

POLICE ATHLETIC LEAGUE, INC.



**Financial Statements
(Together with Independent Auditors' Report)**

Years Ended December 31, 2019 and 2018

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, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Police Athletic League, Inc.

We have audited the accompanying financial statements of Police Athletic League, Inc. ("PAL") which comprise the statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Marks Paneth LLP

New York, NY
July 30, 2020

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents (Notes 2D and 12A)	\$ 2,622,706	\$ 886,602
Investments (Notes 2E and 4)	6,299,051	6,844,568
Due from government agencies (Notes 2I and 6)	3,082,685	4,749,091
Accounts receivable	87,486	44,042
Contributions receivable, net (Notes 2C, 2H and 7)	398,163	602,060
Prepaid expenses and other assets	346,092	366,857
Beneficial interest in split-interest agreements (Note 2F)	48,865	52,901
Property and equipment, net (Notes 2G and 5)	14,183,483	14,079,363
TOTAL ASSETS	\$ 27,068,531	\$ 27,625,484
LIABILITIES		
Accounts payable and accrued expenses (Note 2M)	\$ 1,302,400	\$ 930,691
Accrued salaries and benefits (Note 8)	1,448,285	1,297,063
Advances from government agencies (Notes 2I and 9)	2,468,875	3,716,975
Deferred revenue (Note 13)	7,429,279	7,015,961
Note payable (Note 14)	112,299	1,097,155
Gift annuity payable (Note 2F)	59,737	58,524
TOTAL LIABILITIES	12,820,875	14,116,369
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS (Note 2B)		
Without donor restrictions:		
Invested in property and equipment (Note 5)	6,754,204	7,063,402
Available for operations	6,691,404	5,759,622
Total net assets without donor restrictions	13,445,608	12,823,024
With donor restrictions (Notes 10)	802,048	686,091
TOTAL NET ASSETS	14,247,656	13,509,115
TOTAL LIABILITIES AND NET ASSETS	\$ 27,068,531	\$ 27,625,484

POLICE ATHLETIC LEAGUE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	For the Year Ended December 31, 2019			For the Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Support (Note 2C)						
Special events, net of expenses of \$427,485 in 2019 and \$393,211 in 2018	\$ 2,647,229	\$ -	\$ 2,647,229	\$ 2,646,493	\$ -	\$ 2,646,493
Contributions from foundations and corporations (Note 2C)	456,192	379,784	835,976	437,818	323,944	761,762
Contributions from individuals (Note 2C)	682,388	25,000	707,388	752,011	25,000	777,011
Bequests and legacies	1,291	-	1,291	185,434	-	185,434
Contributed services, rent and other (Note 2J)	1,628,905	-	1,628,905	663,910	-	663,910
Change in value of split-interest agreements (Note 2F)	-	(9,731)	(9,731)	-	12,066	12,066
Net assets released from restrictions (Note 10)	287,071	(287,071)	-	1,543,354	(1,543,354)	-
Total Support	5,703,076	107,982	5,811,058	6,229,020	(1,182,344)	5,046,676
Revenue						
Government grants (Note 2I)	26,316,626	-	26,316,626	22,841,420	-	22,841,420
Rental income and fees (Note 2L)	608,382	-	608,382	619,943	-	619,943
Investment activity, net (Note 4)	611,924	7,975	619,899	(104,856)	(2,813)	(107,669)
Total Revenue	27,536,932	7,975	27,544,907	23,356,507	(2,813)	23,353,694
TOTAL SUPPORT AND REVENUE	33,240,008	115,957	33,355,965	29,585,527	(1,185,157)	28,400,370
EXPENSES						
Program services	28,350,846	-	28,350,846	24,095,858	-	24,095,858
Management and general	3,094,611	-	3,094,611	3,018,866	-	3,018,866
Fundraising	1,171,967	-	1,171,967	1,337,313	-	1,337,313
TOTAL EXPENSES	32,617,424	-	32,617,424	28,452,037	-	28,452,037
CHANGE IN NET ASSETS	622,584	115,957	738,541	1,133,490	(1,185,157)	(51,667)
Net assets - beginning of year	12,823,024	686,091	13,509,115	11,689,534	1,871,248	13,560,782
NET ASSETS - END OF YEAR	\$ 13,445,608	\$ 802,048	\$ 14,247,656	\$ 12,823,024	\$ 686,091	\$ 13,509,115

