

POLICE ATHLETIC LEAGUE, Inc.



Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2017 and 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

POLICE ATHLETIC LEAGUE, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Police Athletic League, Inc.

We have audited the accompanying financial statements of Police Athletic League, Inc. ("PAL") which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Police Athletic League, Inc., as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

New York, NY
June 13, 2018

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents (Notes 2D and 11A)	\$ 2,014,911	\$ 3,237,049
Investments (Notes 2E, 3 and 12)	7,065,155	5,815,573
Due from government agencies (Notes 2I and 5)	4,242,341	3,192,288
Accounts receivable	41,227	119,953
Contributions receivable, net (Notes 2C, 2H and 6)	444,997	598,180
Prepaid expenses and other assets	350,616	332,961
Beneficial interest in split-interest agreements (Note 2F)	71,951	84,731
Property and equipment, net (Notes 2G and 4)	12,649,195	7,944,752
TOTAL ASSETS	\$ 26,880,393	\$ 21,325,487
LIABILITIES		
Accounts payable and accrued expenses (Note 2M)	1,238,813	1,505,618
Accrued salaries and benefits (Note 7)	1,187,804	1,304,092
Advances from government agencies (Notes 2I and 8)	4,397,242	4,802,433
Deferred revenue (Note 14)	6,412,418	1,073,748
Gift annuity payable (Note 2F)	83,334	92,385
TOTAL LIABILITIES	13,319,611	8,778,276
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS (Note 2B)		
Unrestricted:		
Invested in property and equipment (Notes 4 and 14)	6,236,777	6,871,004
Available for operations	5,452,757	4,490,812
Total Unrestricted	11,689,534	11,361,816
Temporarily restricted (Notes 9 and 13)	1,536,248	875,395
Permanently restricted (Note 13)	335,000	310,000
TOTAL NET ASSETS	13,560,782	12,547,211
TOTAL LIABILITIES AND NET ASSETS	\$ 26,880,393	\$ 21,325,487

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	For the Year Ended December 31, 2017				For the Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Support (Note 2C)								
Special events, net of expenses of \$400,751 in 2017 and \$380,625 in 2016	\$ 2,910,526	\$ -	\$ -	\$ 2,910,526	\$ 2,781,245	\$ -	\$ -	\$ 2,781,245
Contributions from foundations and corporations (Note 2C)	579,129	1,359,071	-	1,938,200	438,980	960,987	-	1,399,967
Contributions from individuals (Note 2C)	725,855	-	25,000	750,855	628,039	-	25,000	653,039
Bequests and legacies	38,054	-	-	38,054	36,001	-	-	36,001
Contributed services, rent and other in-kind (Note 2J)	636,035	-	-	636,035	612,752	-	-	612,752
Change in value of split-interest agreements (Note 2F)	-	(6,598)	-	(6,598)	-	(7,496)	-	(7,496)
Net assets released from restrictions (Note 9)	697,968	(697,968)	-	-	924,624	(924,624)	-	-
Total Support	<u>5,587,567</u>	<u>654,505</u>	<u>25,000</u>	<u>6,267,072</u>	<u>5,421,641</u>	<u>28,867</u>	<u>25,000</u>	<u>5,475,508</u>
Revenue								
Government grants (Note 2I)	22,170,305	-	-	22,170,305	22,607,929	-	-	22,607,929
Rental income and fees (Note 2L)	526,674	-	-	526,674	523,088	-	-	523,088
Investment activity (Note 3)	306,599	6,348	-	312,947	218,336	3,945	-	222,281
Total Revenue	<u>23,003,578</u>	<u>6,348</u>	<u>-</u>	<u>23,009,926</u>	<u>23,349,353</u>	<u>3,945</u>	<u>-</u>	<u>23,353,298</u>
TOTAL SUPPORT AND REVENUE	<u>28,591,145</u>	<u>660,853</u>	<u>25,000</u>	<u>29,276,998</u>	<u>28,770,994</u>	<u>32,812</u>	<u>25,000</u>	<u>28,828,806</u>
EXPENSES								
Program services	25,396,289	-	-	25,396,289	25,492,196	-	-	25,492,196
Management and general	1,327,926	-	-	1,327,926	1,507,799	-	-	1,507,799
Fundraising	1,539,212	-	-	1,539,212	1,507,269	-	-	1,507,269
TOTAL EXPENSES	<u>28,263,427</u>	<u>-</u>	<u>-</u>	<u>28,263,427</u>	<u>28,507,264</u>	<u>-</u>	<u>-</u>	<u>28,507,264</u>
CHANGE IN NET ASSETS	<u>327,718</u>	<u>660,853</u>	<u>25,000</u>	<u>1,013,571</u>	<u>263,730</u>	<u>32,812</u>	<u>25,000</u>	<u>321,542</u>
Net assets - beginning of year	11,361,816	875,395	310,000	12,547,211	11,098,086	842,583	285,000	12,225,669
NET ASSETS - END OF YEAR	<u>\$ 11,689,534</u>	<u>\$ 1,536,248</u>	<u>\$ 335,000</u>	<u>\$ 13,560,782</u>	<u>\$ 11,361,816</u>	<u>\$ 875,395</u>	<u>\$ 310,000</u>	<u>\$ 12,547,211</u>

