

PASO ROBLES BEARCAT ATHLETIC FOUNDATION: WHAT HAPPENED TO THE GAME PLAN?

SUMMARY

The 2009-2010 Grand Jury received a complaint about the Paso Robles Bearcat Athletic Foundation (the Foundation) near the end of its term. The complaint was then investigated by the 2010-2011 Grand Jury. The complainants *alleged* that the Foundation:

- Engaged in “pay to play”¹ activities
- Made illegal payments of stipends to selected coaches
- Discriminated against coaches based on gender
- Misappropriated money from student funds

The 2010-2011 Grand Jury investigation of the Foundation and its activities *found*:

- **None** of the allegations were true
- The Foundation provides a valuable service to the Paso Robles High School (PRHS) athletic program, notably through administration of the summer sports program
- The reputation and good standing of the Foundation is harmed by a lack of transparency and a lack of attention to details in its internal operations and governance
- The Foundation is also affected by a lack of well-defined policies, procedures and oversight by administrators from Paso Robles Public Schools (the District), PRHS and Associated Student Body (ASB), especially with respect to fundraising

¹ The practice that requires students to pay a fee in order to play on a team.

INTRODUCTION

This report presents findings and recommendations for the Foundation that should enable it to improve its internal governance and operate in a more open and transparent manner. The issues this report covers include:

- The Foundation's relationship with the District and PRHS, including its Athletic Department and ASB
- The Foundation's Articles of Incorporation and Bylaws
- The Foundation's financial records and tax returns
- The Foundation's fundraising activities
- The Foundation's funding of PRHS game management

AUTHORITY

The authority for this Grand Jury investigation and report is California Penal Code Sections 933.5 and 933.6. Penal Code Section 933.5 authorizes a Grand Jury to examine the books and records of any special-purpose assessing or taxing District in the County and to investigate and report on the method or system of performing the duties of such District.

Penal Code Section 933.6 authorizes a Grand Jury to examine the books and records of any nonprofit corporation "established by or operated on behalf of" a public entity whose books and records a Grand Jury is otherwise authorized by law to examine. It also authorizes a Grand Jury to investigate and report on the method or system of performing the duties of such nonprofit corporations.

As shown in the Narrative below, the Foundation is effectively operated on behalf of the athletic program at PRHS by its two original founders, both of whom are District employees. To date, all decisions affecting the Foundation have been made by the two founders, acting either singly or in concert. All Foundation records are currently housed in the PRHS Athletic Department.

METHOD

The Grand Jury interviewed:

- Four members of the Foundation's Board of Directors
- Two PRHS administrators
- One District administrator
- One representative of the complainants
- Three PRHS coaches

The Grand Jury reviewed:

- The Foundation's Articles of Incorporation and Bylaws
- The Foundation's federal tax returns, bank statements and cancelled checks
- The Foundation's revenue and expense statements
- Documents related to the summer sports program
- PRHS and District policies with respect to the use of athletic facilities
- Relevant policies and procedures governing ASB and the California Interscholastic Foundation (CIF)
- Newspaper articles regarding PRHS budget cuts and court decisions outlawing "pay to play"

NARRATIVE

Background/History

Two PRHS administrators formed the Foundation in 2004 to address two recognized needs of the PRHS athletic programs:

- Administration of the PRHS coach-run summer sports program
- Fundraising for capital improvement projects to benefit the PRHS athletic program

The Foundation has operated with minimal publicity, no website, no publications bearing its name, and no mention in PRHS or District publications or websites from its beginning in 2004 until late spring 2010. At that time, budgetary cutbacks for public education impacted every district and school across the nation and every aspect of what is considered essential for a quality educational experience, including athletic programs. District and school administrators looked for additional ways to save money. The District considered the possibility of reducing or eliminating stipends² for coaches, timely replacement of uniforms, funding for transportation and meal reimbursements for athletic events away from home. Additionally, allocating funds to repair, improve or build new athletic facilities was considered not feasible.

Then, additional cuts to the District budget for the 2010-2011 academic year and the anticipated elimination of coaches' stipends were announced. As a result, the pressures on athletic programs and their administrators increased. Those impacted sought ways to lessen the effects of the impending cuts.

At a PRHS coaches' meeting in spring 2010, a fear was expressed that the District might eliminate all or some coaching stipends. There was also an unsubstantiated rumor voiced at the meeting that only "favored" coaches would be paid. Someone mentioned the existence of the Foundation and that it might be used to pay coaches' stipends. Due to the absence of any publicly available documents and information, and the failure of Foundation officials to respond to questions from the public, rumors continued to spread. Ultimately, as questions without answers or what became wrong answers increased, a group of citizens filed a complaint with the San Luis Obispo County Grand Jury.

The Foundation, the District, PRHS and ASB

The existence of a foundation, or foundation type organization, to support school athletics is not uncommon. Recognizing this, in 1992 the California legislature created the Fiscal Crisis and Management Assistance Team which produces and publishes the *ASB Accounting Manual and*

² In this context, a coach's stipend is a lump-sum payment in addition to the negotiated District employees' base salary and is compensation for coaching duties.

Desk Reference (see excerpts in Attachment 1). This publication is a guide for the conduct of student organizations and the handling of student funds, and provides guidance about internal controls for educational agencies to fulfill their financial and managerial responsibilities.

Based on the reality of on-going school funding reductions, the ASB Manual recognizes and responds to increased demands on school leaders “to augment funding for students and schools while maintaining fiscal accountability, transparency and accuracy.” To help achieve this goal, ASB policy requires that foundations have internal controls related to financial statements, budgets, cash receipts and cash disbursements. The Foundation does not have a structure that provides for those internal controls.

In addition, there are numerous sections of the ASB Manual dealing with the relationship between a district and a booster club-foundation, but one Manual reference in particular highlights a potential area of concern for the District and the Foundation. California Education Code section 51521 requires prior authorization by the school board for fundraising activities. According to the Code, school boards should adopt policies and regulations for booster clubs-foundations. To date, this has not occurred for Foundation fundraising activities.

Both the District and PRHS have written policies in place that regulate fundraising conducted by student clubs and organizations and provide for oversight by PRHS or its designee. ASB rules governing student organized and operated fundraisers are very clear. Events must be approved by the school administration. All funds generated must be deposited with ASB, and there must be a vote of the students in the organization to approve any expenditure of those funds. However, there are no policies and procedures that specify the types of fundraising activities in which the Foundation may engage.

