

**DETROIT POLICE ATHLETIC LEAGUE, INC.
AND DETROIT PAL FUNDRAISING
FOUNDATION
D/B/A Detroit PAL
Detroit, Michigan**

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Detroit Police Athletic League, Inc. and Detroit PAL Fundraising Foundation
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Detroit Police Athletic League, Inc. and Detroit PAL Fundraising Foundation (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 26 and 27 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
May 30, 2019

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2018 and 2017

ASSETS		
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 806,272	\$ 758,996
Accounts receivable, net	44,929	84,333
Interest receivable	7,130	7,130
Pledges receivable, net of long-term portion	110,638	186,069
Grants receivable	1,059,243	1,405,475
Prepaid expenses	21,861	28,323
Total Current Assets	2,050,073	2,470,326
PROPERTY AND EQUIPMENT, NET	15,815,137	12,733,129
OTHER ASSETS		
Restricted cash	2,489,305	4,256,867
Notes receivable	7,516,400	7,516,400
Pledges receivable, net of current portion	10,178	122,426
Beneficial interest	25,468	28,145
Total Other Assets	10,041,351	11,923,838
TOTAL ASSETS	\$ 27,906,561	\$ 27,127,293
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ 43,148	\$ 43,148
Accounts payable	1,381,010	3,277,866
Other payables	-	8,714
Accrued payroll and other expenses	74,110	68,903
Deferred revenue	74,060	407,005
Related party note	200,025	200,025
Total Current Liabilities	1,772,353	4,005,661
LONG-TERM DEBT, NET OF CURRENT PORTION AND DEBT ISSUANCE COSTS		
	13,363,716	11,417,138
Total Liabilities	15,136,069	15,422,799
NET ASSETS		
Without donor restrictions	11,377,374	7,505,629
With donor restrictions	1,393,118	4,198,865
Total Net Assets	12,770,492	11,704,494
TOTAL LIABILITIES AND NET ASSETS	\$ 27,906,561	\$ 27,127,293

See accompanying notes to consolidated financial statements.

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2018 and 2017

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2018 Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2017 Total
PUBLIC SUPPORT						
Contributions and grants	\$ 981,753	\$ 3,611,935	\$ 4,593,688	\$ 470,751	\$ 4,861,823	\$ 5,332,574
In-kind contributions	331,343	-	331,343	346,696	-	346,696
Special events	994,956	-	994,956	993,020	-	993,020
Net assets released from restriction	<u>6,417,682</u>	<u>(6,417,682)</u>	<u>-</u>	<u>2,240,009</u>	<u>(2,240,009)</u>	<u>-</u>
Total Public Support	<u>8,725,734</u>	<u>(2,805,747)</u>	<u>5,919,987</u>	<u>4,050,476</u>	<u>2,621,814</u>	<u>6,672,290</u>
REVENUE						
Program fees	236,495	-	236,495	217,980	-	217,980
Interest income	87,461	-	87,461	95,120	-	95,120
Unrealized investment (loss) income	(1,228)	-	(1,228)	4,032	-	4,032
Rental income	97,924	-	97,924	-	-	-
Other	<u>23,646</u>	<u>-</u>	<u>23,646</u>	<u>6,159</u>	<u>-</u>	<u>6,159</u>
Total Revenue	<u>444,298</u>	<u>-</u>	<u>444,298</u>	<u>323,291</u>	<u>-</u>	<u>323,291</u>
 Total Public Support and Revenue	 <u>9,170,032</u>	 <u>(2,805,747)</u>	 <u>6,364,285</u>	 <u>4,373,767</u>	 <u>2,621,814</u>	 <u>6,995,581</u>
EXPENSES						
Program services						
Athletic programs	3,684,078	-	3,684,078	2,347,433	-	2,347,433
Kids at the Corner Redevelopment	<u>231,772</u>	<u>-</u>	<u>231,772</u>	<u>338,701</u>	<u>-</u>	<u>338,701</u>
Total Program Services	3,915,850	-	3,915,850	2,686,134	-	2,686,134
Management and general	736,941	-	736,941	485,894	-	485,894
Fundraising	<u>645,496</u>	<u>-</u>	<u>645,496</u>	<u>452,838</u>	<u>-</u>	<u>452,838</u>
Total Expenses	<u>5,298,287</u>	<u>-</u>	<u>5,298,287</u>	<u>3,624,866</u>	<u>-</u>	<u>3,624,866</u>
 CHANGE IN NET ASSETS	 3,871,745	 (2,805,747)	 1,065,998	 748,901	 2,621,814	 3,370,715
 NET ASSETS - Beginning of Year	 <u>7,505,629</u>	 <u>4,198,865</u>	 <u>11,704,494</u>	 <u>6,756,728</u>	 <u>1,577,051</u>	 <u>8,333,779</u>
 NET ASSETS - END OF YEAR	 <u>\$ 11,377,374</u>	 <u>\$ 1,393,118</u>	 <u>\$ 12,770,492</u>	 <u>\$ 7,505,629</u>	 <u>\$ 4,198,865</u>	 <u>\$ 11,704,494</u>