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, 2019
(With Comparative Totals for December 31, 2018)

	For the Year Ended December 31, 2019								
	Program Services				Total Program Services	Supporting Services		Total 2019	Total 2018
	Child Care	Center Operations	Sports/ Recreation	Teen Programs		Management and General	Fundraising		
Salaries and wages	\$ 4,916,756	\$ 7,276,744	\$ 441,836	\$ 1,691,812	\$ 14,327,148	\$ 2,257,325	\$ 642,257	\$ 17,226,730	\$ 15,879,651
Payroll taxes and employee benefits (Note 8)	<u>1,556,834</u>	<u>1,383,897</u>	<u>69,850</u>	<u>297,256</u>	<u>3,307,837</u>	<u>617,666</u>	<u>169,140</u>	<u>4,094,643</u>	<u>4,229,703</u>
Total Salaries and Related Costs	6,473,590	8,660,641	511,686	1,989,068	17,634,985	2,874,991	811,397	21,321,373	20,109,354
Professional and other services	475,377	158,702	493,374	898,535	2,025,988	13,262	21,645	2,060,895	1,661,110
Supplies	626,952	389,319	102,378	124,357	1,243,006	12,127	33,479	1,288,612	824,869
Food	621,327	472,990	20,147	51,031	1,165,495	17,122	681	1,183,298	1,144,406
Occupancy costs (Note 11A)	1,028,909	379,554	106,681	138,227	1,653,371	-	427,485	2,080,856	1,477,346
Travel and conferences	5,225	336,090	22,795	76,347	440,457	20,897	4,672	466,026	405,905
Repairs and maintenance	591,365	331,012	12,483	12,519	947,379	8,434	8,325	964,138	589,518
Staff development	44,975	24,793	2,754	2,789	75,311	404	395	76,110	49,428
Telephone	73,832	84,538	13,056	30,308	201,734	11,015	5,094	217,843	194,998
Postage and printing	70,291	32,386	5,276	3,299	111,252	3,976	129,428	244,656	303,548
Insurance	231,336	219,882	33,441	39,786	524,445	43,955	11,956	580,356	550,931
Equipment rentals and purchases	81,824	151,431	21,043	63,952	318,250	34,058	17,032	369,340	334,149
Appeals	-	-	-	-	-	-	117,142	117,142	159,553
Bad debt	-	-	-	-	-	6,431	-	6,431	12,246
Depreciation and amortization	5,033	375,248	-	-	380,281	-	-	380,281	353,898
Contributed services, rent and other in-kind (Note 2J)	1,628,892	-	-	-	1,628,892	-	13	1,628,905	663,909
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,939</u>	<u>10,708</u>	<u>58,647</u>	<u>10,080</u>
	11,958,928	11,616,586	1,345,114	3,430,218	28,350,846	3,094,611	1,599,452	33,044,909	28,845,248
Costs of direct benefit to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(427,485)</u>	<u>(427,485)</u>	<u>(393,211)</u>
TOTAL EXPENSES	<u>\$ 11,958,928</u>	<u>\$ 11,616,586</u>	<u>\$ 1,345,114</u>	<u>\$ 3,430,218</u>	<u>\$ 28,350,846</u>	<u>\$ 3,094,611</u>	<u>\$ 1,171,967</u>	<u>\$ 32,617,424</u>	<u>\$ 28,452,037</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**

