

# **POLICE ATHLETIC LEAGUE, Inc.**



Financial Statements  
(Together with Independent Auditors' Report)

Years Ended December 31, 2018 and 2017

**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, 2018 AND 2017**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report.....	1
Statements of Financial Position.....	2
Statements of Activities .....	3
Statements of Functional Expenses.....	4-5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-15

## 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018, PAL adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*Marks Paneth LLP*

New York, NY  
June 27, 2019

**POLICE ATHLETIC LEAGUE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2D and 12A)	\$ 886,602	\$ 2,014,911
Investments (Notes 2E, 4 and 13)	6,844,568	7,065,155
Due from government agencies (Notes 2I and 6)	4,749,091	4,242,341
Accounts receivable	44,042	41,227
Contributions receivable, net (Notes 2C, 2H and 7)	602,060	444,997
Prepaid expenses and other assets	366,857	350,616
Beneficial interest in split-interest agreements (Note 2F)	52,901	71,951
Property and equipment, net (Notes 2G and 5)	14,079,363	12,649,195
<b>TOTAL ASSETS</b>	<b>\$ 27,625,484</b>	<b>\$ 26,880,393</b>
 <b>LIABILITIES</b>		
Accounts payable and accrued expenses (Note 2M)	\$ 930,691	\$ 1,238,813
Accrued salaries and benefits (Note 8)	1,297,063	1,187,804
Advances from government agencies (Notes 2I and 9)	3,716,975	4,386,199
Deferred revenue (Note 14)	7,015,961	6,423,461
Note payable (Note 15)	1,097,155	-
Gift annuity payable (Note 2F)	58,524	83,334
<b>TOTAL LIABILITIES</b>	<b>14,116,369</b>	<b>13,319,611</b>
 <b>COMMITMENTS AND CONTINGENCIES</b> (Note 11)		
 <b>NET ASSETS</b> (Note 2B)		
Without donor restrictions:		
Invested in property and equipment (Note 5)	7,063,402	6,225,734
Available for operations	5,759,622	5,463,800
Total net assets without donor restrictions	12,823,024	11,689,534
With donor restrictions (Notes 10)	686,091	1,871,248
<b>TOTAL NET ASSETS</b>	<b>13,509,115</b>	<b>13,560,782</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 27,625,484</b>	 <b>\$ 26,880,393</b>

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

**POLICE ATHLETIC LEAGUE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
<b>Support</b> (Note 2C)						
Special events, net of expenses of \$393,211 in 2018 and \$400,751 in 2017	\$ 2,646,493	\$ -	\$ 2,646,493	\$ 2,910,526	\$ -	\$ 2,910,526
Contributions from foundations and corporations (Note 2C)	437,818	323,944	761,762	579,129	1,359,071	1,938,200
Contributions from individuals (Note 2C)	752,011	25,000	777,011	725,855	25,000	750,855
Bequests and legacies	185,434	-	185,434	38,054	-	38,054
Contributed services, rent and other (Note 2J)	663,910	-	663,910	636,035	-	636,035
Change in value of split-interest agreements (Note 2F)	-	12,066	12,066	-	(6,598)	(6,598)
Net assets released from restrictions (Note 10)	1,543,354	(1,543,354)	-	697,968	(697,968)	-
<b>Total Support</b>	<u>6,229,020</u>	<u>(1,182,344)</u>	<u>5,046,676</u>	<u>5,587,567</u>	<u>679,505</u>	<u>6,267,072</u>
<b>Revenue</b>						
Government grants (Note 2I)	22,841,420	-	22,841,420	22,170,305	-	22,170,305
Rental income and fees (Note 2L)	619,943	-	619,943	526,674	-	526,674
Investment activity, net (Note 4)	(104,856)	(2,813)	(107,669)	306,599	6,348	312,947
<b>Total Revenue</b>	<u>23,356,507</u>	<u>(2,813)</u>	<u>23,353,694</u>	<u>23,003,578</u>	<u>6,348</u>	<u>23,009,926</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>29,585,527</u>	<u>(1,185,157)</u>	<u>28,400,370</u>	<u>28,591,145</u>	<u>685,853</u>	<u>29,276,998</u>
<b>EXPENSES</b>						
Program services	24,095,858	-	24,095,858	23,868,699	-	23,868,699
Management and general	3,006,620	-	3,006,620	2,947,010	-	2,947,010
Fundraising	1,349,559	-	1,349,559	1,447,718	-	1,447,718
<b>TOTAL EXPENSES</b>	<u>28,452,037</u>	<u>-</u>	<u>28,452,037</u>	<u>28,263,427</u>	<u>-</u>	<u>28,263,427</u>
<b>CHANGE IN NET ASSETS</b>	1,133,490	(1,185,157)	(51,667)	327,718	685,853	1,013,571
Net assets - beginning of year	11,689,534	1,871,248	13,560,782	11,361,816	1,185,395	12,547,211
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 12,823,024</u>	<u>\$ 686,091</u>	<u>\$ 13,509,115</u>	<u>\$ 11,689,534</u>	<u>\$ 1,871,248</u>	<u>\$ 13,560,782</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, 2018**  
(With Comparative Totals for December 31, 2017)