See accompanying notes to consolidated financial statements.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,065,998	\$ 3,370,715
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	355,264	18,582
Net unrealized loss (gain) on beneficial interest	1,228	(4,032)
Amortization of debt issuance costs included in interest expense	95,945	88,448
Provision for bad debts for accounts receivable	37,842	95,821
Cash collections on contributions and grants pertaining to Kids at the Corner Redevelopment	(850,266)	(2,035,522)
Changes in assets and liabilities		
Accounts receivable	1,562	(63,402)
Pledges receivable	(1,550,085)	1,141,092
Grants receivable	(1,216,229)	(1,591,308)
Prepaid expenses	6,462	3,892
Accounts payable	(3,195,447)	55,642
Other payables	(8,714)	4,899
Accrued payroll and other expenses	5,208	(143,497)
Deferred revenue	(332,945)	204,415
Other current liabilities	-	(6,897)
Net Cash Flows from (Used in) Operating Activities	(5,584,177)	1,138,848
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,138,681)	(6,807,748)
Proceeds from disposition of beneficial interest	1,449	1,494
Withdrawals of restricted cash	1,767,561	5,689,076
Net Cash Flows Used in Investing Activities	(369,671)	(1,117,178)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	2,650,633	100,000
Payment of debt issuance costs	-	(39,295)
Principal payments on long-term debt	(800,000)	(900,634)
Proceeds from pledges receivable	1,788,030	359,370
Proceeds from grants receivable	2,362,461	1,116,174
Proceeds (payments) on line of credit, net	-	(6,003)
Net Cash Flows from Financing Activities	6,001,124	629,612
Net Change in Cash and Cash Equivalents	47,276	651,282
CASH AND CASH EQUIVALENTS - Beginning of Year	758,996	107,714
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 806,272	\$ 758,996
Supplemental cash flow disclosures		
Cash paid for interest, including capitalized interest of \$197,163 and \$167,382, respectively	\$ 286,799	\$ 320,291
Noncash investing and financing activities		
Purchase of property and equipment included in accounts payable	\$ 1,298,591	\$ 3,197,133

See accompanying notes to consolidated financial statements.

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2018

	Athletic Programs	Kids at the Corner Redevelopment	Total Program	Management and General	Fundraising	Total
Salaries and wages	\$ 1,112,096	\$ -	\$ 1,112,096	\$ 377,742	\$ 292,318	\$ 1,782,156
In-kind expenses	309,731	-	309,731	1,312	-	311,043
Facility rental and maintenance	227,543	-	227,543	818	96,996	325,357
Supplies	186,302	-	186,302	5,771	8,804	200,877
Contractual services	529,171	-	529,171	144,781	62,608	736,560
Equipment rental and repairs	192,107	-	192,107	22,019	19,553	233,679
Insurance	86,596	-	86,596	17,842	4,181	108,619
Travel	69,147	-	69,147	6,526	444	76,117
Conferences	31,645	58	31,703	6,248	11,811	49,762
Occupancy and utilities	76,577	-	76,577	10,775	2,565	89,917
Printing and publications	7,172	-	7,172	9,527	10,316	27,015
Bad debt expense	21,524	11,369	32,893	2,666	2,283	37,842
Postage	358	-	358	1,139	160	1,657
Marketing	27,052	-	27,052	3,862	77,878	108,792
Miscellaneous expenses	417,167	220,345	637,512	50,438	44,250	732,200
Depreciation	303,572	-	303,572	42,761	8,930	355,263
Amortization	81,553	-	81,553	11,993	2,399	95,945
Contingency	4,765	-	4,765	20,721	-	25,486
Total Expenses	<u>\$ 3,684,078</u>	<u>\$ 231,772</u>	<u>\$ 3,915,850</u>	<u>\$ 736,941</u>	<u>\$ 645,496</u>	<u>\$ 5,298,287</u>

See accompanying notes to consolidated financial statements.