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

POLICE ATHLETIC LEAGUE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for December 31, 2016)

	For the Year Ended December 31, 2017									
	Program Services				Total Program Services	Supporting Services			Total 2017	Total 2016
	Child Care	Center Operations	Sports/ Recreation	Teen Programs		Management and General	Fundraising			
Salaries and wages	\$ 4,265,242	\$ 7,743,794	\$ 479,646	\$ 1,787,256	\$ 14,275,938	\$ 847,772	\$ 748,643	\$ 15,872,353	\$ 16,500,959	
Payroll taxes and employee benefits (Note 7)	<u>1,285,178</u>	<u>1,777,152</u>	<u>143,592</u>	<u>474,330</u>	<u>3,680,252</u>	<u>245,438</u>	<u>262,025</u>	<u>4,187,715</u>	<u>3,989,028</u>	
Total Salaries and Related Costs	5,550,420	9,520,946	623,238	2,261,586	17,956,190	1,093,210	1,010,668	20,060,068	20,489,987	
Professional and other services	310,386	142,560	448,725	595,235	1,496,906	65,636	63,008	1,625,550	1,697,634	
Supplies	313,980	343,206	63,457	114,215	834,858	40,724	33,288	908,870	710,073	
Food	396,570	574,298	15,522	34,717	1,021,107	7,192	829	1,029,128	1,038,346	
Occupancy costs (Note 10A)	343,754	409,848	63,249	107,400	924,251	-	-	924,251	986,378	
Travel and conferences	3,006	408,728	5,082	91,378	508,194	8,380	7,025	523,599	570,731	
Repairs and maintenance	162,599	192,586	5,215	10,125	370,525	8,009	-	378,534	425,627	
Staff development	31,172	22,964	500	-	54,636	1,863	-	56,499	61,041	
Telephone	255,467	88,425	5,210	36,709	385,811	17,549	2,420	405,780	196,683	
Postage and printing	29,221	86,149	6,553	13,847	135,770	8,532	204,020	348,322	279,448	
Insurance	141,032	203,189	20,421	50,834	415,476	18,649	24,218	458,343	456,406	
Equipment rentals and purchases	48,749	199,583	33,878	51,188	333,398	40,806	22,716	396,920	323,790	
Appeals	-	-	-	-	-	-	153,185	153,185	183,324	
Bad debt	-	284	-	-	284	-	-	284	75,071	
Depreciation and amortization	-	342,709	-	-	342,709	-	-	342,709	341,711	
Contributed services, rent and other in-kind (Note 2J)	610,368	-	-	-	610,368	16,543	9,123	636,034	612,752	
Miscellaneous	<u>2,963</u>	<u>2,624</u>	<u>-</u>	<u>219</u>	<u>5,806</u>	<u>833</u>	<u>8,712</u>	<u>15,351</u>	<u>58,262</u>	
TOTAL EXPENSES	<u>\$ 8,199,687</u>	<u>\$ 12,538,099</u>	<u>\$ 1,291,050</u>	<u>\$ 3,367,453</u>	<u>\$ 25,396,289</u>	<u>\$ 1,327,926</u>	<u>\$ 1,539,212</u>	<u>\$ 28,263,427</u>	<u>\$ 28,507,264</u>	