Internal Operations: Corporate Structure and Governance

From its investigation, the Grand Jury learned that the intent of the founders was to create a nonprofit corporation that would qualify for a federal 501(c) (3) tax exemption and the corresponding California state tax exemption. This tax status would allow the corporation to solicit and receive tax deductible donations, which it could use to further one of its specific

primary purposes: to fund major capital expenditures for the improvement of PRHS athletic facilities. The founders planned to develop a broad base of potential donors from which to solicit funds to achieve this goal.

The second, equally important, purpose of the Foundation was to organize and operate the summer sports program on behalf of the PRHS Athletic Department. With these two purposes in mind, Articles of Incorporation (Attachment 2) and Bylaws³ were drafted with the advice of an attorney knowledgeable about not-for-profit organizations and a very basic financial structure was established. The two original founders held their first meeting, elected people to serve on the first Board of Directors (the Board) and adopted the initial Bylaws.

According to Article 15, Section 4 of those Bylaws, the Foundation's "specific primary objective is to raise, gather and collect donations to be applied for the benefit of Paso Robles High School Interscholastic Athletics programs and facilities..."

Succeeding sections of the Bylaws further clarify those objectives:

Section 5: "Utilize funding channels for summer programs for athletic participation, and coach's reimbursement."

Section 6: "(Provide) long term funding for improvement and upkeep of facilities."

Section 7: "Explore the concept of alumni participation on an on-going basis as a means of financial support."

Section 8: "Not to interfere or compete with existing support groups or booster clubs."

These objectives are perfectly legal and reasonable. The Foundation, however, currently achieves only objectives #5 and #8, which the Directors interviewed by the Grand Jury readily acknowledged.

³ Bylaws not included in the Appendix due to the length of the document. Relevant sections quoted above.

The Bylaws create the organizational structure for the Foundation and state the Board is to consist of seven directors with the following officers: President/CEO, Secretary, Treasurer and CFO. The number of Directors may not be changed without amending the Bylaws (Article 14), but the most recent list of Directors has 11 members. The Bylaws have not been amended and no explanation has been provided for why or how the Board was expanded.

The Board is required to meet at least once a year in July and minutes are to be taken and maintained by the Secretary. This has not happened. Since 2004, there is a record of only three Board meetings and minutes exist for only two of those meetings. The last meeting of the Board was due to be held in October 2010, but neither an agenda nor minutes exist for this meeting.

The Bylaws require the Board to have a quorum when business is conducted. According to Foundation records, no quorum was present at any Board meeting. In addition, although the Foundation Bylaws state that no decisions involving fundraising or expenditures should be made without a quorum, budget and fundraising decisions have been made by retroactively approving fundraising events and expenditures years later, and without a quorum present.

Although Article 5 of the Bylaws defines membership and allows for membership fees, the Foundation has not established a membership organization. The Foundation only has a Board. There are no members or membership fees.

Internal Operations: Financial Records

Section 5 of Article 12 of the Bylaws describes the requirements for financial accountability. “The treasurer shall provide within 120 days of the close of the fiscal year to the directors in writing a report of assets and liabilities.” This minimum requirement has never been met. In addition, no annual budget is prepared and there is no way to track year-to-date income and expense. In fact, no monthly or yearly financial statements are provided to the Board, to the coaches who use the Foundation for their fundraising activities, or to the public. This failure violates California ASB policy which requires that foundations have internal controls related to financial statements, budgets, cash receipts and cash disbursements.

The Grand Jury found numerous examples of incomplete and confusing bookkeeping, as well as inaccurate filing of tax returns by the Foundation. It found no monthly or annual financial statements. All funds appear to be accounted for, but from what sources they were raised, to whom they were disbursed and for what purpose is not always clear. There are no audit trails that allow for tracking how funds were recorded and expended. The Grand Jury found no evidence that the Board ever examined the financial records of the Foundation or that there has ever been an independent review of Foundation financial records.

Revenues and expenses are not categorized by source and use, respectively. Therefore, it is impossible to match revenues and expenses by sport, to confirm that sport-specific generated revenues were expended for that sport, or to link specific expenses to a specific revenue source. There is also no way to determine that funds raised by a specific coach, or sport, through the summer sports program, are returned to that coach to cover expenses or expended on behalf of that sport in a dollar-for-dollar amount. Even an inspection by the Grand Jury of bank statements, cancelled checks, deposit slips, and the Foundation year-end financial spreadsheet failed to answer any of these questions, principally because the Foundation maintains only one account with no subaccounts to segregate sport-specific funds.

The Foundation did not file federal tax returns until 2008, at which time the 2006, 2007 and 2008 returns were filed simultaneously. There is no public record that federal tax returns were ever filed for 2004 or 2005. The 2009 return was not filed until January 2011. All of the Foundation's federal tax returns display a pattern of inaccuracies, omissions and misstatements. Examples of these include:

- All four years of Foundation tax returns, 2006 through 2009, failed to state properly the basis for the Foundation's classification as a public charity.
- None of the returns accurately reflected the Foundation's sources of revenue and expenditures.
- All income was attributed to funds generated from fees and/or assessments paid by 450 non-existent members.
- All expenditures were attributed to the costs of running the summer sports program, but the summer sports program accounts for only one-third of the total expenses.

The Grand Jury was repeatedly told that the Foundation operates on a “money in, money out” basis, which appears to be true. The financial records account for total funds received and total funds spent by the Foundation. The Grand Jury found no evidence of financial impropriety and the inaccuracies in the tax filings have no apparent impact on tax liability for this nonprofit entity.