	For the Year Ended December 31, 2018									
	Program Services					Supporting Services				
	Child Care	Center Operations	Sports/ Recreation	Teen Programs	Total Program Services	Management and General	Fundraising	Total 2018	Total 2017	
Salaries and wages	\$ 4,592,234	\$ 6,858,241	\$ 437,222	\$ 1,293,107	\$ 13,180,804	\$ 2,041,666	\$ 657,181	\$ 15,879,651	\$ 15,872,352	
Payroll taxes and employee benefits (Note 8)	<u>1,439,688</u>	<u>1,499,725</u>	<u>121,635</u>	<u>334,738</u>	<u>3,395,786</u>	<u>606,120</u>	<u>227,797</u>	<u>4,229,703</u>	<u>4,187,716</u>	
<b>Total Salaries and Related Costs</b>	6,031,922	8,357,966	558,857	1,627,845	16,576,590	2,647,786	884,978	20,109,354	20,060,068	
Professional and other services	361,612	134,268	407,248	659,581	1,562,709	87,918	10,483	1,661,110	1,625,550	
Supplies	226,174	311,167	166,736	100,237	804,314	5,240	15,315	824,869	908,870	
Food	537,021	530,386	12,769	42,570	1,122,746	10,923	10,737	1,144,406	1,029,128	
Occupancy costs (Note 11A)	474,053	420,339	104,721	84,496	1,083,609	526	-	1,084,135	924,251	
Travel and conferences	4,485	289,418	8,701	87,735	390,339	10,649	4,917	405,905	523,599	
Repairs and maintenance	288,006	251,664	17,687	22,454	579,811	4,850	4,857	589,518	378,534	
Staff development	15,065	25,894	5,900	323	47,182	1,881	365	49,428	56,499	
Telephone	72,387	78,478	7,111	29,632	187,608	3,648	3,742	194,998	405,780	
Postage and printing	46,355	73,184	6,830	10,568	136,937	9,461	157,150	303,548	348,322	
Insurance	142,989	101,879	38,369	43,606	326,843	198,794	25,294	550,931	458,343	
Equipment rentals and purchases	44,846	194,077	30,862	31,776	301,561	13,657	18,931	334,149	396,920	
Appeals	-	-	-	-	-	-	159,553	159,553	153,185	
Bad debt	-	-	-	-	-	-	12,246	12,246	284	
Depreciation and amortization	-	353,898	-	-	353,898	-	-	353,898	342,709	
Contributed services, rent and other in-kind (Note 2J)	621,711	-	-	-	621,711	1,207	40,991	663,909	636,035	
Miscellaneous	-	-	-	-	-	10,080	-	10,080	15,350	
<b>TOTAL EXPENSES</b>	<u>\$ 8,866,626</u>	<u>\$ 11,122,618</u>	<u>\$ 1,365,791</u>	<u>\$ 2,740,823</u>	<u>\$ 24,095,858</u>	<u>\$ 3,006,620</u>	<u>\$ 1,349,559</u>	<u>\$ 28,452,037</u>	<u>\$ 28,263,427</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**