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

**POLICE ATHLETIC LEAGUE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	For the Year Ended December 31, 2016							
	Program Services					Supporting Services		
	Child Care	Center Operations	Sports/ Recreation	Teen Programs	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 4,109,831	\$ 7,848,833	\$ 735,385	\$ 2,155,636	\$ 14,849,685	\$ 1,021,226	\$ 630,048	\$ 16,500,959
Payroll taxes and employee benefits (Note 7)	<u>1,132,591</u>	<u>1,667,457</u>	<u>169,266</u>	<u>518,360</u>	<u>3,487,674</u>	<u>280,837</u>	<u>220,517</u>	<u>3,989,028</u>
Total Salaries and Related Costs	5,242,422	9,516,290	904,651	2,673,996	18,337,359	1,302,063	850,565	20,489,987
Professional and other services	258,060	163,911	129,530	909,467	1,460,968	66,721	169,945	1,697,634
Supplies	152,913	253,917	98,509	141,020	646,359	41,149	22,565	710,073
Food	403,988	575,414	9,102	43,098	1,031,602	6,694	50	1,038,346
Occupancy costs (Note 10A)	341,936	494,603	83,657	66,182	986,378	-	-	986,378
Travel and conferences	24,803	403,001	14,914	103,269	545,987	18,222	6,522	570,731
Repairs and maintenance	117,803	261,203	24,993	12,289	416,288	6,226	3,113	425,627
Staff development	21,249	34,517	4,800	340	60,906	135	-	61,041
Telephone	42,331	92,639	12,525	33,095	180,590	11,201	4,892	196,683
Postage and printing	26,328	72,930	1,365	13,587	114,210	9,732	155,506	279,448
Insurance	130,868	216,796	24,058	64,549	436,271	15,606	4,529	456,406
Equipment rentals and purchases	21,625	166,173	28,796	48,099	264,693	28,471	30,626	323,790
Appeals	-	-	-	-	-	-	183,324	183,324
Bad debt	-	750	-	-	750	-	74,321	75,071
Depreciation and amortization	-	341,711	-	-	341,711	-	-	341,711
Contributed services, rent and other in-kind (Note 2J)	611,477	-	-	-	611,477	-	1,275	612,752
Miscellaneous	<u>46,304</u>	<u>10,232</u>	<u>45</u>	<u>66</u>	<u>56,647</u>	<u>1,579</u>	<u>36</u>	<u>58,262</u>
TOTAL EXPENSES	<u>\$ 7,442,107</u>	<u>\$ 12,604,087</u>	<u>\$ 1,336,945</u>	<u>\$ 4,109,057</u>	<u>\$ 25,492,196</u>	<u>\$ 1,507,799</u>	<u>\$ 1,507,269</u>	<u>\$ 28,507,264</u>

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

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,013,571	\$ 321,542
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	342,709	341,711
Realized and unrealized gain on investments	(193,632)	(108,747)
Change in value of split-interest agreements	6,598	7,496
Bad debt	284	75,071
Subtotal	1,169,530	637,073
Changes in operating assets and liabilities:		
Accounts receivable	78,726	(107,857)
Contributions receivable	152,899	(227,257)
Due from government agencies	(1,050,053)	660,426
Prepaid expenses and other assets	(17,655)	(124,018)
Accounts payable and accrued expenses	(266,805)	218,533
Accrued salaries and benefits	(116,288)	420,781
Gift annuity payable	(15,649)	(13,720)
Advances from government agencies	(405,191)	2,262,844
Deferred revenue	5,338,670	1,073,748
Net Cash Provided by Operating Activities	4,868,184	4,800,553
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,059,973)	(1,074,040)
Proceeds from sale of investments	16,803	597,595
Property and equipment acquisitions	(5,047,152)	(1,948,061)
Net Cash Used in Investing Activities	(6,090,322)	(2,424,506)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,222,138)	2,376,047
Cash and cash equivalents - beginning of year	3,237,049	861,002
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,014,911	\$ 3,237,049

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

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Founded in 1914, Police Athletic League, Inc. (“PAL”) is incorporated as a private not-for-profit organization in the State of New York and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Each year PAL serves over 20,000 young people throughout the five boroughs of New York City by providing them with safe and supportive environments in which they can learn, play, compete, perform and develop into happy, productive people. Through six Early Learn centers, PAL’s Child Care programs help children ages 2-5 develop social skills and build strong foundations for future achievement in school. Educational enrichment, leadership development, arts, and recreational opportunities for elementary and middle school children are offered through the Center Operations unit at 23 After-School programs and 21 Summer Day Camps. Teen Programming includes job skills training, college preparation, recreation, and crime prevention programs at 16 Teen Centers. PAL also connects over 1,800 teenagers with youth employment jobs and gives a second chance to disconnected youth, such as those who have been in trouble with the law. Youth development through sports remains a key component of the Sports and Recreation portfolio, with almost 6,000 youth taking part in more than 5 sports and 15 Play Streets throughout the city.