Activities: Fundraising

According to the Foundation’s federal tax returns for the years 2006 through 2010, the Foundation has steadily increased its revenues. Almost all of that revenue is attributable to fundraising, which is carried out in two different ways, as follows:

- Foundation-organized and conducted fundraisers
- Coach-initiated/student-involved fundraisers

Foundation-organized Fundraising

Prior to the 2010-2011 academic year, the Foundation operated two fundraising projects: a Christmas tree fundraiser and the Fall Athletic Ad Program (a listing of all fall sport schedules, team rosters and pictures together with ads). Today, the Foundation produces only the Fall Athletic Ad Program. Advertisers write checks to PRHS, but the checks are deposited in the Foundation’s bank account. The Grand Jury could find no clear audit trail to explain how funds made payable to PRHS are deposited by the Foundation. In addition, the production of the Fall Athletic Ad Program formerly took place in the PRHS Athletic Department. Now it is produced by a member of the Foundation Board, who receives compensation for soliciting program ads, collecting payments, and coordinating production of the publication. According to Foundation records, program printing costs were paid by the Foundation beginning in 2010.

Coach-initiated/Student-involved Fundraising

When fundraising is coach-initiated/student-involved, the Foundation’s primary role is to collect, hold and disburse the funds. Most of the Foundation’s fundraising is of this type. Typically, coaches and teams develop the concept for and run the fundraising events. The revenues are deposited with the Foundation. After that, it is difficult to determine exactly how decisions are

made to disburse those funds or whether all funds raised on behalf of a particular sport/team are used exclusively for the benefit of that sport.

It is also difficult to discern any pattern to explain which fundraising events are administered through the Foundation rather than ASB. There are no consistent guidelines to help coaches make that determination. These decisions seem to be arbitrary, based primarily on coach preference and some informal/unwritten approval from the Foundation. As a result, fundraisers with common characteristics can be run through either ASB or the Foundation. It appears the District does not enforce its own or ASB policies and procedures, leaving coaches free to choose their own administrative process for fundraising.

Some fundraising events that have been run through the Foundation might more appropriately have been run through ASB because students sold tickets or products. Examples of these types of events include: the July 4th Summer Baseball Tournament, the Girls' Basketball Team Pig "Raffle," the Girls' Soccer Fundraiser, the Track and Field Cookie Dough Sales, the Football Crab Feed and Kicker Cards. In these cases, the line between what is permissible and what is not is unclear and this lack of clarity leaves District and PRHS administrators, as well as the Foundation, open to criticism.

There is one other element of these fundraising activities that is also unclear. From an examination of the existing Foundation financial records, it is impossible to track whether the funds from the pig raffle were used for the girls' basketball program or whether funds generated from kicker cards' sales benefited the football program.

On the other hand, there was a very positive outcome for the PRHS football program with the funds raised from the 2010 Football Crab Feed. Because of serious budget shortfalls, the District decided to use federal stimulus funds for the 2010 -2011 academic year only to pay coaching stipends to District employees, but could not afford to pay non-District employed "walk-on"

coaches.⁴ The Crab Feed netted almost \$13,000 and the decision was made to use that money to pay “walk-on” assistant football coaches.

It is possible for organizations like the Foundation and/or booster clubs to donate funds to the District, as long as the organization does not indicate that the funds are to go to specific coaches as a bonus or in place of negotiated stipends. This restriction is a CIF rule. Therefore, the District advised the Foundation to establish a Trust Fund to which the Foundation could make donations and from which the District could pay the “walk-on” assistant football coaches. The Foundation followed the advice of the District.

Activities: Summer Sports Program

True to its stated purpose, the Foundation supports the PRHS athletic program through a summer sports program (the program).⁵ The Foundation has administered the scheduling and financial components of the program since 2004, when it assumed this responsibility to fill an administrative void.

The individual coaches have complete control over every aspect of the program. The Athletic Department prepares a flyer for coaches to distribute to students explaining the program and the fee structure. Student athletes turn in their applications and fees at the PRHS Athletic Director’s office. Each coach decides whether to charge students a participation fee and deposits any fees collected with the Foundation. From a review of the Foundation’s financial records, it is difficult to determine if all participation fees for a specific sport are used exclusively for the benefit of that sport.

Varsity, junior varsity and freshmen coaches run the program, which is designed to help PRHS student athletes improve their skills and keep the school competitive in league play. As part of

⁴ Individuals who are not employed in any capacity by the District but coach athletic teams, either on a volunteer basis or for a small stipend, are called “walk-on” coaches.

⁵ Described in the Foundation Bylaws and federal tax returns as a “camp.”

the program, coaches run drills and arrange for summer tournament play. In theory, any student can participate in the program, but in reality only PRHS team athletes do. If athletes are ultimately cut from a particular team, it is because they are not sufficiently competitive, not because they could not or chose not to pay the program fee. The Grand Jury found no “pay to play” system, as had been alleged by the complainants.

Another allegation about the program included improper payments to coaches. Based on its review of Foundation documents and interviews with administrators and coaches regarding the program, the Grand Jury determined that the Foundation did not select which coaches to pay. Foundation payments were not supplemental to academic year stipends, nor did it discriminate on the basis of gender when making payments to coaches.

The Grand Jury also determined that the program is not in conflict with CIF regulations. CIF has sanctioned coach contacts with student athletes beyond the actual season. Summer sports are explicitly excluded from any prohibitions on payments to coaches by outside organizations.

The Grand Jury identified one administrative aspect of the summer program that is problematic. When non-school District entities use the PRHS athletic facilities, they are required to sign a contract with PRHS and provide evidence that they carry \$1,000,000 of liability insurance. The Grand Jury reviewed two years’ of contracts between PRHS and various community organizations for the use of athletic facilities and found no evidence of a Foundation contract. There is, however, a District policy that allows for school board approval to exempt non-District groups from providing that proof. The Grand Jury’s interview of PRHS administrators and Foundation Board members confirmed that the Foundation has not received this exempt status, has not signed any athletic facilities use contracts, and does not carry any liability insurance.

Activities: Game Management

In addition to the athletes, coaches and referees/judges/umpires, other staff is necessary for an athletic event to take place. Staff may include ticket takers, scorers and security personnel, and collectively their services at PRHS athletic events are referred to as ‘game management.’ Staff is primarily recruited from a list of coaches and teachers, and is paid a small amount for each game.

In the past, staff was hired by the PRHS Athletic Director and paid through the Athletic Department's District account. Records of dates/times of attendance at an athletic event were required and were processed once per season (fall, winter, spring) through the District, which then issued checks to staff who had worked and submitted timesheets. The District prepared and issued 1099s to those whose earnings exceeded the annual \$600 threshold established by the IRS.