	For the Year Ended December 31, 2017							
	Program Services					Supporting Services		
	Child Care	Center Operations	Sports/ Recreation	Teen Programs	Total Program Services	Management and General	Fundraising	Total 2017
Salaries and wages	\$ 4,099,642	\$ 7,220,035	\$ 388,757	\$ 1,533,018	\$ 13,241,452	\$ 1,948,557	\$ 682,343	\$ 15,872,352
Payroll taxes and employee benefits (Note 8)	<u>1,222,250</u>	<u>1,578,124</u>	<u>109,054</u>	<u>377,720</u>	<u>3,287,148</u>	<u>663,737</u>	<u>236,831</u>	<u>4,187,716</u>
<b>Total Salaries and Related Costs</b>	5,321,892	8,798,159	497,811	1,910,738	16,528,600	2,612,294	919,174	20,060,068
Professional and other services	310,386	142,560	448,725	595,235	1,496,906	65,636	63,008	1,625,550
Supplies	313,980	343,206	63,457	114,215	834,858	40,724	33,288	908,870
Food	396,570	574,298	15,522	34,717	1,021,107	7,192	829	1,029,128
Occupancy costs (Note 11A)	343,754	409,848	63,249	107,400	924,251	-	-	924,251
Travel and conferences	3,006	408,728	5,082	91,378	508,194	8,380	7,025	523,599
Repairs and maintenance	162,599	192,586	5,215	10,125	370,525	8,009	-	378,534
Staff development	31,172	22,964	500	-	54,636	1,863	-	56,499
Telephone	255,467	88,425	5,210	36,709	385,811	17,549	2,420	405,780
Postage and printing	29,221	86,149	6,553	13,847	135,770	8,532	204,020	348,322
Insurance	141,032	103,189	20,421	50,834	315,476	118,649	24,218	458,343
Equipment rentals and purchases	48,749	199,583	33,878	51,188	333,398	40,806	22,716	396,920
Appeals	-	-	-	-	-	-	153,185	153,185
Bad debt	-	284	-	-	284	-	-	284
Depreciation and amortization	-	342,709	-	-	342,709	-	-	342,709
Contributed services, rent and other in-kind (Note 2J)	610,368	-	-	-	610,368	16,543	9,124	636,035
Miscellaneous	<u>2,963</u>	<u>2,624</u>	<u>-</u>	<u>219</u>	<u>5,806</u>	<u>833</u>	<u>8,711</u>	<u>15,350</u>
<b>TOTAL EXPENSES</b>	<u>\$ 7,971,159</u>	<u>\$ 11,715,312</u>	<u>\$ 1,165,623</u>	<u>\$ 3,016,605</u>	<u>\$ 23,868,699</u>	<u>\$ 2,947,010</u>	<u>\$ 1,447,718</u>	<u>\$ 28,263,427</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, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (51,667)	\$ 1,013,571
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	353,898	342,709
Realized and unrealized loss (gain) on investments	248,718	(193,632)
Change in value of split-interest agreements	(12,066)	6,598
Bad debt	12,246	284
Subtotal	551,129	1,169,530
Changes in operating assets and liabilities:		
Accounts receivable	(2,815)	78,726
Contributions receivable	(169,309)	152,899
Due from government agencies	(506,750)	(1,050,053)
Prepaid expenses and other assets	(16,241)	(17,655)
Accounts payable and accrued expenses	(308,122)	(266,805)
Accrued salaries and benefits	109,259	(116,288)
Advances from government agencies	(669,224)	(405,191)
Deferred revenue	592,500	5,338,670
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(419,573)</b>	<b>4,868,184</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(19,876)	(1,059,973)
Proceeds from sale of investments	10,795	16,803
Property and equipment acquisitions	(1,784,066)	(5,047,152)
<b>Net Cash Used in Investing Activities</b>	<b>(1,793,147)</b>	<b>(6,090,322)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Gift annuity payable	(12,744)	(15,649)
Note payable proceeds	1,097,155	-
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>1,084,411</b>	<b>(15,649)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,128,309)</b>	<b>(1,222,138)</b>
Cash and cash equivalents - beginning of year	2,014,911	3,237,049
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 886,602</b>	<b>\$ 2,014,911</b>

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



**POLICE ATHLETIC LEAGUE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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 seven 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 19 After-School programs and 18 Summer Day Camps. Teen Programming includes job skills training, college preparation, recreation, and crime prevention programs at 20 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 5,000 youth taking part in more than six sports and 17 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 (“U.S. GAAP”) 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. *Net Assets*** – PAL maintains its net assets under the following two classes:
- Without Donor Restrictions – represents resources available for support of PAL’s operations over which the Board of Directors has discretionary control.
  - With Donor Restrictions – 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. In addition, earnings from endowment assets are classified as net assets with donor restrictions until appropriated for operation by the Board of Directors. Net assets with donor restrictions also includes 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 net assets with donor 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, 2018 AND 2017**

**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 without donor restrictions or with donor restrictions, in accordance with donor intent, net of direct investment expense.

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 13.

- 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 net assets with donor restrictions 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 statements 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 uncollectible accounts 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, 2018 and 2017, PAL recorded an allowance for contributions receivable of \$109,500 and \$105,000, 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 statements 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 \$663,910 and \$636,035 for the years ended December 31, 2018 and 2017, 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 statements of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include wages, benefits, payroll taxes, professional services, information technology, insurance and other, which are allocated on the square footage basis or estimates of time and effort.