	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
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
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>
Total Salaries and Related Costs	6,031,922	8,357,966	558,857	1,627,845	16,576,590	2,647,786	884,978	20,109,354
Professional and other services	361,612	134,268	407,248	659,581	1,562,709	87,918	10,483	1,661,110
Supplies	226,174	311,167	166,736	100,237	804,314	5,240	15,315	824,869
Food	537,021	530,386	12,769	42,570	1,122,746	10,923	10,737	1,144,406
Occupancy costs (Note 11A)	474,053	420,339	104,721	84,496	1,083,609	526	393,211	1,477,346
Travel and conferences	4,485	289,418	8,701	87,735	390,339	10,649	4,917	405,905
Repairs and maintenance	288,006	251,664	17,687	22,454	579,811	4,850	4,857	589,518
Staff development	15,065	25,894	5,900	323	47,182	1,881	365	49,428
Telephone	72,387	78,478	7,111	29,632	187,608	3,648	3,742	194,998
Postage and printing	46,355	73,184	6,830	10,568	136,937	9,461	157,150	303,548
Insurance	142,989	101,879	38,369	43,606	326,843	198,794	25,294	550,931
Equipment rentals and purchases	44,846	194,077	30,862	31,776	301,561	13,657	18,931	334,149
Appeals	-	-	-	-	-	-	159,553	159,553
Bad debt	-	-	-	-	-	12,246	-	12,246
Depreciation and amortization	-	353,898	-	-	353,898	-	-	353,898
Contributed services, rent and other in-kind (Note 2J)	621,711	-	-	-	621,711	1,207	40,991	663,909
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,080</u>	<u>-</u>	<u>10,080</u>
	8,866,626	11,122,618	1,365,791	2,740,823	24,095,858	3,018,866	1,730,524	28,845,248
Costs of direct benefit to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(393,211)</u>	<u>(393,211)</u>
TOTAL EXPENSES	<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>\$ 3,018,866</u>	<u>\$ 1,337,313</u>	<u>\$ 28,452,037</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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 738,541	\$ (51,667)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	380,281	353,898
Realized and unrealized (gain) loss on investments	(629,630)	248,718
Change in value of split-interest agreements	9,731	(12,066)
Bad debt	6,431	12,246
Subtotal	505,354	551,129
Changes in operating assets and liabilities:		
Accounts receivable	(43,444)	(2,815)
Contributions receivable	197,466	(169,309)
Due from government agencies	1,666,406	(506,750)
Prepaid expenses and other assets	20,765	(16,241)
Accounts payable and accrued expenses	371,709	(308,122)
Accrued salaries and benefits	151,222	109,259
Gift annuity payable	1,213	(12,744)
Advances from government agencies	(1,248,100)	(669,224)
Deferred revenue	413,318	592,500
	2,035,909	(432,317)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(17,455)	(19,876)
Proceeds from sale of investments	1,186,907	10,795
Property and equipment acquisitions	(484,401)	(1,784,066)
	685,051	(1,793,147)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Note payable proceeds	-	1,097,155
Note payable repayments	(984,856)	-
	(984,856)	1,097,155
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,736,104	(1,128,309)
Cash and cash equivalents - beginning of year	886,602	2,014,911
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,622,706	\$ 886,602

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

POLICE ATHLETIC LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Founded in 1914, Police Athletic League, Inc. (“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.

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 19 Summer Day Camps. Teen Programming includes job skills training, college preparation, recreation, and crime prevention programs at 10 Teen Centers. PAL also connects over 1,800 teenagers with youth employment jobs and gives a second chance to disconnected youth, such as those who have been in trouble with the law. Youth development through sports remains a key component of the Sports and Recreation portfolio, with almost 6,000 youth taking part in more than six sports and 14 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 are accounted under Accounting Standards Update (“ASU”) 2018-08. Contributions and pledges are recognized when the donor makes an unconditional promise to give. All contributions are considered to be available for general 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, 2019 AND 2018

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 4.

- 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, 2019 and 2018, PAL recorded an allowance for contributions receivable of \$100,600 and \$109,500, respectively.
- I. **Revenue from Government Sources** – PAL derives its revenue from, among other sources, cost reimbursement contracts and fees for service programs with federal, New York State, and New York City government agencies. 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 and amounted to approximately \$2,500,000 and \$3,700,000, as of December 31, 2019 and 2018, respectively.
- 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 \$1,628,905 and \$663,910 for the years ended December 31, 2019 and 2018, respectively.

**POLICE ATHLETIC LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2019 and 2018, amounted to approximately \$147,000 and \$119,000, 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, 2018 financial statements have been reclassified to conform with the December 31, 2019 presentation.