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2017

	Athletic Programs	Kids at the Corner Redevelopment	Total Program	Management and General	Fundraising	Total
Salaries and wages	\$ 854,361	\$ 43,275	\$ 897,636	\$ 353,719	\$ 245,520	\$ 1,496,875
In-kind expenses	141,014	4,159	145,173	-	-	145,173
Facility rental and maintenance	212,468	4,039	216,507	10,296	106,429	333,232
Supplies	212,944	602	213,546	1,638	1,665	216,849
Contractual services	511,225	48,205	559,430	43,247	14,108	616,785
Equipment rental and repairs	107,131	1,965	109,096	10,267	7,334	126,697
Insurance	99,795	988	100,783	11,949	2,439	115,171
Travel	42,486	578	43,064	1,436	73	44,573
Conferences	25,084	1,326	26,410	3,574	4,134	34,118
Dues and filing fees	9,206	1,194	10,400	700	416	11,516
Occupancy and utilities	23,518	355	23,873	1,989	1,506	27,368
Printing and publications	5,127	918	6,045	1,304	11,430	18,779
Bad debt expense	27,585	32,737	60,322	-	35,499	95,821
Postage	574	106	680	718	1,542	2,940
Marketing	33,878	10,500	44,378	517	19,884	64,779
Bank fees	1,748	3,393	5,141	15,246	59	20,446
Interest	-	141,048	141,048	2,813	-	143,861
Miscellaneous expenses	23,011	43,034	66,045	22,828	317	89,190
Depreciation	16,278	279	16,557	1,560	465	18,582
Contingency	-	-	-	2,093	18	2,111
Total Expenses	<u>\$ 2,347,433</u>	<u>\$ 338,701</u>	<u>\$ 2,686,134</u>	<u>\$ 485,894</u>	<u>\$ 452,838</u>	<u>\$ 3,624,866</u>

See accompanying notes to consolidated financial statements.

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Organization and Summary of Significant Accounting Policies

Nature of Activities

Detroit Police Athletic League, Inc. (the "DPAL") is a Michigan non-profit corporation which, in collaboration with the Detroit Police Department and community volunteers, builds character in young people through athletic, academic and leadership development programs.

DPAL helps children achieve their highest potential by putting volunteer role models, trained in youth development principles, in their lives as coaches of their youth sports teams, as well as by providing children with academic support and leadership training to assist them with the transitions to high school and college, and to ensure that they relentlessly set and pursue their goals for the rest of their lives.

Detroit PAL Fundraising Foundation (the "Foundation") (collectively with DPAL, the "Organization") was created in June 2016 to provide philanthropic support for DPAL through solicitation, receipt, administration, and disbursement of charitable contributions for the Kids at the Corner Campaign, which is further described below. In addition, the Foundation worked with DPAL to obtain financing, including the New Market Tax Credits ("NMTC"). The Organization is constructing the new office and sporting facility with the financing. The business affairs of the Foundation are managed by its Board of Directors subject to and in compliance with the Articles of Incorporation and Bylaws.

Athletic Programs

The Organization operates some of the largest urban sports leagues in the nation. These programs serve more than 14,000 children each year. Studies prove that children who participate in a developmentally appropriate youth sports program, like the ones operated by the Organization:

- > Are less likely to become or remain obese
- > Perform better in school, are more likely to attend college, and are less likely to drop out of school or to be truant, and
- > Are less likely to break the law, join gangs, or experiment with alcohol or drugs

The Organization engages in a number of other services designed to support program activities, including:

- > Volunteer training and management
- > Facility maintenance
- > Sports registration data entry
- > Communications

Seasonal sports leagues are currently offered in 12 different sports: baseball, softball, t-ball, flag football, basketball, soccer, tackle football, volleyball, track and field, golf, tennis, and cheerleading.