**POLICE ATHLETIC LEAGUE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017, amounted to approximately \$119,000 and \$115,000, respectively. Straight-lining of rent gives rise to a timing difference that is reflected within accounts payable and accrued expenses in the accompanying statements of financial position.
- N. *Reclassifications*** – Certain line items in the December 31, 2017 financial statements have been reclassified to conform with December 2018 presentation.
- O. *Recently Adopted Accounting Pronouncements*** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities Topic 958 - Presentation of Financial Statements of Not-for-Profit Entities* was adopted for the year ended December 31, 2018. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquidity resources and functional expense allocation. These changes had no impact on the change in net assets for the year ended December 31, 2018. As a result of implementing ASU 2016-14, PAL reports net assets in two classes (see Note 2B) and provides additional information about liquidity (see Note 3) and the methodologies used to allocate expenses by function (see Note 2K). Net assets as of December 31, 2017 were reclassified to conform to the current year presentation.

**NOTE 3 – LIQUIDITY AND AVAILABILITY**

PAL regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. PAL has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities. For the purposes of analyzing resources available to meet general expenditures over a twelve-month period, PAL considers all expenditures related to its ongoing program activities as well as service undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Cash and cash equivalents	\$	886,602
Investments		6,844,568
Due from government agencies		4,749,091
Accounts receivable		44,042
Contributions receivable		602,060
Less net assets with donor restrictions		<u>(686,091)</u>
		<u>\$ 12,440,272</u>

**NOTE 4 – INVESTMENTS**

Investments consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Cash equivalents	\$ 2,242,475	\$ 2,338,095
Common stock	1,083,226	1,267,935
Mutual funds	1,575,139	1,666,514
Corporate and international bonds	810,867	1,142,740
Government securities	<u>1,132,861</u>	<u>649,871</u>
	<u>\$ 6,844,568</u>	<u>\$ 7,065,155</u>

**POLICE ATHLETIC LEAGUE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 4 – INVESTMENTS (Continued)**

Investment activity consisted of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 165,041	\$ 141,231
Realized and unrealized (loss) gain	(248,718)	193,632
Investment fees	<u>(24,092)</u>	<u>(21,916)</u>
	<u>\$ (107,769)</u>	<u>\$ 312,947</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Life</u>
Land	\$ 1	\$ 1	
Fine arts	25,000	25,000	
Furniture, fixtures and equipment	801,542	778,542	5-10 years
Leasehold improvements	13,571,087	11,823,647	25-40 years
Vehicles	158,843	145,213	5 years
Construction in progress	<u>6,840,436</u>	<u>6,840,440</u>	
Total cost	21,396,909	19,612,843	
Less: accumulated depreciation and amortization	<u>7,317,546</u>	<u>6,963,648</u>	
Net Book Value	<u>\$ 14,079,363</u>	<u>\$ 12,649,195</u>	

Depreciation and amortization expense amounted to \$353,898 and \$342,709 for the years ended December 31, 2018 and 2017, respectively.

The construction in progress relates to renovation projects at one of PAL's sites. The starting date of the project was in late 2016. The remaining cost to complete the project is approximately \$484,000 and the project is expected to be completed by July of 2019.

**NOTE 6 – DUE FROM GOVERNMENT AGENCIES**

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

	<u>2018</u>	<u>2017</u>
New York City agencies	\$ 4,511,521	\$ 3,843,812
New York State agencies	216,997	355,622
Other	<u>20,573</u>	<u>42,907</u>
	<u>\$ 4,749,091</u>	<u>\$ 4,242,341</u>

**NOTE 7 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 711,560	\$ 549,997
Less: allowance for doubtful accounts	<u>(109,500)</u>	<u>(105,000)</u>
	<u>\$ 602,060</u>	<u>\$ 444,997</u>

**POLICE ATHLETIC LEAGUE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 8 – 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, 2018 and 2017, total employer contributions amounted to approximately \$522,000 and \$449,000, respectively. The contribution for the year ended December 31, 2018, was not yet paid and is included under accrued salaries and benefits.

In addition, PAL maintains a 403(b) plan for eligible employees. The plan allows for employee contributions only and does not meet DOL audit requirements as of December 31, 2018 and 2017.

