

POLICE ATHLETIC LEAGUE, Inc.



Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2013 and 2012

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, 2013 AND 2012

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M A R K S P A N E T H
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of,
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, 2013 and 2012, 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, 2013 and 2012, 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, 2014



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Morison International

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents (Notes 2D and 12A)	\$ 1,735,724	\$ 5,874,107
Investments (Notes 2E, 3 and 13)	5,171,439	736,797
Accounts receivable	23,640	11,457
Contributions receivable, net (Notes 2C, 2H and 6)	629,221	982,419
Due from government agencies (Notes 2I and 5)	1,488,612	2,153,198
Prepaid expenses and other assets	228,617	224,578
Beneficial interest in split-interest agreements (Notes 2F and 13)	133,156	138,759
Property and equipment, net (Notes 2G and 4)	6,607,915	6,658,198
TOTAL ASSETS	\$ 16,018,324	\$ 16,779,513
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,195,987	\$ 2,752,466
Advances from government agencies (Notes 2I and 9)	1,731,171	1,257,213
Gift annuity payable (Note 2F)	85,496	94,386
Loans payable (Note 8)	-	64,749
TOTAL LIABILITIES	4,012,654	4,168,814
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS (Note 2B)		
Unrestricted	10,409,360	10,915,837
Temporarily restricted (Notes 10 and 14)	1,336,310	1,434,862
Permanently restricted (Note 14)	260,000	260,000
TOTAL NET ASSETS	12,005,670	12,610,699
TOTAL LIABILITIES AND NET ASSETS	\$ 16,018,324	\$ 16,779,513

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

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	For the Year Ended December 31, 2013				For the Year Ended December 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
SUPPORT AND REVENUE								
Support (Note 2C)								
Special events, net of expenses of \$420,264 in 2013 and \$419,451 in 2012	\$ 2,218,989	\$ -	\$ -	\$ 2,218,989	\$ 3,121,450	\$ 186,144	\$ -	\$ 3,307,594
Contributions from foundations and corporations	1,261,590	1,517,190	-	2,778,780	888,276	834,537	-	1,722,813
Contributions from individuals	121,744	4,660	-	126,404	53,299	468,169	-	521,468
Bequests and legacies	257	-	-	257	104,495	-	-	104,495
Contributed services, rent and other in-kind (Note 2J)	1,107,254	-	-	1,107,254	872,811	-	-	872,811
Change in value of split-interest agreements (Note 2F)	-	(7,374)	-	(7,374)	-	(15,268)	-	(15,268)
Net assets released from restrictions (Note 10)	1,627,136	(1,627,136)	-	-	1,264,472	(1,264,472)	-	-
Total Support	<u>6,336,970</u>	<u>(112,660)</u>	<u>-</u>	<u>6,224,310</u>	<u>6,304,803</u>	<u>209,110</u>	<u>-</u>	<u>6,513,913</u>
Revenue								
Government grants (Note 2I)	17,487,321	-	-	17,487,321	18,122,132	-	-	18,122,132
Program fees and other revenue (Notes 2L and 8)	697,271	-	-	697,271	1,157,672	-	-	1,157,672
Loss on disposal of fixed assets	(51,269)	-	-	(51,269)	-	-	-	-
Gain on sale of property (Note 4)	-	-	-	-	5,164,663	-	-	5,164,663
Investment activity (Note 3)	12,782	14,108	-	26,890	(34,730)	21,300	-	(13,430)
Total Revenue	<u>18,146,105</u>	<u>14,108</u>	<u>-</u>	<u>18,160,213</u>	<u>24,409,737</u>	<u>21,300</u>	<u>-</u>	<u>24,431,037</u>
TOTAL SUPPORT AND REVENUE	<u>24,483,075</u>	<u>(98,552)</u>	<u>-</u>	<u>24,384,523</u>	<u>30,714,540</u>	<u>230,410</u>	<u>-</u>	<u>30,944,950</u>
EXPENSES								
Program services	21,541,093	-	-	21,541,093	22,768,547	-	-	22,768,547
Management and general	1,795,448	-	-	1,795,448	1,415,011	-	-	1,415,011
Fundraising	1,653,011	-	-	1,653,011	1,773,253	-	-	1,773,253
TOTAL EXPENSES	<u>24,989,552</u>	<u>-</u>	<u>-</u>	<u>24,989,552</u>	<u>25,956,811</u>	<u>-</u>	<u>-</u>	<u>25,956,811</u>
CHANGE IN NET ASSETS	<u>(506,477)</u>	<u>(98,552)</u>	<u>-</u>	<u>(605,029)</u>	<u>4,757,729</u>	<u>230,410</u>	<u>-</u>	<u>4,988,139</u>
Net assets - beginning of year	10,915,837	1,434,862	260,000	12,610,699	6,158,108	1,204,452	260,000	7,622,560
NET ASSETS - END OF YEAR	<u>\$ 10,409,360</u>	<u>\$ 1,336,310</u>	<u>\$ 260,000</u>	<u>\$ 12,005,670</u>	<u>\$ 10,915,837</u>	<u>\$ 1,434,862</u>	<u>\$ 260,000</u>	<u>\$ 12,610,699</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, 2013
(With Comparative Totals for December 31, 2012)