PAL receives its principal revenue from federal, New York State and local governmental sources.

These opportunities for learning and developing are supported by the New York City Police Department (“NYPD”), whose active participation and exposure to young people as mentors and playmates creates a unique learning experience and positive bonds between the police and the community they serve. PAL does not receive direct funding from the NYPD.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. *Basis of Accounting and Use of Estimates*** – The accompanying financial statements of PAL are prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- B. *Basis of Presentation*** – PAL maintains its net assets under the following three classes:
- Unrestricted – represents resources available for support of PAL’s operations over which the Board of Directors has discretionary control.
 - Temporarily Restricted – represents assets that are subject to donor-imposed stipulations. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In addition, earnings from endowment assets are classified as temporarily restricted until appropriated for operation by the Board of Directors.
 - Permanently restricted – represents assets that must remain intact in perpetuity.
- C. *Contributions and Pledges*** – Contributions and pledges are recognized when the donor makes an unconditional promise to give. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.
- D. *Cash Equivalents*** – PAL considers liquid debt instruments with a maturity of three months or less when acquired to be cash equivalents, with the exception of cash and those short-term investments managed by PAL’s investment managers for long-term investment purposes.

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- E. *Investments*** – Securities transactions are recorded on a trade-date basis. Realized gains and losses on sales of investments are determined on a specific identification basis and are included in investment activity in the statements of activities. Interest income is recognized when earned and dividends are recorded on the ex-dividend date. Net investment income is recorded as either unrestricted or temporarily restricted, in accordance with donor intent.

Fair value measurements are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 12.

- F. *Split-Interest Agreements*** – PAL's split-interest agreements with donors consist primarily of charitable gift annuities. Contribution revenue for a charitable gift annuity is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the donor and/or other beneficiaries based upon their life expectancies using Internal Revenue Service mortality tables. The discount rates vary according to the arrangements. A reclassification from or to temporarily restricted net assets is made each year to adjust the restricted reserve of gift annuities to the extent required by New York State insurance law. Actuarial gains and losses and amortization of the present value discount on annuity obligations are reflected as changes in values of split-interest agreements in the accompanying statement of activities.
- G. *Property and Equipment*** – Purchases of property and equipment are recorded at cost. PAL capitalizes property and equipment having a cost of \$5,000 or more and a useful life of greater than one year. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the useful life of the asset or the remaining term of the lease.
- H. *Allowance for Uncollectible Receivables*** – PAL determines whether an allowance for uncollectibles should be provided for receivables. Such estimate is based on management's assessment of the likelihood of collection, including consideration of how long the receivables have been outstanding, creditworthiness of the donors, current economic conditions and historical information. As of December 31, 2017 and 2016, PAL recorded an allowance for contributions receivable of \$105,000 and \$143,500, respectively.
- I. *Revenue from Government Sources*** – Revenue from government agency contracts is recorded as earned pursuant to the terms of the contracts. When authorized expenses or services are not reimbursed in the same time period in which they are incurred, the revenue is reflected as a receivable. Amounts received by PAL under government grants for which PAL has not yet met the conditions are reported as advances from government agencies on the statement of financial position.
- J. *Contributed Services, Rent and Other In-Kind*** – PAL receives noncash contributions consisting primarily of contributed facilities and services (legal and other program services). The contributed facilities and services have been valued at the standard market rates that would have been incurred by PAL and are reported as both revenue and expense in the accompanying financial statements because they meet the criteria prescribed by accounting principles generally accepted in the United States of America. Contributed services, rent and other in-kind contributions amounted to \$636,034 and \$612,752 for the years ended December 31, 2017 and 2016, respectively.
- K. *Functional Allocation of Expenses*** – The costs of providing the various programs and other activities of PAL have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- L. *Rental Income and Fees*** – Rental income and fees consist of rents paid by various organizations for space they lease from PAL. Additionally, it includes daycare fees paid by parents to PAL for daycare programs. All fees are recorded when earned.
- M. *Rent Straight-Lining*** – PAL leases real property under operating leases expiring at various dates in the future. Since the rent payments increase over time, PAL records an adjustment to rent expense each year to reflect its straight-line policy. The annual deferred rent liability as of December 31, 2017 and 2016, amounted to approximately \$115,000 and \$126,000, respectively. Straight-lining of rent gives rise to a timing difference that is reflected as accounts payable and accrued expenses in the accompanying statements of financial position.
- N. *Reclassifications*** – Certain line items in the December 31, 2016 financial statements have been reclassified to conform with December 31, 2017 presentation.