In 2008, and perhaps earlier, the Foundation assumed the organizational and paymaster roles for providing game management at PRHS athletic events. Interviewees gave various reasons for this change, but the one most often cited was the frustration of dealing with the bureaucracy of the District in making payments to people in a timely fashion. As described to the Grand Jury, the same people are still recruited and hired to perform this service by the Athletic Director, but they are now paid through the Foundation once each season, as before, and IRS 1099s are issued as required by law. However, the Foundation does not require them to submit timesheets.

Foundation financial records indicate that at least from 2008 through spring 2010, more than half of the Foundation's expenses were for game management. The exact sources of those funds are difficult to track and identify because all funds raised by the Foundation are commingled in one account. In addition, Foundation tax returns lump all expenses – for the summer sports program, game management and any other costs – into the single category of 'summer camp expenses.' While all expenses are accounted for, it is inaccurate to lump them all together as 'summer camp expenses.' Furthermore, fundraising activities that were created to be sport-specific were clearly not, because a significant percentage of funds raised for specific sports outside of the summer sports program was used for the game management expenses of other sports.

For the fall 2010 season, no game management payments were made through the Foundation. The explanation given to the Grand Jury was that because of other financial obligations, the Foundation no longer had the funds to make those payments.

CONCLUSION

The Foundation's 'game plan' when it was incorporated in 2004 was twofold: (1) to fill an urgent void and administer a voluntary summer sports program for PRHS athletes run by PRHS coaches; and (2) to raise funds for capital improvements to benefit the PRHS athletic program. The Foundation has successfully administered the summer sports program on behalf of PRHS athletes and coaches within the rules since 2004, but has raised no funds for capital improvements to PRHS athletic facilities. At the same time, the Foundation has expanded its activities beyond its original 'game plan' by engaging in such activities as raising funds to support specific sports and making payments for PRHS athletic event game management.

During its investigation, the Grand Jury identified a number of shortcomings that must be addressed if the Foundation wishes to operate in a manner that will continue to bolster the PRHS athletic program and garner public support for that effort. One shortcoming is the Foundation's non-transparent relationships with the District, PRHS, PRHS Athletic Department and ASB. Another shortcoming is its internal operations, specifically its corporate structure and governance, and its financial records. A third shortcoming is that its essentially student-involved fundraising activities are not clearly distinguished from ASB authorized student-fundraising.

While it is true that none of these shortcomings, by themselves or taken together, amount to the illegal and unethical acts alleged by the complainants, it is also true that had the Foundation operated in a more open and transparent manner from the start, the suspicions of wrongdoing would likely not have arisen. The Grand Jury hopes that the recommendations in this report will be a 'guide' for the Foundation in improving its corporate governance and operations, and in building a new relationship, founded on good governance and transparency, with the PRHS community that it seeks to serve.

FINDINGS⁶

1. The Foundation does not operate in accordance with the purposes and the corporate structure and requirements established by its Articles of Incorporation and Bylaws.
2. The Foundation files annual federal and state tax returns that accurately report its total revenues and expenses, but that do not accurately report its sources of revenue, its categories of expenses or the basis for its classification as a public charity.
3. The financial books and records of the Foundation: (1) do not consistently categorize its revenues and expenses by specific sport or activity; (2) are not structured in a manner that confirms revenues raised by specific sports are expended only for specific sports; and, (3) do not provide accurate or timely financial statements on a periodic basis.
4. The Foundation has not signed contracts for the use of PRHS athletic facilities and has not provided PRHS or the District the proof of liability insurance as required by District policy.
5. The Foundation Board has no written policies or procedures that regulate the types of fundraising activities that may be conducted by the Foundation; nor does the Board have a process for reviewing and approving fundraising activities.
6. The District has no written policies or procedures that regulate the types of fundraising activities that may be conducted by the Foundation or that require the review and approval of fundraising activities.
7. The Foundation has conducted some student fundraising activities that might more appropriately be conducted through ASB.

⁶ In accordance with Section 933.05(d) of the Penal Code, the Grand Jury invited representatives of the Foundation, the subject of this report, to come before the Grand Jury for the purpose of reviewing the Findings and the Narrative sections to verify factual accuracy prior to the release of the report.

8. The Foundation operates with a lack of transparency: minimal publicity, no website, no publications bearing its name, and no mention in PRHS or District publications or websites.

RECOMMENDATIONS

1. The Foundation should review and revise its Articles of Incorporation and the Bylaws to reflect the manner in which it actually operates. (Finding 1)
2. The Foundation should hold regular Board meetings, maintain minutes of such meetings and make the minutes accessible to interested parties. (Finding 1)
3. The Foundation should review its tax returns and financial records and determine what, if any, revisions and/or modifications are necessary to: (1) accurately reflect its sources of revenue and types of expenditures, and (2) properly state the basis for its classification as a public charity. (Finding 2)
4. The Foundation should implement a financial recordkeeping system that: (1) categorizes revenues and expenses by sport or other activities; (2) confirms whether or not revenues generated for a specific sport are used solely to fund expenditures in support of that sport; and, (3) generates accurate and timely monthly and year-end financial statements. (Finding 3)
5. The Foundation should provide the District and/or PRHS with evidence it carries the \$1,000,000 liability insurance required to use PRHS athletic facilities or secure a contract with the school board that exempts it from this policy. (Finding 4)

6. The District should develop and implement policies and procedures that specify the types of fundraising activities in which the Foundation may engage. (Findings 5 , 6, and 7)
7. The District should provide for review and oversight of these fundraising activities by the District or its designee. (Findings 5 , 6, and 7)
8. The Foundation should establish a public information program that fully explains its purposes, describes its activities, sources of revenue and expenditures, and presents information about its Board. (Finding 8)

REQUIRED RESPONSES

The Paso Robles Bearcat Athletic Foundation is required to respond to Findings 1-5; 7 and 8, and Recommendations 1-8. The responses shall be submitted to the Presiding Judge of the San Luis Obispo Superior Court by **July 22, 2011**. Please provide a paper copy and an electronic version of all responses to the Grand Jury, as well.

The Paso Robles Public Schools is required to respond to Findings 4, 6 and 7, and Recommendations 5, 6 and 7. The responses shall be submitted to the Presiding Judge of the San Luis Obispo Superior Court by **August 22, 2011**. Please provide a paper copy and an electronic version of all responses to the Grand Jury, as well.