	For the Year Ended December 31, 2013									
	Program Services					Supporting Services				
	Child Care	Full-time Centers	Field Operations	Youth Employment	Juvenile Justice and Re-entry	Total Program Services	Management and General	Fundraising	Total 2013	Total 2012
Salaries and wages	\$ 3,806,884	\$ 6,223,217	\$ 1,287,483	\$ 405,655	\$ 498,711	\$ 12,221,950	\$ 891,367	\$ 777,066	\$ 13,890,383	\$ 15,213,854
Payroll taxes and employee benefits (Note 7)	<u>1,105,801</u>	<u>1,214,308</u>	<u>216,761</u>	<u>82,480</u>	<u>134,350</u>	<u>2,753,700</u>	<u>267,410</u>	<u>231,756</u>	<u>3,252,866</u>	<u>3,481,247</u>
Total Salaries and Related Costs	4,912,685	7,437,525	1,504,244	488,135	633,061	14,975,650	1,158,777	1,008,822	17,143,249	18,695,101
Professional and other services	125,517	316,213	208,950	48,843	101,984	801,507	145,673	253,677	1,200,857	1,116,852
Supplies	245,171	299,169	132,165	79,034	22,607	778,146	18,217	10,326	806,689	843,180
Food	364,713	462,625	27,394	8,544	6,541	869,817	5,330	741	875,888	840,360
Occupancy costs (Note 11A)	334,074	594,419	48,302	-	32,175	1,008,970	520	-	1,009,490	972,537
Travel and conferences	26,962	357,324	10,334	19,290	14,571	428,481	14,862	3,229	446,572	427,177
Repairs and maintenance	118,401	224,999	2,153	162	12,180	357,895	19,701	-	377,596	406,929
Staff development	13,668	24,923	300	-	-	38,891	375	40	39,306	41,644
Telephone	120,557	83,683	11,764	14,761	7,841	238,606	22,005	1,334	261,945	189,491
Postage and printing	21,408	29,104	10,580	2,055	1,441	64,588	29,439	303,184	397,211	336,074
Insurance	66,407	134,274	33,287	1,127	376	235,471	46,840	-	282,311	297,997
Equipment rentals and purchases	72,254	162,236	55,501	18,362	5,934	314,287	68,461	39,391	422,139	300,291
Interest expense	-	-	-	-	-	-	234	-	234	90,703
Bad debts	-	-	-	-	-	-	217,658	-	217,658	86,191
Depreciation and amortization	-	344,576	-	-	-	344,576	-	-	344,576	380,815
Contributed services, rent and other in-kind (Note 2J)	1,074,086	696	-	-	-	1,074,782	1,465	31,007	1,107,254	872,811
Miscellaneous	<u>4,491</u>	<u>4,611</u>	<u>324</u>	<u>-</u>	<u>-</u>	<u>9,426</u>	<u>45,891</u>	<u>1,260</u>	<u>56,577</u>	<u>58,658</u>
TOTAL EXPENSES	\$ 7,500,394	\$ 10,476,377	\$ 2,045,298	\$ 680,313	\$ 838,711	\$ 21,541,093	\$ 1,795,448	\$ 1,653,011	\$ 24,989,552	\$ 25,956,811

