

POLICE ATHLETIC LEAGUE, Inc.



Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2014 and 2013

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, 2014 AND 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 11, 2015

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents (Notes 2D and 12A)	\$ 1,443,965	\$ 1,735,724
Investments (Notes 2E, 3 and 13)	5,395,242	5,171,439
Accounts receivable	13,690	23,640
Contributions receivable, net (Notes 2C, 2H and 6)	606,239	629,221
Due from government agencies (Notes 2I and 5)	2,464,325	1,488,612
Prepaid expenses and other assets	346,232	228,617
Beneficial interest in split-interest agreements (Notes 2F and 13)	113,328	133,156
Property and equipment, net (Notes 2G and 4)	6,415,497	6,607,915
TOTAL ASSETS	\$ 16,798,518	\$ 16,018,324
 LIABILITIES		
Accounts payable and accrued expenses (Note 2M)	\$ 2,622,237	\$ 2,195,987
Advances from government agencies (Notes 2I and 9)	2,017,650	1,731,171
Gift annuity payable (Note 2F)	77,406	85,496
TOTAL LIABILITIES	4,717,293	4,012,654
 COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS (Note 2B)		
Unrestricted	10,712,657	10,409,360
Temporarily restricted (Notes 10 and 14)	1,108,568	1,336,310
Permanently restricted (Note 14)	260,000	260,000
TOTAL NET ASSETS	12,081,225	12,005,670
TOTAL LIABILITIES AND NET ASSETS	\$ 16,798,518	\$ 16,018,324

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

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	For the Year Ended December 31, 2014				For the Year Ended December 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Support (Note 2C)								
Special events, net of expenses of \$329,617 in 2014 and \$420,264 in 2013	\$ 2,905,166	\$ -	\$ -	\$ 2,905,166	\$ 2,414,365	\$ -	\$ -	\$ 2,414,365
Contributions from foundations and corporations	1,139,149	955,152	-	2,094,301	1,261,590	1,517,190	-	2,778,780
Contributions from individuals	117,791	7,410	-	125,201	121,744	4,660	-	126,404
Bequests and legacies	31,721	-	-	31,721	257	-	-	257
Contributed services, rent and other in-kind (Note 2J)	360,555	-	-	360,555	1,107,254	-	-	1,107,254
Change in value of split-interest agreements (Note 2F)	-	(15,929)	-	(15,929)	-	(7,374)	-	(7,374)
Net assets released from restrictions (Note 10)	1,182,009	(1,182,009)	-	-	1,627,136	(1,627,136)	-	-
Total Support	<u>5,736,391</u>	<u>(235,376)</u>	<u>-</u>	<u>5,501,015</u>	<u>6,532,346</u>	<u>(112,660)</u>	<u>-</u>	<u>6,419,686</u>
Revenue								
Government grants (Note 2I)	19,667,083	-	-	19,667,083	17,487,321	-	-	17,487,321
Program fees and other revenue (Notes 2L and 8)	486,996	-	-	486,996	697,271	-	-	697,271
Loss on disposal of fixed assets	-	-	-	-	(51,269)	-	-	(51,269)
Investment activity (Note 3)	217,040	7,634	-	224,674	12,782	14,108	-	26,890
Total Revenue	<u>20,371,119</u>	<u>7,634</u>	<u>-</u>	<u>20,378,753</u>	<u>18,146,105</u>	<u>14,108</u>	<u>-</u>	<u>18,160,213</u>
TOTAL SUPPORT AND REVENUE	<u>26,107,510</u>	<u>(227,742)</u>	<u>-</u>	<u>25,879,768</u>	<u>24,678,451</u>	<u>(98,552)</u>	<u>-</u>	<u>24,579,899</u>
EXPENSES								
Program services	23,312,913	-	-	23,312,913	21,541,093	-	-	21,541,093
Management and general	1,208,385	-	-	1,208,385	1,795,448	-	-	1,795,448
Fundraising	1,282,915	-	-	1,282,915	1,848,387	-	-	1,848,387
TOTAL EXPENSES	<u>25,804,213</u>	<u>-</u>	<u>-</u>	<u>25,804,213</u>	<u>25,184,928</u>	<u>-</u>	<u>-</u>	<u>25,184,928</u>
CHANGE IN NET ASSETS	<u>303,297</u>	<u>(227,742)</u>	<u>-</u>	<u>75,555</u>	<u>(506,477)</u>	<u>(98,552)</u>	<u>-</u>	<u>(605,029)</u>
Net assets - beginning of year	10,409,360	1,336,310	260,000	12,005,670	10,915,837	1,434,862	260,000	12,610,699
NET ASSETS - END OF YEAR	<u>\$ 10,712,657</u>	<u>\$ 1,108,568</u>	<u>\$ 260,000</u>	<u>\$ 12,081,225</u>	<u>\$ 10,409,360</u>	<u>\$ 1,336,310</u>	<u>\$ 260,000</u>	<u>\$ 12,005,670</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, 2014
(With Comparative Totals for December 31, 2013)