**NOTE 9 – 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:

	<u>2018</u>	<u>2017</u>
New York City Administration for Children's Services	\$ 1,140,674	\$ 2,439,577
New York City Department of Youth and Community Development	2,065,450	1,324,782
City of New York Mayor's Office of Criminal Justice	510,851	537,308
New York State Department of Education	-	71,282
New York City Housing Authority	-	13,250
	<u>\$ 3,716,975</u>	<u>\$ 4,386,199</u>

**NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the purposes listed below as of December 31:

	<u>2018</u>	<u>2017</u>
<b>Net Assets Restricted in Perpetuity:</b>		
PAL Endowment Fund	\$ 360,000	\$ 335,000
<b>Subject to expenditure for specified purpose and the passage of time:</b>		
Center operations	5,201	1,156,375
Teen programming	21,151	28,483
Sports and recreation	146,832	65,385
Unappropriated earnings	72,982	75,795
Time restricted and other	<u>79,925</u>	<u>210,210</u>
Total net assets with donor restrictions	<u>\$ 686,091</u>	<u>\$ 1,871,248</u>

Net assets with donor restrictions of \$1,543,354 and \$697,968 for the years December 31, 2018 and 2017, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors or the passage of time.

**POLICE ATHLETIC LEAGUE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

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 net assets with donor restrictions 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 as without donor restrictions. All unappropriated earnings on donor-restricted endowment funds after September 17, 2010, that would otherwise be considered net assets without donor restriction, are reflected as net assets with donor restriction until appropriated. The remaining portion of the donor-restricted endowment fund that is not perpetual in nature is classified as retained in perpetuity or for a donor specified period 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 hold in perpetuity is to be reported in net assets with donor restrictions. PAL has not incurred such deficiencies in its endowment funds as of December 31, 2018 and 2017.

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 years ended December 31, 2018 and 2017, are as follows:

<b>Endowment net assets, January 1, 2017</b>	<b>\$ 379,447</b>
Appropriated for operations	-
Contributions	25,000
Interest and dividends	2,925
Investment return	<u>3,423</u>
<b>Endowment net assets, December 31, 2017</b>	<b>410,795</b>
Appropriated for operations	-
Contributions	25,000
Interest and dividends	1,983
Investment loss	<u>(4,796)</u>
<b>Endowment net assets, December 31, 2018</b>	<b><u>\$ 432,982</u></b>

Endowment net assets of \$432,982 and \$410,795 are included with investments in the accompanying statements of financial position as of December 31, 2018 and 2017, respectively.

**POLICE ATHLETIC LEAGUE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 11 – 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, 2018 and 2017 amounted approximately to \$641,000 and \$519,000, respectively, and is included in occupancy costs in the accompanying statements 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, 2018, and do not take into consideration any renewals, etc., negotiated after year end.

2019	\$ 550,000
2020	558,000
2021	576,000
2022	588,000
2023	547,000
Thereafter	<u>3,655,000</u>
	<u>\$ 6,474,000</u>

- B. PAL believes it had no uncertain tax positions as of December 31, 2018 and 2017 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 12 – 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, 2018 and 2017, there was approximately \$2,958,000 and \$3,355,000, 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 81% and 76% of total support and revenue for the years ended December 31, 2018 and 2017, respectively. Such revenue is subject to audit and possible adjustment by the various government agencies.

**NOTE 13 – 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 the lowest priority to Level 3 inputs.

**POLICE ATHLETIC LEAGUE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)**

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, 2018 and 2017.

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.

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

	<b>2018</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments:			
Cash equivalents	\$ 2,242,475	\$ -	\$ 2,242,475
Common stock	1,083,226	-	1,083,226
Mutual funds:			
Equity funds	206,512	-	206,512
Bond funds	1,285,019	-	1,285,019
International equity funds	83,608	-	83,608
Total mutual funds	1,575,139	-	1,575,139
Government securities	810,867	-	810,867
Corporate bonds	-	1,132,861	1,132,861
Total Investments	<u>\$ 5,711,707</u>	<u>\$ 1,132,861</u>	<u>\$ 6,844,568</u>
Split interest agreements:			
Money market funds	\$ 1,211	\$ -	\$ 1,211
Bond index funds	33,463	-	33,463
Equity funds	18,227	-	18,227
Total Gift Annuity	<u>\$ 52,901</u>	<u>\$ -</u>	<u>\$ 52,901</u>
Total Assets Carried at Fair Value	<u>\$ 5,764,608</u>	<u>\$ 1,132,861</u>	<u>\$ 6,897,469</u>



**POLICE ATHLETIC LEAGUE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)**

	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>
Split interest agreements:			
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>

**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 the agreement, ACS made a number of advance payments amounting to \$7,015,961 as of December 31, 2018 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 – NOTE PAYABLE**

During the year ended December 31, 2018, PAL secured a bridge loan from the Fund for the City of New York in the amount of \$1,097,155. The loan is interest free and has a term of 90 days. PAL obtained the funding due to a delay in registering contracts at the State level, resulting in a short-term cash short fall. The note has been repaid in January 2019.

**NOTE 16 – SUBSEQUENT EVENTS**

PAL has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through June 27, 2019, the date the financial statements were available to be issued.