The Paso Robles High School is required to respond to Findings 4, 6 and 7, and Recommendations 5, 6 and 7. The responses shall be submitted to the Presiding Judge of the San Luis Obispo Superior Court by **July 22, 2011**. Please provide a paper copy and an electronic version of all responses to the Grand Jury, as well.

The mailing addresses for delivery are:

Presiding Judge	Grand Jury
Presiding Judge Charles S. Crandall Superior Court of California 1050 Monterey Street San Luis Obispo, CA 93408	San Luis Obispo County Grand Jury P.O. Box 4910 San Luis Obispo, CA 93402

The email address for the Grand Jury is: GrandJury@co.slo.ca.us

ATTACHMENT 1

Paso Robles Bearcat Athletic Foundation, Articles of Incorporation

2617755

ENDORSED - FILED
In the office of the Secretary of State
of the State of California

ARTICLES OF INCORPORATION

JUL 12 2004

OF

KEVIN SHELLEY
Secretary of State

PASO ROBLES BEARCAT ATHLETIC FOUNDATION, INC.

ONE: Corporate Name: The name of this corporation is PASO ROBLES BEARCAT ATHLETIC FOUNDATION, INC.

TWO: Statement of Corporate Nature: This corporation is a nonprofit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for public and charitable purposes.

THREE: Statement of Corporate Purpose: The purpose of the corporation is to improve and support interscholastic athletics, programs, and facilities of Paso Robles High School, County of San Luis Obispo, State of California. These purposes are generally stated, and further enumeration and description of the purposes may be adopted by this corporation. This corporation is organized and operated exclusively for charitable purposes within the meaning of Section 501 (c) (3) of the Internal Revenue Code or the corresponding provision of any future United States Internal Revenue Law.

FOUR: Limitations on Activities: No substantial part of the activities of this corporation shall consist of carrying on a propaganda or otherwise attempting to influence legislation, except as provided in Section 501 (h) of the Internal Revenue Code, and the corporation shall not participate or intervene in any political campaign (including the publishing or distribution of statements) on behalf of any candidate for public office except as provided in Section 501 (h) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States Internal Revenue law.

(Notwithstanding any other provision of these articles, this corporation shall not, except to the insubstantial degree, engage in any activities or exercise any powers that are not in furtherance of the purposes of this corporation, and the corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States Internal Revenue law, or (b) by a corporation contributions to which are deductible under Section 170 (c) (2) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States Internal Revenue law.)

FIVE: Public Charitable Purposes; No Private Benefit: The property of this corporation is irrevocably dedicated to charitable purposes, and no part of the net income or assets of this corporation shall ever inure to the benefit of any director, officer, or

member thereof or to the benefit of any private person. Upon the dissolution or winding up of the corporation, its assets remaining after payment, or provision for payment, of all debts as liabilities of this corporation shall be distributed by the Executive Director to the Paso Robles School District or to a nonprofit fund, foundation, or corporation which is organized and operated exclusively for charitable purposes and which has established its tax exempt status under Section 501 (c) (3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States revenue law.

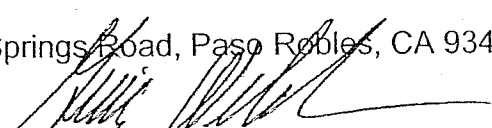
SIX: General Corporate Powers; Bylaws: To carry out the purposes of these articles, this corporation has and exercises all rights and powers conferred on California nonprofit, public benefit corporations. The Board of Directors may adopt bylaws to facilitate operation of this corporation.

SEVEN: The name and address in this state of the corporation's initial agent for service of process are LYLE E. STEVENS, 1105 Vine Street, Paso Robles, CA 93446.

EIGHT: The names and addresses of the persons appointed to act as the initial directors of this Foundation are:

NAME	ADDRESS
GREIG WELCH	2263 Villa Lane, Paso Robles, CA 93446
MARK ROSE	1180 Mountain Springs Road, Paso Robles, CA 93446

Dated: July 7, 2004

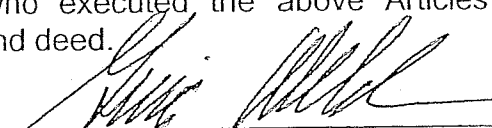


GREIG WELCH

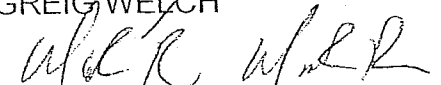


MARK ROSE

We declare that we are the persons who executed the above Articles of Incorporation, and that this instrument is our act and deed.



GREIG WELCH



MARK ROSE



ATTACHMENT 2

Associated Student Body Accounting Manual & Desk Reference, Chapter 20, “Booster Clubs, Foundations, Auxiliary Organizations and Other Parent-Teacher Associations.”

Chapter 20

Chapter 20 – Booster Clubs, Foundations, Auxiliary Organizations and Other Parent-Teacher Associations

Booster clubs, foundations, auxiliary organizations and other parent-teacher organizations are formed to contribute money to a club, sports team or other organization. For simplicity this manual will use the term “booster clubs” to refer to any of these types of organizations.

Booster clubs are popular in American high schools, community colleges and universities, and are usually run in high schools by the parents of students in the organization being supported, and in colleges by supporters and fans of athletic programs. Fund-raisers are often held to raise money for supplies or equipment that the students may need or for trips that the students may need to take. The main principle of funding by a U.S. IRS 501(c)(3) nonprofit is that the booster club may not discriminate in making grants to youth or college students on the basis of their family’s membership in or funding to the club, or the family’s fund-raising or time put into club activities.

Booster clubs are organized with many purposes in mind. One of the largest and most well-known booster clubs is the National Parent Teacher Association (PTA). Other booster clubs are organized to help with special interests or for school activities such as football, or to assist in buying school supplies, or support other sports programs, the arts, and field trips. Booster clubs and other school-related organizations or groups (all of which will be referred to as booster clubs in this chapter) are separate organizations from a school district.