	For the Year Ended December 31, 2014									
	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 2014	Total 2013
Salaries and wages	\$ 4,045,104	\$ 7,142,030	\$ 1,023,701	\$ 426,201	\$ 533,741	\$ 13,170,777	\$ 622,767	\$ 514,590	\$ 14,308,134	\$ 13,890,383
Payroll taxes and employee benefits (Note 7)	<u>1,089,383</u>	<u>1,491,669</u>	<u>210,764</u>	<u>100,365</u>	<u>156,857</u>	<u>3,049,038</u>	<u>264,887</u>	<u>159,332</u>	<u>3,473,257</u>	<u>3,252,866</u>
Total Salaries and Related Costs	5,134,487	8,633,699	1,234,465	526,566	690,598	16,219,815	887,654	673,922	17,781,391	17,143,249
Professional and other services	300,129	141,923	563,524	33,804	141,392	1,180,772	112,079	164,723	1,457,574	1,200,857
Supplies	278,897	307,438	194,476	26,369	17,864	825,044	5,104	6,001	836,149	806,689
Food	366,359	560,688	18,156	7,442	9,000	961,645	6,641	18	968,304	875,888
Occupancy costs (Note 11A)	341,459	667,127	53,255	2,490	27,450	1,091,781	60	-	1,091,841	1,009,490
Travel and conferences	20,429	504,991	11,695	9,406	15,161	561,682	8,900	3,675	574,257	446,572
Repairs and maintenance	478,325	214,891	8,723	357	534	702,830	17,220	-	720,050	377,596
Staff development	20,324	24,072	-	-	-	44,396	2,525	75	46,996	39,306
Telephone	83,538	84,928	18,193	14,076	7,853	208,588	22,285	961	231,834	261,945
Postage and printing	27,089	52,479	13,207	3,905	350	97,030	34,494	227,749	359,273	397,211
Insurance	171,595	205,221	46,581	8,570	7,675	439,642	23,690	-	463,332	282,311
Equipment rentals and purchases	72,193	138,111	32,165	19,032	4,343	265,844	69,212	20,478	355,534	422,139
Interest expense	-	-	-	-	-	-	-	-	-	234
Appeals	-	-	-	-	-	-	-	152,998	152,998	195,376
Bad debts	-	-	-	-	-	-	13,542	-	13,542	217,658
Depreciation and amortization	-	360,309	-	-	-	360,309	-	-	360,309	344,576
Contributed services, rent and other in-kind (Note 2J)	327,361	-	-	-	-	327,361	2,382	30,811	360,554	1,107,254
Miscellaneous	<u>14,020</u>	<u>11,653</u>	<u>441</u>	<u>60</u>	<u>-</u>	<u>26,174</u>	<u>2,597</u>	<u>1,504</u>	<u>30,275</u>	<u>56,577</u>
TOTAL EXPENSES	<u>\$ 7,636,205</u>	<u>\$ 11,907,530</u>	<u>\$ 2,194,881</u>	<u>\$ 652,077</u>	<u>\$ 922,220</u>	<u>\$ 23,312,913</u>	<u>\$ 1,208,385</u>	<u>\$ 1,282,915</u>	<u>\$ 25,804,213</u>	<u>\$ 25,184,928</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