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

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	For the Year Ended December 31, 2012								
	Program Services					Supporting Services			
	Child Care	Full-time Centers	Field Operations	Youth Employment	Juvenile Justice and Re-entry	Total Program Services	Management and General	Fundraising	Total 2012
Salaries and wages	\$ 5,656,334	\$ 5,962,357	\$ 1,153,892	\$ 359,645	\$ 663,493	\$ 13,795,721	\$ 513,688	\$ 904,445	\$ 15,213,854
Payroll taxes and employee benefits (Note 7)	1,119,948	1,318,457	230,672	78,828	210,410	2,958,315	224,866	298,066	3,481,247
Total Salaries and Related Costs	6,776,282	7,280,814	1,384,564	438,473	873,903	16,754,036	738,554	1,202,511	18,695,101
Professional and other services	168,605	303,744	177,852	35,992	55,308	741,501	147,044	228,307	1,116,852
Supplies	210,875	292,910	220,143	40,449	13,019	777,396	26,685	39,099	843,180
Food	432,621	369,862	24,321	4,359	4,436	835,599	4,682	79	840,360
Occupancy costs (Note 11A)	346,739	510,150	56,943	30,067	27,075	970,974	1,563	-	972,537
Travel and conferences	26,426	313,132	24,178	16,808	26,444	406,988	7,733	12,456	427,177
Repairs and maintenance	189,781	175,619	9,810	3,873	1,164	380,247	26,682	-	406,929
Staff development	12,033	22,486	800	-	-	35,319	6,325	-	41,644
Telephone	51,687	85,966	10,493	12,219	7,521	167,886	19,208	2,397	189,491
Postage and printing	33,359	27,285	9,546	242	546	70,978	27,895	237,201	336,074
Insurance	26,172	118,048	43,823	2,890	793	191,726	106,271	-	297,997
Equipment rentals and purchases	44,228	121,483	39,282	9,118	2,179	216,290	69,235	14,766	300,291
Interest expense	-	-	-	-	-	-	90,703	-	90,703
Bad debts	-	-	-	-	-	-	86,191	-	86,191
Depreciation and amortization	-	380,815	-	-	-	380,815	-	-	380,815
Contributed services, rent and other in-kind (Note 2J)	819,667	760	-	-	616	821,043	30,000	21,768	872,811
Miscellaneous	8,987	3,063	-	5,699	-	17,749	26,240	14,669	58,658
TOTAL EXPENSES	\$ 9,147,462	\$ 10,006,137	\$ 2,001,755	\$ 600,189	\$ 1,013,004	\$ 22,768,547	\$ 1,415,011	\$ 1,773,253	\$ 25,956,811

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, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (605,029)	\$ 4,988,139
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	344,576	380,815
Realized and unrealized loss on investments	26,078	26,300
Change in value of split-interest agreements	7,374	15,268
Gain on sale of property	-	(5,164,663)
Loss of disposal of fixed assets	51,269	-
Forgiveness of debt	-	(150,000)
Bad debt expense	217,658	86,191
Subtotal	41,926	182,050
Changes in operating assets and liabilities:		
Accounts receivable	(12,183)	(3,021)
Contributions receivable	135,540	(790,013)
Due from government agencies	664,586	(1,255,269)
Prepaid expenses and other assets	(4,039)	(48,269)
Accounts payable and accrued expenses	(556,479)	1,018,923
Gift annuity payable	(16,264)	12,127
Advances from government agencies	473,958	757,888
Net Cash Provided by (Used in) Operating Activities	727,045	(125,584)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(4,457,170)	(66,247)
Proceeds from sale of investments	2,053	31,064
Proceeds from sale of property	-	6,483,608
Property and equipment acquisitions	(345,562)	(54,107)
Net Cash (Used in) Provided by Investing Activities	(4,800,679)	6,394,318
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan proceeds	-	64,749
Repayment of loans	(64,749)	(1,984,203)
Net Cash Used in Financing Activities	(64,749)	(1,919,454)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,138,383)	4,349,280
Cash and cash equivalents - beginning of year	5,874,107	1,524,827
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,735,724	\$ 5,874,107
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 234	\$ 90,703

