements for any of the tournament revenue received. For example, CVCSF paid Central Cal Baseball \$3,000 in June 2018 for a tournament held at Granite Park, but did not enter into an agreement to outline what services Central Cal Baseball would be providing and how the two parties would share revenues earned. Without such agreements, CVCSF cannot ensure that it receives all revenues owed. Please see Finding #6 for further information regarding this transaction.

Additionally, the supporting documentation provided for tournament revenue was limited to copies of the checks provided to CVCSF from the teams registering for the tournament. CVCSF does not provide the registrants an agreement that details which tournament the team is registering for, what dates the tournament will be held, the number of players registering, or the amount charged to each team. As a result, Internal Audit could not determine if CVCSF had received the appropriate revenues or charged each registrant the same tournament entrance fee.

Furthermore, CVCSF did not require written agreements for loans provided by its Corporate Officers. Throughout the audit period there were transactions labeled as "Note Payable" when the Corporate Officers loaned CVCSF funds or CVCSF paid back a loan amount. However, without a written loan agreement, it is not clear what the loans were for and when they were expected to be paid back. As a result, the withdrawals cannot be reconciled to the deposits to ensure the amounts withdrawn were appropriate. In fact, during the audit it was determined that the previous bookkeeper erroneously created a journal entry indicating that a loan provided by one of the Corporate Officers had been paid in full, when CVCSF still owed him nearly \$50,000. Written loan agreements would ensure that all funds loaned to CVCSF are accurately tracked and repaid.

Recommendations

To ensure that CVCSF, and the entities for which it enters agreements, receive all revenues owed to it, CVCSF should develop a standard tournament agreement that includes, but does not limit to, explicitly detailing the following:

- How the revenues will be shared between the two entities.
- How the costs will be shared between the two entities.
- What services will be provided by each entity.

- The name and dates of the tournament being held.

To ensure that CVCSF receives all revenues owed to it for tournaments and that registrants pay the same rate for registration, CVCSF should create a team registration form that includes the tournament name, dates of the tournament, number of players on the team and their names, rate charged per team, and a final total fee due including any deposits that are applicable.

In order to accurately track and repay all loans provided, CVCSF should require that any and all loans received have an accompanying note that includes the total amount loaned and the expected repayment date.

Finding 5: CVCSF's Bank Statements Contained Transactions That Could Not Be Adequately Explained

As mentioned previously, a Corporate Officer loaned CVCSF funds on numerous occasions throughout the audit period. However, in reviewing the supporting documentation for the selected loan transactions, it was determined that the funds were not provided by the Corporate Officer, but were provided by Central Valley NMTC, LLC –whose President and Chief Operating Officer is one of CVCSF's Corporate Officers. Yet, CVCSF's repayments of those loans went directly to the Corporate Officer rather than Central Valley NMTC, LLC. When asked to explain why the loan repayments were not sent to the lender, CVCSF stated that,

“There is no “lender” there is no interest being made to the Corporate Officer and/or Central Valley NMTC, LLC. Money injected into the nonprofit is recognized as the Corporate Officer and then money taken out is recognized as the Corporate Officer.”

However, the above does not provide an adequate explanation of why the loan repayments were transferred to the Corporate Officer and not the actual lender. Furthermore, CVCSF should appropriately recognize loans by the actual lender.

Additionally, there were multiple instances in which funds labeled as a note payable from the Corporate Officer were deposited and withdrawn on the same day for the same amount. For example, on May 18, 2018 CVCSF deposited a check from Central Valley NMTC, LLC in the amount of \$50,000. On that same day, CVCSF wire transferred \$50,000 to the Corporate Officer and labeled the transactions “Corporate Officer – Note Payable”. When Internal Audit asked CVCSF to explain why the transfer to the Corporate Officer occurred the same day a check from Central Valley NMTC, LLC was deposited, CVCSF stated that,

“There was no income and or expense that occurred on the [profit and loss] and does not pertain to any income and or expense. It is recognized as a balance sheet transaction. Money injected into the nonprofit is recognized as the Corporate Officer, money taken out is recognized as the Corporate Officer.”

Again, this response does not answer the stated question. There were, in fact, other instances in 2018 similar to the one described above in which funds were transferred in and out on the same day—or close to the same day—in the same amount.