	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
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
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>
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
Professional and other services	125,517	316,213	208,950	48,843	101,984	801,507	145,673	253,677	1,200,857
Supplies	245,171	299,169	132,165	79,034	22,607	778,146	18,217	10,326	806,689
Food	364,713	462,625	27,394	8,544	6,541	869,817	5,330	741	875,888
Occupancy costs (Note 11A)	334,074	594,419	48,302	-	32,175	1,008,970	520	-	1,009,490
Travel and conferences	26,962	357,324	10,334	19,290	14,571	428,481	14,862	3,229	446,572
Repairs and maintenance	118,401	224,999	2,153	162	12,180	357,895	19,701	-	377,596
Staff development	13,668	24,923	300	-	-	38,891	375	40	39,306
Telephone	120,557	83,683	11,764	14,761	7,841	238,606	22,005	1,334	261,945
Postage and printing	21,408	29,104	10,580	2,055	1,441	64,588	29,439	303,184	397,211
Insurance	66,407	134,274	33,287	1,127	376	235,471	46,840	-	282,311
Equipment rentals and purchases	72,254	162,236	55,501	18,362	5,934	314,287	68,461	39,391	422,139
Interest expense	-	-	-	-	-	-	234	-	234
Appeals	-	-	-	-	-	-	-	195,376	195,376
Bad debts	-	-	-	-	-	-	217,658	-	217,658
Depreciation and amortization	-	344,576	-	-	-	344,576	-	-	344,576
Contributed services, rent and other in-kind (Note 2J)	1,074,086	696	-	-	-	1,074,782	1,465	31,007	1,107,254
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>
TOTAL EXPENSES	<u>\$ 7,500,394</u>	<u>\$ 10,476,377</u>	<u>\$ 2,045,298</u>	<u>\$ 680,313</u>	<u>\$ 838,711</u>	<u>\$ 21,541,093</u>	<u>\$ 1,795,448</u>	<u>\$ 1,848,387</u>	<u>\$ 25,184,928</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, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 75,555	\$ (605,029)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	360,309	344,576
Realized and unrealized (loss) gain on investments	(109,123)	26,071
Change in value of split-interest agreements	15,929	7,374
Loss of disposal of fixed assets	-	51,269
Bad debt expense	13,542	217,658
Subtotal	356,212	41,919
Changes in operating assets and liabilities:		
Accounts receivable	9,950	(12,183)
Contributions receivable	9,440	135,540
Due from government agencies	(975,713)	664,586
Prepaid expenses and other assets	(117,615)	(4,039)
Accounts payable and accrued expenses	426,250	(556,479)
Gift annuity payable	(24,019)	(16,264)
Advances from government agencies	286,479	473,958
Net Cash (Used in) Provided by Operating Activities	(29,016)	727,038
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(871,541)	(4,457,170)
Proceeds from sale of investments	776,689	2,060
Property and equipment acquisitions	(167,891)	(345,562)
Net Cash Used in Investing Activities	(262,743)	(4,800,672)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans	-	(64,749)
Net Cash Used in Financing Activities	-	(64,749)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(291,759)	(4,138,383)
Cash and cash equivalents - beginning of year	1,735,724	5,874,107
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,443,965	\$ 1,735,724
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ -	\$ 234

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

POLICE ATHLETIC LEAGUE, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 101st 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,

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, 2014 AND 2013

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 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 \$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, 2014 and 2013, PAL recorded an allowance for contributions receivables of \$157,500 and \$129,555, 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 \$360,555 and \$1,107,254 for the years ended December 31, 2014 and 2013, 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, 2014 AND 2013

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, 2014 and 2013 amounted to approximately \$122,000 and \$114,000, 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.

NOTE 3 – INVESTMENTS

Investments consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash equivalents	\$ 1,111,937	\$ 2,562,588
Common stock	1,086,589	956,295
Mutual funds	1,504,756	819,092
Corporate and International bonds	1,338,642	629,451
Government securities	<u>353,318</u>	<u>204,013</u>
Investments, net	<u>\$ 5,395,242</u>	<u>\$ 5,171,439</u>

Investment activity consisted of the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 133,186	\$ 55,581
Realized and unrealized losses	109,123	(26,071)
Investment fees	<u>(17,635)</u>	<u>(2,620)</u>
Total investment activity	<u>\$ 224,674</u>	<u>\$ 26,890</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Estimated Useful Life</u>
Land	\$ 1	\$ 1	
Fine arts	25,000	-	
Furniture, fixtures and equipment	1,570,355	1,561,530	5-10 years
Leasehold improvements	11,939,859	11,893,867	25-40 years
Vehicles	157,039	157,039	5 years
Construction in progress	<u>88,074</u>	<u>-</u>	
Total cost	13,780,328	13,612,437	
Less: accumulated depreciation and amortization	<u>7,364,831</u>	<u>7,004,522</u>	
Net Book Value	<u>\$ 6,415,497</u>	<u>\$ 6,607,915</u>	

Depreciation and amortization expense amounted to \$360,309 and \$344,576 for the years ended December 31, 2014 and 2013, respectively. During the year ended December 31, 2014 and 2013, PAL disposed of assets with net book value of \$0 and \$51,269, respectively. 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, 2014 AND 2013

NOTE 4 – PROPERTY AND EQUIPMENT (Continued)

The construction in progress relates to renovations at 552 West 52nd Street, William J. Duncan Center building. The renovations are specifically related to the buildings 1st floor for program operations. The project renovations started on December 22, 2014. The cost to complete the project was approximately \$258,500, which was completed on February 24, 2015.