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Organization and Summary of Significant Accounting Policies (cont.)

Academic and Leadership Development

The Organization trains all of its volunteers in appropriate techniques for using sports to teach young people leadership skills and to advocate for academic success.

The volunteer training program, called IMPACT Coaching, was designed by Organization staff and the nationally recognized Institute for the Study of Youth Sports out of Michigan State University. The Organization teaches volunteers to use "huddles" before and after games and find "coachable moments" to transfer lessons learned on the field to lessons about leadership, responsibility, and educational achievement.

Kids at the Corner Redevelopment and Campaign

The Organization has initiated the Kids at the Comer Campaign in an effort to:

- > Expand its programs and organization into more Detroit communities
- > Redevelop the historic Tiger Stadium into a safe and healthy playing field
- > Build a prominent, permanent headquarters and training center for the Organization's 15,000 athletes, their families, and 2,000 volunteers
- > Strengthen community neighborhoods by bridging the city's youths with dedicated public servants
- > Positively influence and develop a new generation of leaders for Detroit, and
- > Provide additional sustainable revenue from tournaments and special event space

The redevelopment plans have been approved by the Detroit Economic Growth Corporation. The Kids at the Corner Campaign has a goal of raising \$20 million to accomplish the above goals.

Management and General

Supporting services consist primarily of administrative functions not directly associated with specific program activities, such as accounting, finance, human resources, and similar functions.

Fundraising

At the direction, and with the support, of the Board of Directors and its officers, two primary types of fundraising initiatives are conducted on behalf of the Organization:

- > Direct solicitations of corporations, foundations, and individuals
- > Special events from which the proceeds are contributed to the Organization

Principles of Presentation

The accompanying consolidated financial statements include the accounts of Detroit Police Athletic League, Inc. and Detroit PAL Fundraising Foundation, a subsidiary of DPAL. Significant intercompany accounts and transactions have been eliminated.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Organization and Summary of Significant Accounting Policies (cont.)

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. The Organization maintains its cash in bank deposit accounts, which at times throughout the year, may exceed federally insured limits. The Organization has not experienced any losses on such accounts.

Restricted Cash

The Organization is required to maintain a separate account for funds relating to the NMTC construction project (the "Project"), which requires lender approval to be released. The Organization is also required to maintain separate accounts for repayment of the loan with Fifth Third Bank and payment of the management fees in accordance with bank requirements.

Pledges Receivable

Unconditional promises to give made to Organization are recorded in the year the pledge is made. Current contributions receivable are expected to be collected during the next year and are recorded at net realizable value. An allowance for uncollectible promises to give is determined based on experience.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are designated for future periods or are restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions.

Accounts and Grants Receivable

Accounts receivable and grants receivable are from private source grants and fees charged to athletic program participants. Accounts receivable are shown net of an allowance for doubtful accounts of \$47,226 and \$68,683 for the years ended December 31, 2018 and 2017, respectively. Management has determined an allowance for uncollectible grants receivable was not necessary for the years ended December 31, 2018 and 2017, respectively. An allowance for uncollectible accounts receivable and grants receivable is determined based on experience.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Organization and Summary of Significant Accounting Policies (cont.)

Beneficial Interest in Endowment Funds

The Organization is a designated beneficiary of trust funds held by the Community Foundation of Southeastern Michigan (the "Community Foundation"). The Organization's board of directors has interpreted existing law and the agreement with the Community Foundation as requiring the preservation of the fair value of the initial deposit to the Endowment Fund. As a result of this interpretation, the Organization classifies in net assets with donor restrictions the original value of the initial deposit to the Endowment Fund. Although the income generated by the Endowment Fund may be used to support the general charitable activities of the Organization, the remaining portion of the Endowment Fund is subject to a time restriction, and, therefore, is classified in net assets with donor restrictions. Any declines in the fair value of the Endowment Fund assets below the original value of the initial deposit were reported in net assets with donor restrictions. The fair value of the assets held at the Community Foundation were \$210,470 and \$232,395 at December 31, 2018 and 2017, respectively.