NOTE 3 – INVESTMENTS

Investments consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash equivalents	\$ 2,338,095	\$ 1,375,786
Common stock	1,267,935	1,126,787
Mutual funds	1,666,514	1,555,075
Corporate and international bonds	1,142,740	1,281,114
Government securities	<u>649,871</u>	<u>476,811</u>
	<u>\$ 7,065,155</u>	<u>\$ 5,815,573</u>

Investment activity consisted of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 141,231	\$ 134,040
Realized and unrealized gain	193,632	108,747
Investment fees	<u>(21,916)</u>	<u>(20,506)</u>
	<u>\$ 312,947</u>	<u>\$ 222,281</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Life</u>
Land	\$ 1	\$ 1	
Fine arts	25,000	25,000	
Furniture, fixtures and equipment	778,542	765,861	5-10 years
Leasehold improvements	11,823,647	11,817,445	25-40 years
Vehicles	145,213	145,213	5 years
Construction in progress	<u>6,840,440</u>	<u>1,812,171</u>	
Total cost	19,612,843	14,565,691	
Less: accumulated depreciation and amortization	<u>6,963,648</u>	<u>6,620,939</u>	
Net Book Value	<u>\$ 12,649,195</u>	<u>\$ 7,944,752</u>	

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 – PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense amounted to \$342,709 and \$341,711 for the years ended December 31, 2017 and 2016, respectively.

The construction in progress relates to renovation projects at four of PAL's sites. The starting dates of the projects vary from October 2016 to December 2016. The remaining cost to complete the projects is approximately \$1,385,000 and the projects are expected to be completed at dates ranging from mid to late 2018.

Approximate amortization expenses of leasehold improvements of more than one year are indicated below:

2018	\$ 771,000
2018	771,000
2020	739,000
2021	738,000
2022	<u>736,000</u>
	<u>\$ 3,755,000</u>

NOTE 5 – DUE FROM GOVERNMENT AGENCIES

Due from government agencies under grants and contracts consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
City of New York Mayor's Office of Criminal Justice	\$ 476,071	\$ 822,503
New York City Department of Youth and Community Development	1,572,277	1,615,272
New York City Administration for Children's Services	1,744,815	165,001
New York State Department of Education	65,371	57,658
New York County District Attorney's Office	26,268	115,359
Queens District Attorney's Office	-	57,750
New York City Housing Authority	50,649	95,988
New York State Office of Children and Family Services	96,270	98,737
New York State Department of Health	193,981	154,015
Brooklyn District Attorney's Office	<u>16,639</u>	<u>10,005</u>
	<u>\$ 4,242,341</u>	<u>\$ 3,192,288</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 549,997	\$ 741,680
Less: allowance for doubtful accounts	<u>(105,000)</u>	<u>(143,500)</u>
	<u>\$ 444,997</u>	<u>\$ 598,180</u>

NOTE 7 – PENSION AND OTHER BENEFIT PLANS

PAL maintains a defined contribution plan. All employees who are age 20½ and older and have completed six months of service are eligible to participate. PAL's annual contribution is an amount equal to 10% of the employee's annual compensation for those employees who choose to participate. For the years ended December 31, 2017 and 2016, total employer contributions amounted to approximately \$449,000 and \$443,000, respectively. The contribution for the year ended December 31, 2017, was not yet paid and is included under accrued payroll, vacation and other benefits.

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NOTE 8 – ADVANCES FROM GOVERNMENT AGENCIES

Advances from government agencies represent advances received from various funding sources under government contracts for which PAL has not yet met the grant conditions or provided the services. In addition, they include amounts due to government agencies that primarily represent advances received during current and prior years. Such amounts will be recouped by the funding sources.