In general, booster clubs provide financial support and/or direct assistance in some form to help achieve the common goals of booster and school programs. Booster clubs have many purposes and are not limited to the following examples:

- Assisting others:
 - Assisting a site administrator, faculty advisor, sports coach, and other district staff in performing parts of activities.
 - Assisting students through scholarships.
 - Purchasing supplies for the school.
 - Assisting with funds for field trip travel.
- Specific activities connected to students, parents and adults:
 - Sports programs
 - Field trips
 - Performing arts
 - Language programs

The relationship between student organizations and booster clubs is often confusing. Student organizations are legally considered a part of the school entity. For this reason, they are included in the school entity’s annual audit and have the benefit of the district’s tax-exempt status under the internal revenue code.

Booster clubs may raise funds and donate those funds to the district or purchase items with their funds for donation or assistance to the district, but they are not legally considered a part of the district and are not included in the annual audit. Some organizations, such as the PTA, are established as nonprofit corporations with a separate tax-exempt status. However, many of booster organizations have not applied for or received nonprofit status and do not have their own tax identification number, so it should not be assumed that they are all official groups in the eyes of the Internal Revenue Service (IRS).

Booster club funds and district funds, including ASB funds, must *never* be commingled. Booster clubs and the school entity should remain separate, including in the following ways:

1. The booster club name, address or any other correspondence should never imply any form of responsibility on the part of the ASB or district.
2. The district's tax-exempt status and identification number are *not* for use by any non-school organizations or groups.
3. Booster clubs are responsible for their own tax status and accounting.

Because student organizations operate under the school entity's tax-exempt status, the funds deposited in bank accounts are not subject to state or federal taxes. For this reason, the funds raised by booster clubs, foundations, auxiliary organizations or parent groups should not be deposited into or commingled with the student organization's or the school entity's funds or bank accounts; rather, they should be deposited into the booster club's own bank account. Booster clubs may donate funds to the student organization(s); however, after they do so, only the student organizations can control how the funds will be used.

These nonstudent groups are also responsible for their own tax status and accounting; they may not use the district's tax-exempt status or open bank accounts using the district's tax identification number. It is best if school staff members do not act as officers of nonstudent or non-district-sponsored clubs to avoid the appearance of district sponsorship.

Organizations formed by teachers and/or other employees of a school entity also are not a part of the ASB or the district and may not use the district's tax identification number or deposit funds into the school's ASB account or district bank accounts.

Auxiliary Organization versus Student Organization at Community Colleges

If a student group at a community college is formed differently than described in the education code sections and is instead an auxiliary organization, different rules and guidelines apply, beginning with Education Code section 72673. These auxiliary organizations could be compared to parent or booster groups at K-12 schools, except that community college auxiliary groups are usually made up of adult students, whereas booster and groups at K-12 schools are made up of adults who are usually the students' parents or relatives.

Although they are different from student organizations, community college auxiliary organizations must follow the rules and regulations established by the community college's governing board, as there is an official relationship with the college. Governing board approval is needed to use the college's name in the auxiliary organization's title.

Community college district governing boards may establish an auxiliary organization to provide support services and special programs for the general benefit of its college or colleges. This can be compared to a foundation being formed at a K-12 district to support district programs. An auxiliary organization is separate from the college, unlike a student organization, yet a connection exists because the directors, governors and/or trustees of the organization are appointed or nominated by the college governing board, a district official or a student body or faculty member.

An auxiliary organization can include the following types of groups:

- Any entity that operates a commercial service for the benefit of a community college or district on a campus or other property of the district.
- Any entity whose purpose is to promote or assist a community college or district, or to receive gifts, property and funds to be used for the benefit of the community college or district or any person or organization having an official relationship therewith.
- Any entity that is designated as an auxiliary organization by the district's governing board.

Regulations Governing Booster Clubs

Because booster clubs are separate from the district, they are not under the control of, nor are they the responsibility of, the site administrator, superintendent or governing board. Their funds are not controlled by the district or students, nor should they be involved in the administering or supervising the activities of student organizations.

However, governing boards are able to approve guidelines for these groups to follow, and these organizations' fund-raising activities are supposed to be approved by the governing board. California Education Code section 51521 requires that all organizations that conduct fund-raising to benefit clubs, schools, students or the district at the K-12 level have prior approval from the school district's governing board or the board-assigned designee. The code states the following:

No person shall solicit any other person to contribute to any fund or to purchase any item of personal property, upon the representation that the money received is to be used wholly or in part for the benefit of any public school or the student body of any public school, unless such person obtains the prior written approval of either the governing board of the school district in which such solicitation is to be made or the governing board of the school district having jurisdiction over the school or student body represented to be benefited by such solicitation, or the designee of either of such boards.

To meet this statutory requirement, a school district or community college should adopt board policy and regulations requiring all booster clubs to do the following:

1. Complete and file an application to form a booster club.
2. Submit for approval annually a copy of the application and an updated plan of activities.
3. Submit a copy of the organization's adopted constitution and bylaws with the application.
4. Ensure that renewal applications include the following:
 - a. An annual financial statement for the year just ended; the statement is to include all expenditures and all income for all events and fund-raisers.
 - b. A budget for the upcoming year.
 - c. A budget plan for the related activities.

Other recommended rules and regulations are as follows:

- The district has the express right to review and/or audit booster clubs' financial statements to ensure the clubs' financial integrity.
- Authorization of a booster club is valid for up to one year; however, if the superintendent/chancellor considers it necessary, he or she may revoke a booster club's authorization to conduct activities in the district.
- Requests for subsequent authorizations should be presented to the superintendent/chancellor or designee annually.
- Booster clubs are not legal components of the school entity. Each booster club should have its own tax identification number (TIN); booster clubs are not allowed to use the school entity's tax identification number in any way.
- Booster clubs are responsible for their own tax status, accounting and financial records, and must make their own arrangements for an audit if one is needed. The booster club is not audited as part of the district's annual financial audit.