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

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Founded in 1914, Police Athletic League, Inc. (“PAL”) is a private, not-for-profit organization that serves as the official youth agency of the New York City Police Department, from which PAL receives no direct funding. PAL is New York City’s largest independent youth development not-for-profit organization. PAL operates early learn, after-school, evening teen, summer day camp, youth employment, truancy prevention, juvenile justice and re-entry, city-wide sports, play streets and part-time centers, food service, and adventure learning programs for pre-school kids, children and adolescents ages 3 to 19. In its 99th year of service, PAL is continuing its evolution and remains a vibrant and vital NYC institution.

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

PAL is incorporated as a 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 (the “Code”).

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.
- 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 all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents, with the exception of certificates of deposit that are managed as part of PAL’s long-term investment strategy. The carrying amount approximates their fair values because of the short maturity of these instruments.

E. *Investments*

Investments in common stocks, corporate and government bonds and other marketable securities are stated at fair value based on quoted market prices, with realized and unrealized gains and losses included in the accompanying statements of activities. Net investment income is recorded as either unrestricted or temporarily restricted, in accordance with donor intent.

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 \$2,000 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 estimates are based on management's assessment of the likelihood of collection, including consideration of how long the receivable has been outstanding, creditworthiness of the debtor, current economic conditions and historical information. As of December 31, 2013, PAL recorded an allowance for contributions receivables of \$129,555. As of December 31, 2012, PAL determined that no allowance was necessary for contribution receivables.

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 as prescribed by accounting principles generally accepted in the United States of America. Contributed services, rent and other in kind amounted to \$1,107,254 and \$872,811 for the years ended December 31, 2013 and 2012, 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, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. *Program Fees and Other Revenue*

Program fees and other revenue consist of rents paid by various organizations for space it leases from PAL. Additionally, it includes camp fees, daycare fees and other fees paid by parents to PAL for daycare program, summer and holiday camps and other registration fees for various full time center 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 expense recorded for the years ended December 31, 2013 and 2012 amounted to approximately \$114,000 and \$91,000, respectively. Straight-lining of rent gives rise to a timing difference that is reflected as accounts payable and accrued expenses in the accompanying statement of financial position.

NOTE 3 – INVESTMENTS

Investments consisted of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash equivalents	\$ 2,386,402	\$ 24,677
Common stock	459,512	526,887
Mutual funds	1,327,939	185,233
Corporate bonds	895,758	-
Government securities	<u>101,828</u>	<u>-</u>
Investments, net	<u>\$ 5,171,439</u>	<u>\$ 736,797</u>

Investment activity consisted of the following for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 55,581	\$ 22,870
Realized and unrealized losses	(26,071)	(26,300)
Investment fees	<u>(2,620)</u>	<u>(10,000)</u>
Total investment activity	<u>\$ 26,890</u>	<u>\$ (13,430)</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Estimated Useful Life</u>
Land	\$ 1	\$ 1	
Furniture, fixtures and equipment	1,561,530	1,534,045	5-10 years
Leasehold improvements	11,893,867	11,667,227	25-40 years
Vehicles	<u>157,039</u>	<u>124,612</u>	5 years
Total cost	\$ 13,612,437	\$ 13,325,885	
Less: accumulated depreciation and amortization	<u>(7,004,522)</u>	<u>(6,667,687)</u>	
Net Book Value	<u>\$ 6,607,915</u>	<u>\$ 6,658,198</u>	

Depreciation and amortization expense amounted to \$344,576 and \$380,815 for the years ended December 31, 2013 and 2012, respectively. During the year ended December 31, 2013, PAL disposed of assets with net book value of \$51,269. Such loss on disposal is included in the accompanying statement of activities for the year ended December 31, 2013.

**POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 4 – PROPERTY AND EQUIPMENT (Continued)

In May 2012, PAL's Board of Directors resolved and authorized PAL to sell a building located in Queens, New York, ("Foster Laurie"). In August 2012, PAL finalized the sale of Foster Laurie for net proceeds of \$6,483,608, resulting in a gain of \$5,164,663, which is included as gain on sale of property in the accompanying statement of activities for the year ended December 31, 2012.

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

2014	\$	323,000
2015		310,000
2016		310,000
2017		306,000
2018		<u>305,000</u>
	\$	<u>1,554,000</u>

NOTE 5 – DUE FROM GOVERNMENT AGENCIES

Due from government agencies under grants and contracts consisted of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
New York City Office of the Criminal Justice Coordinator	\$ 253,669	\$ 268,572
New York City Department of Youth and Community Development	743,166	772,117
New York City Administration for Children's Services	294,868	924,866
New York State Department of Education	129,013	99,172
Queens District Attorney's Office	-	26,508
New York City District Attorney's Office	67,896	48,742
United States Department of Education	<u>-</u>	<u>13,221</u>
	<u>\$ 1,488,612</u>	<u>\$ 2,153,198</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 658,776	\$ 832,419
One to five years	<u>100,000</u>	<u>150,000</u>
	758,776	982,419
Less: allowance for doubtful accounts	<u>(129,555)</u>	<u>-</u>
	<u>\$ 629,221</u>	<u>\$ 982,419</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, 2013 and 2012, total employer contributions amounted to approximately \$406,000 and \$438,000.

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NOTE 8 – LOANS PAYABLE

On July 1, 2012, PAL entered into a loan agreement with Capital One Mortgage, having a principal balance of \$1,800,000, to pay off a loan with Pierpont 2011 LP. This interest-only payment loan accrued interest at a rate of prime plus 2%, with the principal balance due as a balloon payment at maturity on December 1, 2012. In August 2012, the loan was repaid with proceeds from the sale of the Foster Laurie property (see Note 4).

Upon repayment of the Pierpont loan, PAL received a discount on the payment of approximately \$150,000, which is included in program fees and other revenue in the accompanying statement of activities for the year ended December 31, 2012.

On December 31, 2012, PAL obtained an interest free emergency loan of \$64,749 from the Fund for The City of New York. The emergency loan was processed pending the registration of a contract with the New York City Administration for Children's Services ("ACS"). The loan was paid off in 2013 and there is no outstanding loan as of December 31, 2013.

NOTE 9 – ADVANCES FROM GOVERNMENT AGENCIES

Advances from government agencies consisted of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
New York City Department of Youth and Community Development	\$ 862,925	\$ 789,387
New York City Administration for Children's Services	607,860	220,146
New York State Office of Alcoholism and Substance Abuse Services	-	3,837
New York State Department of Education	26,140	4,857
New York City Office of the Criminal Justice Coordinator	233,636	233,636
Other	<u>610</u>	<u>5,350</u>
	<u>\$ 1,731,171</u>	<u>\$ 1,257,213</u>

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Full-time centers	\$ 725,442	\$ 477,257
Field operations	93,129	35,518
Youth employment	11,838	1,250
Juvenile justice and re-entry	115,599	241,055
Disaster relief	150,370	407,880
Unappropriated earnings	55,296	41,188
Time restricted and other	<u>184,636</u>	<u>230,714</u>
Total temporarily restricted net assets	<u>\$ 1,336,310</u>	<u>\$ 1,434,862</u>

Temporarily restricted net assets of \$1,627,136 and \$1,264,472 for the years December 31, 2013 and 2012, 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
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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, 2013 and 2012 amounted approximately to \$525,000 and \$519,000, 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, 2013 and do not take into consideration any renewals, etc., negotiated after year end.

2014	\$ 350,000
2015	273,000
2016	257,000
2017	266,000
2018	168,000
Thereafter	<u>845,000</u>
	<u>\$ 2,159,000</u>

- B. PAL is a defendant in various legal actions arising out of the normal course of its operations. The final outcome of such actions cannot be determined at this time. Eventual liability, if any, is likely to be covered by insurance except where the applicable insurance policies expressly exclude certain coverage which arguably relates to the claims.
- C. PAL had no uncertain tax positions as of December 31, 2013 and 2012 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. PAL is no longer subject to federal or state and local income tax examinations by tax authorities for years ended before December 31, 2010.