Advances from government agencies consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
New York City Administration for Children's Services	\$ 2,439,577	\$ 2,964,300
New York City Department of Youth and Community Development	1,324,782	1,534,084
City of New York Mayor's Office of Criminal Justice	548,351	-
New York State Department of Education	71,282	38,908
New York State Department of Health	-	76,200
New York City Housing Authority	13,250	61,250
New York City District Attorney's Office	-	113,500
Brooklyn District Attorney's Office	-	14,191
	<u>\$ 4,397,242</u>	<u>\$ 4,802,433</u>

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Center Operations	\$ 1,156,375	\$ 426,157
Teen Programming	28,483	70,810
Sports and Recreation	65,385	-
Unappropriated earnings	75,795	69,447
Time restricted and other	<u>210,210</u>	<u>308,981</u>
Total temporarily restricted net assets	<u>\$ 1,536,248</u>	<u>\$ 875,395</u>

Temporarily restricted net assets of \$697,968 and \$924,624 for the years December 31, 2017 and 2016, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors or the passage of time.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

- A.** PAL leases office and program facilities from third parties subject to various written and unwritten lease agreements. The total rent expense related to such leases for the years ended December 31, 2017 and 2016 amounted approximately to \$519,000 and \$530,000, respectively, and is included in occupancy costs in the accompanying statement of functional expenses.

Approximate minimum lease commitments of more than one year are indicated below. The amounts include only noncancelable, written leases in effect as of December 31, 2017, and do not take into consideration any renewals, etc., negotiated after year end.

2017	\$ 181,000
2018	26,000
2019	26,000
2020	26,000
2021	26,000
Thereafter	<u>742,000</u>
	<u>\$ 1,027,000</u>

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NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

- B. PAL believes it had no uncertain tax positions as of December 31, 2017 and 2016 in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes”, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.
- C. PAL is a party to various lawsuits or complaints generally arising in the ordinary course of business. PAL believes it has adequate insurance to cover any material damages and, accordingly, such litigation will not have a material adverse effect on its financial condition.

NOTE 11 – CONCENTRATIONS

- A. **Concentration of Credit Risk** – Cash and cash equivalents that potentially subject PAL to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. The FDIC provides deposit insurance coverage of up to \$250,000 on interest-bearing and non-interest bearing accounts. As of December 31, 2017 and 2016, there was approximately \$3,355,000 and \$3,514,000, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits.
- B. **Concentration of Revenue** – PAL derives a significant portion of its revenue from contractual arrangements with government sources. Such revenue approximated 76% and 78% of total support and revenue for the years ended December 31, 2017 and 2016, respectively. Such revenue is subject to audit and possible adjustment by the various government agencies.

NOTE 12 – FAIR VALUE MEASUREMENTS

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Investments are reported at fair value based upon quoted market value. In determining fair value, PAL utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. PAL did not hold assets characterized as Level 3 during the years ended December 31, 2017 and 2016.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual Funds – Mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by PAL are deemed to be actively traded.

Common stock and money market funds – Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. Government Securities – are valued at the closing price reported in the active market in which the individual securities are traded.

Corporate and international bonds – are valued at the closing price reported in the market in which the individual securities are traded.

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NOTE 12 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at December 31, 2017 and 2016, were as follows:

	2017		
	Level 1	Level 2	Total
Investments:			
Cash equivalents	\$ 2,338,095	\$ -	\$ 2,338,095
Common stock	1,267,935	-	1,267,935
Mutual funds:			
Equity funds	172,834	-	172,834
Bond funds	1,310,090	-	1,310,090
International equity funds	183,590	-	183,590
Total mutual funds	1,666,514	-	1,666,514
Government securities	649,871	-	649,871
Corporate bonds	-	1,142,740	1,142,740
Total Investments	<u>\$ 5,922,415</u>	<u>\$ 1,142,740</u>	<u>\$ 7,065,155</u>
Gift Annuity Program:			
Money market funds	\$ 183	\$ -	\$ 183
Bond index funds	42,274	-	42,274
Equity funds	29,494	-	29,494
Total Gift Annuity	<u>\$ 71,951</u>	<u>\$ -</u>	<u>\$ 71,951</u>
Total Assets Carried at Fair Value	<u>\$ 5,994,366</u>	<u>\$ 1,142,740</u>	<u>\$ 7,137,106</u>
	2016		
	Level 1	Level 2	Total
Investments:			
Cash equivalents	\$ 1,375,786	\$ -	\$ 1,375,786
Common stock	1,126,787	-	1,126,787
Mutual funds:			
Equity funds	152,383	-	152,383
Bond funds	1,260,409	-	1,260,409
International equity funds	142,283	-	142,283
Total mutual funds	1,555,075	-	1,555,075
Government securities	476,811	-	476,811
Corporate bonds	-	905,750	905,750
International bonds	-	375,364	375,364
Total Investments	<u>\$ 4,534,459</u>	<u>\$ 1,281,114</u>	<u>\$ 5,815,573</u>
Gift Annuity Program:			
Money market funds	\$ 4,320	\$ -	\$ 4,320
Bond index funds	47,594	-	47,594
Equity funds	32,817	-	32,817
Total Gift Annuity	<u>\$ 84,731</u>	<u>\$ -</u>	<u>\$ 84,731</u>
Total Assets Carried at Fair Value	<u>\$ 4,619,190</u>	<u>\$ 1,281,114</u>	<u>\$ 5,900,304</u>