O. *Recent Accounting Pronouncements* – FASB Accounting Standards Update (“ASU”) No. 2016-18, *Statement of Cash Flows* (Topic 230) – *Restricted Cash*, was passed to address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires restricted cash or restricted cash equivalents to be included in the beginning-of-period and end-of-period total amounts on the statements of cash flows. PAL adopted the new guidance retrospectively as of January 1, 2018. The ASU did not have an effect on the financial statements.

FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) was also adopted by PAL for the year ended December 31, 2019. The core guidance is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional as further described in Notes 2C and 2I.

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, 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, 2019, comprise the following:

Cash and cash equivalents	\$ 2,622,706
Investments	6,299,051
Due from government agencies	3,082,685
Accounts receivable	87,486
Contributions receivable due in one year	365,483
Less net assets with donor restrictions	<u>(802,048)</u>
	<u>\$ 11,655,363</u>

POLICE ATHLETIC LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 – INVESTMENTS AND 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.

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, 2019 and 2018.

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

Investments carried at fair value at December 31, were as follows:

	2019		
	Level 1	Level 2	Total
Investments:			
Cash equivalents	\$ 1,188,342	\$ -	\$ 1,188,342
Common stock	<u>1,246,532</u>	<u>-</u>	<u>1,246,532</u>
Mutual funds:			
Equity funds	363,647	-	363,647
Bond funds	1,423,034	-	1,423,034
International equity funds	<u>195,098</u>	<u>-</u>	<u>195,098</u>
Total mutual funds	1,981,779	-	1,981,779
Government securities	938,655	-	938,655
Corporate bonds	<u>-</u>	<u>943,743</u>	<u>943,743</u>
Total Investments	<u>\$ 5,355,308</u>	<u>\$ 943,743</u>	<u>\$ 6,299,051</u>

POLICE ATHLETIC LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

	2018		
	Level 1	Level 2	Total
Investments:			
Cash equivalents	\$ 2,242,475	\$ -	\$ 2,242,475
Common stock	<u>1,083,226</u>	<u>-</u>	<u>1,083,226</u>
Mutual funds:			
Equity funds	206,512	-	206,512
Bond funds	1,285,019	-	1,285,019
International equity funds	<u>83,608</u>	<u>-</u>	<u>83,608</u>
Total mutual funds	1,575,139	-	1,575,139
Government securities	810,867	-	810,867
Corporate bonds	<u>-</u>	<u>1,132,861</u>	<u>1,132,861</u>
Total Investments	<u>\$ 5,711,707</u>	<u>\$ 1,132,861</u>	<u>\$ 6,844,568</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 131,515	\$ 165,141
Realized and unrealized gain (loss)	511,202	(248,718)
Investment fees	<u>(22,818)</u>	<u>(24,092)</u>
	<u>\$ 619,899</u>	<u>\$ (107,669)</u>

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Life</u>
Land	\$ 1	\$ 1	
Fine arts	25,000	25,000	
Furniture, fixtures, and equipment	827,522	801,542	5-10 years
Leasehold improvements	13,440,665	13,395,562	25-40 years
Vehicles	158,843	158,843	5 years
Construction in progress	<u>7,429,279</u>	<u>7,015,961</u>	
Total cost	21,881,310	21,396,909	
Less: accumulated depreciation and amortization	<u>7,697,827</u>	<u>7,317,546</u>	
Net Book Value	<u>\$ 14,183,483</u>	<u>\$ 14,079,363</u>	

Depreciation and amortization expense amounted to \$380,281 and \$353,898 for the years ended December 31, 2019 and 2018, 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 site is expected to start operating in September of 2020.

POLICE ATHLETIC LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – DUE FROM GOVERNMENT AGENCIES

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

	<u>2019</u>	<u>2018</u>
New York City agencies	\$ 1,869,630	\$ 4,511,521
U.S. Government agencies	833,164	-
New York State agencies	370,797	216,997
Other	<u>9,094</u>	<u>20,573</u>
	<u>\$ 3,082,685</u>	<u>\$ 4,749,091</u>

NOTE 7 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 466,083	\$ 711,560
Due after one year	<u>32,680</u>	<u>-</u>
Total contributions receivable	498,763	711,560
Less: allowance for doubtful accounts	<u>(100,600)</u>	<u>(109,500)</u>
	<u>\$ 398,163</u>	<u>\$ 602,060</u>

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, 2019 and 2018, total employer contributions amounted to approximately \$512,000 and \$522,000, respectively. The contribution for the year ended December 31, 2019, 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, 2019 and 2018.