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 provided deposit insurance coverage of up to \$250,000 on interest-bearing accounts and separate unlimited coverage on noninterest-bearing accounts through December 31, 2012. Effective January 1, 2013, interest and noninterest-bearing accounts will be aggregated and the maximum insurance coverage is \$250,000. As of December 31, 2013 and 2012, there was approximately \$1,757,000 and \$4,190,000, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits. Such excess includes outstanding checks.

B. *Concentration of Revenue*

PAL derives a significant portion of its revenue from contractual arrangements with government sources. Such revenue approximated 71% and 59% of total support and revenue for the years ended December 31, 2013 and 2012, 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.

POLICE ATHLETIC LEAGUE, INC
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NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2013 and 2012.

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, bonds 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 obligations – are valued based on yields currently available on comparable securities issuers with similar credit ratings.

Financial assets carried at fair value at December 31, 2013 are classified as follows:

	<u>Level 1</u>
Investments:	
Cash equivalents	\$ 2,386,402
Common stock:	
Oil and gas	166,461
Diversified machinery	169,026
Other	23,530
Basic materials	<u>100,495</u>
Total common stock	459,512
Mutual funds	1,327,939
Government Securities	101,828
Corporate bonds	<u>895,758</u>
Total Investments	<u>5,171,439</u>
Gift Annuity Program:	
Money market funds	1,469
Bond index funds	81,654
U.S. Large growth	<u>50,033</u>
Total Gift Annuity	<u>133,156</u>
Total Assets Carried at Fair Value	<u>\$ 5,304,595</u>

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NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at December 31, 2012 are classified as follows:

	<u>Level 1</u>
Investments:	
Cash equivalents	\$ 24,677
Common stock:	
Oil and gas	192,798
Diversified machinery	146,083
Other	23,074
Basic materials	<u>164,932</u>
Total common stock	526,887
Mutual funds	<u>185,233</u>
Total Investments	<u>736,797</u>
Gift Annuity Program:	
Mutual Funds:	
Bond index funds	85,759
U.S. Large growth	<u>53,000</u>
Total Gift Annuity	<u>138,759</u>
Total Assets Carried at Fair Value	<u>\$ 875,556</u>

NOTE 14 – 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 replaced the prior law which was the Uniform Management of Institutional Funds Act (“UMIFA”). In addition, 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. Unless stated otherwise, the assets in a donor-restricted endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board.

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.

As a result of this interpretation, PAL has not changed the way permanently restricted net assets are classified. 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

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 14 – ENDOWMENT NET ASSETS (Continued)

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, 2013 and 2012.

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, 2013 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment activity:			
Interest and dividends	\$ 3,128	\$ -	\$ 3,128
Net realized/unrealized gain	<u>10,980</u>	<u>-</u>	<u>10,980</u>
Total investment activity	14,108	-	14,108
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, beginning of year	<u>41,188</u>	<u>260,000</u>	<u>301,188</u>
Endowment net assets, end of year	<u>\$ 55,296</u>	<u>\$ 260,000</u>	<u>\$ 315,296</u>

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment activity:			
Interest and dividends	\$ 4,565	\$ -	\$ 4,565
Investment fees	(3,075)	-	(3,075)
Net realized/unrealized gain	<u>7,930</u>	<u>-</u>	<u>7,930</u>
Total investment activity	9,420	-	9,420
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, beginning of year	<u>31,768</u>	<u>260,000</u>	<u>291,768</u>
Endowment net assets, end of year	<u>\$ 41,188</u>	<u>\$ 260,000</u>	<u>\$ 301,188</u>

Endowment net assets of \$315,296 and \$301,188 are included with investments in the accompanying statements of financial position as of December 31, 2013 and 2012, respectively.

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, 2014, the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2013 through June 13, 2014, that would require adjustment to or disclosure in the accompanying financial statements.