The Community Foundation transfers earnings on the Endowment Fund to the Organization periodically so long as the Organization continues to meet its tax-exempt purpose. The portion of the Endowment Fund that was funded by the Organization, plus net earnings on that balance, represent a reciprocal transfer and are therefore included in the Organization's consolidated financial statements. Distributions received totaled \$1,450 and \$1,494 during the years ended December 31, 2018 and 2017, respectively. The market value of the reciprocal transfer piece of the endowment fund was \$25,468 and \$28,145 at December 31, 2018 and 2017, respectively, and \$185,002 and \$204,250 was contributed from third party donors, plus net earnings, respectively.

The Organizations's policy is to spend assets from the Endowment Fund as they are distributed by the Community Foundation. The Community Foundation invests the assets of the Endowment Fund as part of a pooled endowment with similar funds held on behalf of other non-profit organizations. The assets of the Community Foundation's pooled endowment are invested in a manner intended to maximize investment returns over a diversified portfolio in order to achieve a moderate level of investment risk.

Property and Equipment

Property and equipment are stated at cost if purchased or fair value at date of the gift if donated. All acquisitions of property and equipment in excess of \$5,000 are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. The Organization reports expiration of donor restrictions when the invoices for assets constructed are paid.

Property and equipment are depreciated using the straight-line method over their estimated useful lives.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Organization and Summary of Significant Accounting Policies (cont.)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Debt Issuance Costs

As required by Accounting Standards Update ("ASU") 2015-03, the Organization presents debt issuance costs as a direct reduction of their long-term debt and related amortization expense as a component of interest expense. Debt issuance costs of \$658,428 have been capitalized and are being amortized over the related debt term. Accumulated amortization of these costs is \$232,301 and \$136,357 for the years ended December 31, 2018 and 2017, respectively.

Notes Receivable

Notes receivable are collateralized by membership interests related to the NMTC transaction (see Note 5) and is stated at the principal amount. Payments on the notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. The Organization has one class of financing receivables from a highly credible institution. Management assesses the credit quality of the notes receivable based on indicators such as collateralization, collection experience, and management's internal metrics. As of December 31, 2018 and 2017, no allowance for loan losses has been recognized. Notes receivable are periodically assessed for impairment based on relevant facts and circumstances. Management reviews the collectibility of the notes receivable on an ongoing basis, and no reserve has been established.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or are required to be maintained permanently by the Organization.

Tax-Exempt Status

Detroit Police Athletic League, Inc. and Detroit PAL Fundraising Foundation have received notifications that they qualify as tax-exempt organizations under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, are not subject to federal or state income taxes. Net income from activities unrelated to the Organization's tax-exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the consolidated financial statements.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Organization and Summary of Significant Accounting Policies (cont.)

Revenue Recognition

Contributions, including pledges and grants receivable, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization recognizes program fee revenue when it is realized or realizable and has been earned.

Donated Services and Facilities

The Organization receives substantial amounts of donated services and use of facilities to help fund its operations and special events. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. These donations include advertising, promotional services, athletic field rent, capitalized costs, and other items, which are valued at \$331,343 and \$346,696 for the years ended December 31, 2018 and 2017, respectively. The estimated fair value of these services and facilities is reflected in the accompanying consolidated financial statements.

The Organization also utilizes the services of many volunteers. The services provided do not meet the requirements to be recorded as in-kind revenue and expenses and are, therefore, not recorded in the accompanying consolidated financial statements for 2018 and 2017. The number of hours of service was approximately 242,000 and 262,000 for the years ended December 31, 2018 and 2017, respectively. The Organization estimates that it would pay approximately \$6,165,000 and \$6,324,000 for such services in 2018 and 2017, respectively.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification

For comparability, certain 2017 amounts have been reclassified to conform with classifications adopted in 2018. The reclassifications have no effect on reported amounts of net assets or change in net assets.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Organization and Summary of Significant Accounting Policies (cont.)

Estimates

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Financial Accounting Standard Board's Accounting Standards Update

In 2018, the Organization adopted the Financial Accounting Standard Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources. These disclosures have been presented for 2018 only, as allowed by ASU 2016-14.