- District or school site officials may require booster clubs to be officially recognized as tax-exempt organizations under internal revenue code section 501(c)(3) and may require them to provide a copy of their determination letter or certificate of nonprofit status (exempt status is discussed further below).
- Booster club funds should never be commingled with ASB funds or any other district funds.
- The booster club must carry its own liability insurance in an amount equal to or exceeding a minimum determined by the school entity.
- California Education Code section 51520 (discussed below) applies in the case of booster clubs at K-12 districts that wish to have student help with activities.
- Booster clubs' ability to use school facilities at K-12 districts is regulated by California Education Code 38130-38139, known as the Civic Center Act.
- Booster clubs must prepare and adopt a constitution and bylaws.
- Booster club officers should be elected according to the structure and process defined in the bylaws.
- It is suggested that K-12 school district personnel not hold any official position in a booster club organization. For community colleges, Education Code section 72673 states that the directors, governors and/or trustees of the organization are appointed or nominated by the college governing board, a district official or a student body or faculty member.
- Fund-raising at any school site is directly under the control of school authorities, such as the site administrator, and must be approved by at least the site administrator prior to any activity. Approval may be granted based on completion of some type of application or form, sometimes referred to as a "Request for Approval of Fund-Raising Activity by a Non-District Organization" form.
- Districtwide projects or fund-raising, such as collection drives, must be submitted in writing and authorized in advance by the district's governing board at a regular board meeting.
- Any rules and regulations developed for the organization must conform to the law, the board of education's policies and regulations, and the school site's rules and procedures.
- All booster club members must be made aware that no individual should personally benefit from the activities the organization conducts. This concept should be made a part of the bylaws.
- Any profits from fund-raising activities that are not spent for a booster club's nonprofit exempt purpose cannot be returned directly to members or their families.
- In case the booster club dissolves or terminates, the booster club's constitution should provide for the distribution of any excess funds to another nonprofit organization, the ASB or the district.

All other booster club activities are outside the control of the district and its governing board.

Should a booster club decide to operate a bingo or raffle activity, California Penal Code Sections 326.5 and 320.5 regulate these events. These regulations are enforced by the licensing agency of each county.

Booster Clubs as Nonprofit Organizations With Their Own Tax Identification Number

Booster clubs are not legal components of the school district and each club must have its own tax identification number (TIN). There are several ways to approach being tax exempt, having a TIN, or choosing whether or not to accept donations. The recommended approach is for all booster clubs to apply for nonprofit tax-exempt status through the Internal Revenue Service (IRS) and state of California. Preparing constitutions, by-laws, articles of incorporation, budgets and projections are already part of the process of obtaining school entity approval. Taking the next step and completing the federal and state forms is not much more difficult.

IRS Form SS-4, Application for Employer Identification Number, may be submitted over the telephone after it is filled out. Regardless of whether it intends to file for nonprofit status, a booster club that will receive \$5,000 or more in annual revenues or gross receipts is required to file IRS Form 1023, "Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code,"

Likewise, if the booster club wishes to specify contributions as tax-deductible, the most direct path to doing so is through Form 1023, which upon approval will result in the IRS issuing a determination letter that recognizes the booster club's 501(c)(3) nonprofit, tax-exempt status. Booster clubs cannot legally furnish donors with receipts for a charitable tax deductible donation unless they have obtained this type of official determination letter from the IRS.

California nonprofit, tax-exempt status is similar and requires the completion of Form 3500, Exemption Application.

Forms are available on the IRS and California Franchise Tax Board Web sites at www.irs.gov and <http://ftb.ca.gov>.

Financial Guidelines

Booster clubs are responsible for ensuring that proper internal controls exist for all of their financial activities. In accordance with its bylaws, each booster club should elect a treasurer who is assigned responsibility for recording, documenting and organizing all financial activities.

As do ASBs that exercise the best practices contained in this guide, booster clubs should adhere to sound business practices and maintain an adequate system of controls. These include, but are not limited to, the following:

Financial statements and treasury (See Chapter 7)

- The treasurer or designated officer should prepare monthly financial statements that are presented to the organization along with a copy of the most current bank statement and reconciliation. Financial statements may include cash receipts, cash disbursements, checking account beginning and ending balances, balance sheets, income statements and other relevant items.
- A budget should be developed at the beginning of the year to project expected revenues and expenses, and should be revised as needed.
- An auditor who is independent of the treasurer should be appointed and should report directly to the booster club board. The auditor should review all of the financial records, journals, check registers, receipts, invoices, bank statements, and other financial information at least annually.

Cash receipts and bank reconciliation (See Chapters 7 & 13)

- Prenumbered receipt books and supporting backup documentation.
- Preparation of duplicate deposit, cash count and fund-raising forms.

- Bank deposits should be made intact and in a timely manner.
- Someone other than the individual(s) responsible for depositing funds and writing checks should perform bank reconciliations monthly.

Cash disbursements (See Chapter 18)

- Checks should require a minimum of two signatures.
- Preparation of duplicate forms such as purchase orders.
- All expenditures should be approved by the booster board and the approval noted in the board meeting minutes.

Fund-raising activities should be conducted for a specific goal and not simply to raise money for the organization. All fund-raising activities conducted on school premises must adhere to the guidelines established by the board of education, each school site's individual guidelines, and those noted in Chapter 8.

Only organizations that have scheduled fund-raising activities and have obtained prior written approval from the ASB council and school site administrator will be authorized to conduct such activities on district or school premises.

Solicitations on School Premises

California Education Code 51520, Prohibited Solicitations on School Premises, states the following for K-12 school entities:

During school hours, and within one hour before the time of opening and within one hour after the time of closing of school, pupils of the public school shall not be solicited on school premises by teachers or others to subscribe or contribute to the funds of, to become members of, or to work for, any organization not directly under the control of the school authorities, unless the organization is a nonpartisan, charitable organization organized for charitable purposes by an Act of Congress or under the laws of the state, the purpose of the solicitation is nonpartisan and charitable, and the solicitation has been approved by the county board of education or by the Governing Board of the school district in which the school is located. Nothing in this section shall be construed as prohibiting the solicitation of pupils of the public school on school premises by pupils of that school for any otherwise lawful purpose.

California Education Code section 51521, also for K-12 school entities, discusses solicitations on behalf of a school.

Ultimately, the K-12 school district's superintendent and governing board have complete authority over whether any such activity occurs on school district property. Thus, obtaining written permission for any such activities is of primary importance. The following are general criteria for obtaining permission.

- The purposes of the fund-raising activity, which must be nonpartisan, nonpolitical, nonsectarian, and nondenominational.
- The manner in which the fund-raising activity will be conducted (for example, demands made on staff time and district materials must be minimal, and the activity must not encroach on instructional time).
- Identification of the sponsors, officers and individuals participating in the fund-raising activity.
- Disclosure of the identity and location of any parent organization with which the soliciting organization is affiliated or of which it is a subsidiary.