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>2019</u>	<u>2018</u>
New York City Administration for Children's Services	\$ 625,485	\$ 1,140,674
New York City Department of Youth and Community Development	1,843,390	2,065,450
City of New York Mayor's Office of Criminal Justice	<u>-</u>	<u>510,851</u>
	<u>\$ 2,468,875</u>	<u>\$ 3,716,975</u>

**POLICE ATHLETIC LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Net Assets Restricted in Perpetuity:		
PAL Endowment Fund	\$ 385,000	\$ 360,000
Subject to expenditure for specified purpose and the passage of time:		
Center operations	43,004	5,201
Teen programming	123,000	21,151
Sports and recreation	90,321	146,832
Unappropriated earnings	72,982	72,982
Time restricted and other	87,741	79,925
Total net assets with donor restrictions	\$ 802,048	\$ 686,091

Net assets with donor restrictions of \$287,071 and \$1,543,354 for the years December 31, 2019 and 2018, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors or the passage of time.

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 restrictions, are reflected as net assets with donor restrictions 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, 2019 and 2018.

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).

**POLICE ATHLETIC LEAGUE, INC.
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NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Changes in endowment net assets for the years ended December 31, 2019 and 2018, are as follows:

Endowment net assets, January 1, 2018	\$	410,795
Appropriated for operations		-
Contributions		25,000
Interest and dividends		1,983
Investment loss		<u>(4,796)</u>
Endowment net assets, December 31, 2018		432,982
Appropriated for operations		-
Contributions		25,000
Interest and dividends		1,654
Investment income		<u>6,321</u>
Endowment net assets, December 31, 2019	\$	<u>465,957</u>

Endowment net assets of \$465,957 and \$432,982 are included with investments in the accompanying statements of financial position as of December 31, 2019 and 2018, respectively.

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, 2019 and 2018 amounted approximately to \$1,226,000 and \$641,000, 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, 2019, and do not take into consideration any renewals, etc., negotiated after year end.

2020	\$ 950,000
2021	661,000
2022	627,000
2023	639,000
2024	594,000
Thereafter	<u>3,099,000</u>
	<u>\$ 6,570,000</u>

- B. PAL believes it had no uncertain tax positions as of December 31, 2019 and 2018 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, 2019 and 2018, there was approximately \$3,453,000 and \$2,958,000, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits.

POLICE ATHLETIC LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 – CONCENTRATIONS (CONTINUED)

B. *Concentration of Revenue* – PAL derives a significant portion of its revenue from contractual arrangements with government sources. Such revenue approximated 79% and 81% of total support and revenue for the years ended December 31, 2019 and 2018, respectively. Such revenue is subject to audit and possible adjustment by the various government agencies.

NOTE 13 – 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 \$7,429,279 as of December 31, 2019 to fund the project, which are recorded as deferred revenue in the accompanying financial statements. 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 14 – 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 had 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.

During the year ended December 31, 2019, PAL entered into an agreement with the Mayor’s Office of Criminal Justice (“MOCJ”) for a returnable grant fund in the amount of \$725,000. The loan is to be repaid from the approved MOCJ contract budget supported by valid invoices. As of December 31, 2019 the outstanding balance on the grant amounted to \$112,299, and was fully repaid in March 2020.

NOTE 15 – SUBSEQUENT EVENTS

PAL has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through July 30, 2020, the date the financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. PAL could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on PAL’s mission, programs, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, PAL cannot predict the extent to which its financial condition and results of operations will be affected.

In June 2020, in response to COVID-19, various financial relief programs were made available to qualified businesses including non-profit organizations. PAL has applied for a working capital loan with Non-Profit Finance Fund (“NFF”) to support its operations. The loan amounting to \$1,500,00 has zero interest and is repayable in three equal quarterly payments commencing eighteen months from the closing date. PAL has closed on the loan on July 29, 2020 and is currently awaiting funding.