The new standard changes the following aspects of the financial statements:

- > The unrestricted net assets class has been renamed Net Assets Without Donor Restrictions;
- > The temporarily restricted net asset class has been renamed Net Assets with Donor Restrictions;
- > The financial statements include a disclosure about liquidity and availability of resources at December 31, 2018.
- > The financial statements include a statement of functional expenses.

Subsequent Events

The Organization has evaluated events through May 30, 2019, which is the date the consolidated financial statements were approved and available to be issued. Subsequent to year end, the Organization did not meet the provision as further detailed in Note 3 whereby they were to establish a reserve fund for \$750,000 to obtain ownership of the land. As a result of this, the reserve fund reversion is effective and the third party may take back ownership of the land. The certificate of completion from the City of Detroit has been extended to June 30, 2019.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - Pledges Receivable

Pledges receivable are comprised of the following at December 31, 2018:

	<u>Total</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Receivable in less than one year	\$ 137,820	\$ 137,820	\$ -
Receivable in one to five years	<u>15,157</u>	<u>-</u>	<u>15,157</u>
	152,977	137,820	15,157
Less:			
Allowance for uncollectible accounts	30,632	27,182	3,450
Discount to net present value	<u>1,529</u>	<u>-</u>	<u>1,529</u>
	<u>\$ 120,816</u>	<u>\$ 110,638</u>	<u>\$ 10,178</u>

Pledges receivable are comprised of the following at December 31, 2017:

	<u>Total</u>	<u>Current portion</u>	<u>Noncurrent portion</u>
Receivable in less than one year	\$ 195,415	\$ 195,415	\$ -
Receivable in one to five years	<u>135,327</u>	<u>-</u>	<u>135,327</u>
	330,742	195,415	135,327
Less:			
Allowance for uncollectible accounts	14,161	9,346	4,815
Discount to net present value	<u>8,086</u>	<u>-</u>	<u>8,086</u>
	<u>\$ 308,495</u>	<u>\$ 186,069</u>	<u>\$ 122,426</u>

The discount rates used were 5.50% and 4.50% for 2018 and 2017, respectively.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - Property and Equipment

The major categories of property and equipment at December 31 are summarized as follows:

	Depreciable Lives	2018	2017
Computer equipment	3 yrs.	\$ 40,919	\$ 28,546
Furniture and equipment	5 - 7 yrs.	321,404	24,435
Land improvements	3 - 7 yrs.	69,467	-
Vehicles	5 - 6 yrs.	90,864	90,864
Buildings	30 yrs.	15,526,942	-
Construction in progress	N/A	<u>224,718</u>	<u>12,693,197</u>
Total		16,274,314	12,837,042
Less: Accumulated depreciation		<u>(459,177)</u>	<u>(103,913)</u>
Property and Equipment, Net		<u>\$ 15,815,137</u>	<u>\$ 12,733,129</u>

Depreciation expense amounted to \$355,263 and \$18,582 for the years ended December 31, 2018 and 2017, respectively.

Construction in progress relates to the construction project at the Tigers' Stadium site (see Note 5) and was placed in service in March 2018.

The Organization entered into a transaction whereby a third party transferred the possession of a deed for land (the "land"), within the City of Detroit, subject to terms and conditions of a restated and amended development agreement dated June 16, 2016 (the "Agreement") to the Organization. The Agreement requires the Organization to establish a reserve fund of \$750,000 by the date of issuance of a final certificate of completion from the City of Detroit, which has been extended to June 30, 2019. If the Organization fails to achieve an establishment of such a reserve fund as by the required date defined, a reserve fund reversion clause becomes effective. The reserve fund reversion allows the third party to take back ownership of the land but not the improvements and personal property constructed or purchased thereon by the Organization for no consideration.

The reserve fund reversion also requires a ground lease for the land to be executed on or prior to the closing of the conveyance of the land back to the third party. The Agreement provides for the ground lease between the Organization and the third party for a term of 50 years. Base rent of one dollar annually plus additional rent would be required to be paid by the Organization. The Agreement defines additional rent as all costs, expenses, and obligations of every kind and nature whatsoever relating to the leased premises, or that otherwise relate to the Organization's use and operation of the land whatsoever that may arise during the 50 year term. The Agreement also prevents the Organization from offsetting any costs against either base or additional rent for any reason whatsoever. In addition, the ground lease requires the Organization to pay all costs associated with the reserve fund reversion. Furthermore, the Agreement gives the third party the right to mortgage, encumber, or otherwise pledge the leasehold as collateral.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 3 - Property and Equipment (cont.)