School District Employees and School Site Interaction

School employees are not employees of the booster club, and the booster club should be aware of the following:

- While serving as district employees, they have no authority to work for the booster club during their district work schedule. A district employee acting in his or her official capacity and during work hours may interact with booster club officials when this is a required part of his or her duties as a district employee.
- If a district employee would like to be employed by the booster club, the employee must obtain prior approval from the district's personnel department.
- Some districts that have permitted a district employee to also be employed by a booster club may require that the employee be paid through the district, with the district being reimbursed in turn by the booster club. The district may also require that any employee chosen to work for a booster club be hired and cleared for work through the district's personnel office.
- A district employee who acts in their personal capacity and on their own personal time is free to establish a booster club or to participate in it. The employee must ensure that participation in the booster club does not present a conflict of interest with their duties as a school employee. The employee should also make it clear that their participation is in their personal capacity and not in their capacity as a district employee.

Donations for Supplies, Equipment and Transportation

Booster clubs by nature are designed to assist the school and/or ASB, and such assistance may come in the form of donations of supplies, equipment and transportation.

Supplies

When a booster club wishes to give the ASB or one of its clubs money for supplies, the district should purchase the supplies and the booster club should reimburse the district. The purchase should be carried out through the district's purchasing system by a district-designated individual who is authorized to spend the funds, with the site administrator's approval. The purchase should be charged to a school account code, and the purchase requisition should contain the following information in bold:

- **PAID BY:**
- **Booster club name**
- **Person responsible for booster club**
- **Billing address**

The purchase should be charged to the school account code on the requisition at the time of payment, and the district office should bill the booster club for the cost of the supplies purchased.

Donations for Equipment Purchases

When a booster club wishes to donate equipment to a school, the preferred method for the transaction is the same as noted above for donation of supplies. Also as above, with the approval of the site administrator, the district-designated individual authorized to spend the funds purchases the equipment through the district's purchasing system. The purchase should be charged to a school account code, and the purchase requisition should contain the following information in bold:

- **PAID BY:**
- **Booster club name**
- **Person responsible for booster club**
- **Billing address**

The purchase should be charged to the school account code on the requisition at the time of payment, and the district office should bill the booster club for the cost of the equipment purchased.

If the booster club wishes to purchase equipment outright and donate it to a school, the process is different. The booster club should notify the site administrator and the purchasing department before the equipment is ordered. Then, at a regular board meeting, the district's governing board must accept the equipment as a donation to the district.

Donations for Transportation/Field Trips

A booster club may donate funds to the ASB or the district for transporting students to events. A field trip request form must be completed in conjunction with the ASB and school site, then sent to the district's transportation department. The request form should contain the following information in bold:

- PAID BY:
- Booster club name
- Person responsible for booster club
- Billing address

The transportation cost should be charged to the school account code on the requisition at the time of payment, and the district office should bill the booster club for the cost of the transportation.

Paying Stipends, Salaries and Consultants

Paying Stipends and Salaries:

A booster club may *not* pay *any* employee of the school district an additional stipend or salary without prior approval from the district's business and/or personnel office. If the booster club wishes to supplement the school with additional personnel please refer to the section titled "School District Employees and School Site Interaction" earlier in this chapter.

Consultants

Consultants are sometimes hired in the ordinary course of business to assist with various projects as needed. Consultants are not employees; they should have their own insurance and should meet all of the qualifications to be considered a consultant. Booster clubs should be aware of the regulations that must be followed when communicating with the ASB on this topic. Chapter 17 discusses this topic at length.

Forms

Sample Booster Club Application

(School District Name)

BOOSTER CLUB APPLICATION

Booster Club/Organization Name: _____

Name of the School: _____

The parents of XYZ School District, hereby requests approval for the formation
of the: _____ Booster Club.
Name of Organization

Objectives / Purposes of the Booster Club are: _____

We, the members of this Booster Club have read the rules for forming and conducting this organization
and agree to abide by them. We will submit a contact list, along with two copies of the proposed
constitution and by-laws to the site administrator/designee, who will review the application for approval.

Signature of Organization Representative Date

Address / Phone No. _____

Approved: _____
Site Administrator's Signature Date

School Name: _____

Sample School District Notice

(District Letterhead) MEMO

To: All Booster Clubs Supporting Sample School District Schools

From: Sam Smith, Superintendent of Schools
John Money, Fiscal Services

Subject: Booster Club Requirements

Thank you for applying to operate a Booster Club supporting Sample School District schools and for making a difference in the lives and education of our students.

We are providing you this memo in order to assist you in the process of applying as a booster club of the Sample School District. All booster clubs are considered separate organizations from the Sample School District. Before operating on any school site, the district requires the following items from each booster club:

Required Document	Comment
Booster club/support organization name	Define which school and sport or activity the group is supporting.
Booster club officers and contact information listing	List officers' titles, phone numbers, and e-mail addresses.
Employer/Tax Identification Number (TIN) of the booster club Note: The district's TIN is not available for use; the booster club must have it's own TIN.	This is required to open a bank account and many other functions. If you used an individual's social security number, please indicate so. See Form SS-4 at www.irs.gov .
Proof of tax-exempt status under Internal Revenue Code Section 501(c)(3) (if applicable) To apply for exempt status, you may review Form 1023 and the instructions for filing at www.irs.gov	You will need this if your booster will normally have gross receipts of \$5,000 or more in a year OR if you wish to receive a determination letter that recognizes 501(c)(3) status and specifies that contributions to the organization are tax-deductible.
Meeting dates – calendar	For board meetings, committee meetings, etc.
A copy of the booster club current charter and bylaws	Provide most recent information.

Note: These required documents are subject to change at any time without notice.

To provide assistance, you may refer to the guidelines for booster clubs as outlined in the Associated Student Body Accounting Manual & Desk Reference published by FCMAT and available at www.fcmat.org. The FCMAT desk reference includes guidelines regarding the organization of booster clubs, financial guidelines, solicitation regulations, site interaction, and many other procedures and functions.

If you have any questions regarding this memorandum, please contact your school site administrator.

Sincerely,

Sam Smith
Superintendent of Schools