POLICE ATHLETIC LEAGUE, INC
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NOTE 13 – ENDOWMENT NET ASSETS

The Board of PAL recognizes that New York State adopted as law the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) on September 17, 2010. NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund’s fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as temporarily restricted until appropriated.

PAL’s Board has interpreted NYPMIFA as allowing PAL to appropriate for expenditure or accumulate so much of an endowment fund as PAL determines is prudent for the uses, benefits, purposes and duration for which the endowment fund was established, subject to the intent of the donor as expressed in the gift instrument.

The Board explicitly appropriated all earnings as of and prior to September 17, 2010, whether deemed spent or not as unrestricted. All unappropriated earnings on donor-restricted endowment funds after September 17, 2010, that would otherwise be considered unrestricted by the donor, are reflected as temporarily restricted until appropriated. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The policy for valuing PAL’s investments is described in Note 2E. In accordance with U.S. GAAP, any deterioration of the fair value of assets associated with donor-restricted endowment funds that falls below the level the donor requires PAL to retain in perpetuity is to be reported in unrestricted net assets. PAL has not incurred such deficiencies in its endowment funds as of December 31, 2017 and 2016.

PAL’s endowment investment policy is to invest primarily in a mix of equities and fixed-income securities based on an asset allocation to satisfy its overall endowment financial and investment objectives, such as to preserve the principal, protect against inflation, receive stable returns and achieve long-term growth. PAL relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Changes in endowment net assets for the year ended December 31, 2017, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment activity:			
Interest and dividends	\$ 2,925	\$ -	\$ 2,925
Net realized/unrealized gain	<u>3,423</u>	<u>-</u>	<u>3,423</u>
Total investment activity	6,348	-	6,348
Additions	-	25,000	25,000
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, beginning of year	<u>69,447</u>	<u>310,000</u>	<u>379,447</u>
Endowment net assets, end of year	<u>\$ 75,795</u>	<u>\$ 335,000</u>	<u>\$ 410,795</u>

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NOTE 13 – ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for the year ended December 31, 2016, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment activity:			
Interest and dividends	\$ 2,637	\$ -	\$ 2,637
Net realized/unrealized loss	<u>1,308</u>	<u>-</u>	<u>1,308</u>
Total investment activity	3,945	-	3,945
Additions	-	25,000	25,000
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, beginning of year	<u>65,502</u>	<u>285,000</u>	<u>350,502</u>
Endowment net assets, end of year	<u>\$ 69,447</u>	<u>\$ 310,000</u>	<u>\$ 379,447</u>

Endowment net assets of \$410,795 and \$379,447 are included with investments in the accompanying statements of financial position as of December 31, 2017 and 2016, respectively.

NOTE 14 – DEFERRED REVENUE

In 2015, PAL was awarded a grant from NYC Administration for Children’s Services (“ACS”) for the renovation of the La Puerta site (a leased property) that was destroyed by Hurricane Sandy. In accordance with agreement, ACS made a number of advance payments amounting to \$6,412,418 as of December 31, 2017 to fund the project, which are recorded as deferred revenue in the accompanying financial statements. In accordance with ASC 958-605-55, PAL will recognize contract revenue during the term of the agreement (the lesser of the life of the improvements or the lease term). PAL would decrease the asset to reflect its use, charging a depreciation expense. A decrease in the deferred revenue of the similar amount would be recognized as contract revenue.

NOTE 15 – SUBSEQUENT EVENTS

PAL has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through June 13, 2018, the date the financial statements were available to be issued.