Recommendations

In order to accurately account for the source of all loans, CVCSF should go through its general ledger and correct any loans provided by Central Valley NMTC, LLC, currently labeled as Corporate Officer Note Payable, and appropriately label them as CVNMTC Note Payable.

To ensure that CVCSF is appropriately repaying all loans to the original lender, CVCSF should transfer funds or disperse checks for repayments to the entity that originally provided the loan.

Finding 6: CVCSF had Expenses that Represent a Lack of Segregation of Duties/Operations

As mentioned previously, there were instances in which CVCSF paid Central Cal Baseball Academy for tournaments held at Granite Park without a written agreement. It should be noted that a Corporate Officer of CVCSF is also the President of Central Cal Baseball Academy. Internal Audit could not find another instance in which CVCSF paid another entity for a tournament held at Granite Park. The other transactions labeled as a tournament were revenues received by CVCSF. CVCSF could not provide adequate documentation or explanation as to why Central Cal Baseball Academy received money from CVCSF.

Internal Audit also found that there were two instances in which a non-employee received money from CVCSF as reimbursements for unrelated expenses of iPad cases and groceries for two citizens. Rather than requiring a reimbursement form be filled out and submitted with the appropriate receipts, CVCSF dispersed the reimbursement based on an invoice. Although the transactions were small in amount, \$211.15 in total,

Internal Audit believes that all reimbursements should require the appropriate expense reimbursement form and receipts of purchase.

Additionally, Internal Audit found that CVCSF paid two individuals commissions for closing funding deals. Although such commissions are appropriate in for profit organizations, the Association of Fundraising Professionals and the National Council of Nonprofits agree that compensating fundraisers with a commission on the contribution is not ethical.¹

Finally, although the bylaws indicate that CVCSF's financial transactions are the responsibility of one Corporate Officer, a different Corporate Officer was the individual signing checks for the non-profit. In fact, transactions labeled repayments of loans to that Corporate Officer were paid by checks that were prepared and signed by himself. This is a lack of internal controls over the signing of checks which creates unnecessary risk for CVCSF.

Recommendations

In order to avoid future questionable payments, CVCSF should develop the following policies:

- All individuals, regardless of their position or relation to the non-profit, must submit the appropriate expense reimbursement form and include all receipts of expense to receive repayment.
- Create a policy to prohibit the payment of commissions for fundraising.
- Require that any payments to a Corporate Officer receive the approval of at least two more Corporate Officers and that the individual signing the check not be the individual for which the check is addressed.

Finding 7: CVCSF Allowed Individuals to Live on Granite Park Grounds and Later Paid for Living Quarters

According to the ground lease for Granite Park, CVCSF shall not sublet any portion of the premises without the prior written consent of the City.² However, in 2017, CVCSF allowed two employees to live on the grounds of Granite Park in the storage room without the City's knowledge, violating the lease agreement. CVCSF then also paid to house the two employees in a nearby apartment which may violate the non-profit's prohibition against inurement.

¹ AFP Code of Ethical Principles, Ethical Standards #24 and "Ethical Fundraising." *National Council of Nonprofits*, www.councilofnonprofits.org/tools-resources/ethical-fundraising

² Ground Lease Regarding Granite Park, The City of Fresno-Central Valley Community Sports Foundation, Dec. 7, 2015, § 12.

As a non-profit organization, CVCSF must follow certain statutory prohibitions to maintain its status of exemption from federal income tax. One prohibition is that the organization operates exclusively for exempt purposes by serving public rather than private interests. Therefore, an organization's earnings cannot inure to the benefit of private individuals. Yet, CVCSF paid to rent an apartment for the two employees. Those rental payments totaled \$4,100 in 2017 and \$3,875 from January to July, 2018. As a result, CVCSF risks losing its non-profit status should the IRS determine that those rental payments were private inurement for two of CVCSF's employees.

Recommendations

To comply with the ground lease for Granite Park, CVCSF shall not allow any individual to live on the premises.

To ensure that it does not risk its non-profit status, CVCSF should not pay any expenses that are for the benefit of private individuals and not for the expressed purpose of the non-profit.

Management Response:

See Attachment A for Central Valley Community Sports Foundation's management response.