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

2015	\$ 314,000
2016	314,000
2017	310,000
2018	310,000
2019	<u>299,000</u>
	<u>\$ 1,547,000</u>

NOTE 5 – DUE FROM GOVERNMENT AGENCIES

Due from government agencies under grants and contracts consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
New York City Office of the Criminal Justice Coordinator	\$ 48,894	\$ 253,669
New York City Department of Youth and Community Development	1,565,217	743,166
New York City Administration for Children's Services	594,842	294,868
New York State Department of Education	167,387	129,013
New York City District Attorney's Office	<u>87,985</u>	<u>67,896</u>
	<u>\$ 2,464,325</u>	<u>\$ 1,488,612</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 763,739	\$ 658,776
One to five years	<u>-</u>	<u>100,000</u>
	763,739	758,776
Less: allowance for doubtful accounts	<u>(157,500)</u>	<u>(129,555)</u>
	<u>\$ 606,239</u>	<u>\$ 629,221</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, 2014 and 2013, total employer contributions amounted to approximately \$351,000 and \$406,000. The contribution for the year ended December 31, 2014, was not yet paid as of June 11, 2015.

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NOTE 8 – ADVANCES FROM GOVERNMENT AGENCIES

Advances from government agencies consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
New York City Department of Youth and Community Development	\$ 1,151,209	\$ 862,925
New York City Administration for Children's Services	484,504	607,860
New York State Department of Education	82,501	26,140
New York City Office of the Criminal Justice Coordinator	233,636	233,636
New York State Child and Adult Care Food Program	65,800	-
Other	-	610
	<u>\$ 2,017,650</u>	<u>\$ 1,731,171</u>

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Full-time centers	\$ 634,399	\$ 725,442
Field operations	65,233	93,129
Youth employment	-	11,838
Juvenile justice and re-entry	156,438	115,599
Disaster relief	-	150,370
Unappropriated earnings	62,930	55,296
Time restricted and other	<u>189,568</u>	<u>184,636</u>
Total temporarily restricted net assets	<u>\$ 1,108,568</u>	<u>\$ 1,336,310</u>

Temporarily restricted net assets of \$1,182,009 and \$1,627,136 for the years December 31, 2014 and 2013, 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, 2014 and 2013 amounted approximately to \$512,000 and \$525,000, 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, 2014, and do not take into consideration any renewals, etc., negotiated after year end.

2015	\$ 273,000
2016	257,000
2017	266,000
2018	168,000
2019	26,000
Thereafter	<u>819,000</u>
	<u>\$ 1,809,000</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.

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NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

- C. PAL had no uncertain tax positions as of December 31, 2014 and 2013 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, 2011.

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 provided deposit insurance coverage of up to \$250,000 on interest-bearing and non-interest bearing accounts. As of December 31, 2014 and 2013, there was approximately \$1,911,000 and \$1,757,000, 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 76% and 71% of total support and revenue for the years ended December 31, 2014 and 2013, 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.

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 2 or 3 during the years ended December 31, 2014 and 2013.

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.

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NOTE 12 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at December 31, 2014 and 2013, were classified as Level 1 and were as follows:

	<u>2014</u>	<u>2013</u>
Investments:		
Cash equivalents	\$ 1,111,937	\$ 2,562,588
Common stock:		
Technology	260,682	212,072
Basic materials	195,892	329,992
Financial services	160,943	102,003
Services	129,213	73,096
Utilities	113,811	73,573
Healthcare	92,426	57,442
Industrial goods	81,005	58,917
Consumer goods	<u>52,617</u>	<u>49,200</u>
Total common stock	1,086,589	956,295
Mutual funds:		
Equity funds	152,527	148,104
Bond funds	1,197,287	541,048
International equity funds	<u>154,942</u>	<u>129,939</u>
Total mutual funds	1,504,756	819,092
Government securities	353,318	204,013
Corporate bonds	1,105,207	520,188
International bonds	<u>233,435</u>	<u>109,263</u>
Total Investments	<u>\$ 5,395,242</u>	<u>\$ 5,171,439</u>
Gift Annuity Program:		
Money market funds	\$ 2,262	\$ 1,469
Bond index funds	68,535	81,654
Equity funds	<u>42,531</u>	<u>50,033</u>
Total Gift Annuity	<u>\$ 113,328</u>	<u>\$ 133,156</u>
Total Assets Carried at Fair Value	<u>\$ 5,508,570</u>	<u>\$ 5,304,595</u>

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 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.

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NOTE 13 – ENDOWMENT NET ASSETS (Continued)

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 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, 2014 and 2013.

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, 2014, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment activity:			
Interest and dividends	\$ 4,464	\$ -	\$ 4,464
Net realized/unrealized gain	<u>3,170</u>	<u>-</u>	<u>3,170</u>
Total investment activity	7,634	-	7,634
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, beginning of year	<u>55,296</u>	<u>260,000</u>	<u>315,296</u>
Endowment net assets, end of year	<u>\$ 62,930</u>	<u>\$ 260,000</u>	<u>\$ 322,930</u>

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>

Endowment net assets of \$322,930 and \$315,296 are included with investments in the accompanying statements of financial position as of December 31, 2014 and 2013, respectively.

NOTE 14 – SUBSEQUENT EVENTS

PAL has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through June 11, 2015, the date the financial statements were available to be issued.