However, in the event that the reserve fund is established by the Organization, on or by the required date, the third party's right to effect the reserve fund reversion shall terminate. The recording of the final certificate of completion with the land records of Wayne County, Michigan by the Organization shall be conclusive evidence of such right.

Another provision of the Agreement allows for an exclusive right until January 1, 2018 for the Organization to exercise an option to present a development plan to the third party, subject to their approval, to purchase an additional parcel of land to the one discussed above. As of December 31, 2018, the Organization has not exercised this exclusive right to purchase their parcel of land.

At December 31, 2018 and 2017, the Organization has not recorded land as an asset on the consolidated statements of financial position as conditions of the Agreement have yet to be satisfied.

NOTE 4 - Notes Receivable

Notes receivable obtained as part of the New Market Tax Credit Project (see Note 5) consists of the following at December 31:

	2018	2017
The Foundation:		
Note receivable with original principal of \$2,017,200 due from BOA Investment Fund V, LLC (an unrelated entity), with quarterly interest only payments of 1% per annum until June 10, 2023; at which point interest and principal payments will be due annually until maturity on June 16, 2053; collateralized by a security interest in the membership interests of the Community Development Entity (Banc of America CDE V, LLC ("BOA CDE")); loan and regulatory agreement restricts the use of the funds to DPAL, who is a qualified active low-income community business for the term of the note.	\$ 2,017,200	\$ 2,017,200
Note receivable with original principal of \$5,499,200 due from BOA DPAL Investment Fund, LLC (an unrelated entity), with quarterly interest only payments of 1.1891% per annum until June 10, 2023; at which point interest and principal payments will be due annually until maturity on June 16, 2053; collateralized by a security interest in the membership interests of Capfund CDE Nineteen, LLC ("Cinnaire CDE"); loan and regulatory agreement restricts the use of the funds to DPAL, who is a qualified active low-income community business for the term of the note.	<u>5,499,200</u>	<u>5,499,200</u>
Total Notes Receivable:	<u>\$ 7,516,400</u>	<u>\$ 7,516,400</u>

All of the notes receivable above are collateralized by rights to borrower's present and future membership interest in the CDEs.

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 5 - New Market Tax Credit Program and Project

The NMTC program was designed to stimulate investment and economic growth in low income communities by offering taxpayers a 39% tax credit against federal income taxes over a seven year period for Qualified Equity Investment ("QEIs") in designated Community Development Entities ("CDEs"). CDEs receive NMTC allocations pursuant to Section 45D of the Internal Revenue Code. These designated CDEs must use substantially all (83%) of the proceeds to make Qualified Low Income Community Investments ("QLICIs"). To earn the tax credit, the QEI must remain invested in the CDE for a seven year period. Also, the entity receiving the loans needs to be treated as a Qualified Active Low Income Community Business ("QALICB") for the duration of the seven year period. The QALICB requirements are outlined in Treasury Regulation Section 1.45D-1(d)(4)(i).

In June 2016, the Organization entered into multiple agreements, assisted by the NMTC program, to facilitate the construction of a new office space and sporting facility at the historic Tigers' Stadium site. The Project is planned to redevelop the historic Tiger Stadium site into a safe and healthy playing field and permanent headquarters for the Organization.

The Foundation obtained a bridge loan from Fifth Third Bank and various contributions to assist in funding the NMTC financing. DPAL also obtained four separate loans from the BOA CDE and the Cinnaire CDE as well as a loan from a board member. (See Notes 6 and 7).

The Foundation used the loans and cash on hand to make two loans to BOA Investment Fund V, LLC and BOA DPAL Investment Fund, LLC (collectively, the "NMTC Investment Funds") (see Note 4). The loans were made for \$2,017,200 and \$5,499,200, respectively. The loans bear interest at 1% and 1.1891% per annum, respectively. Interest only payments are received quarterly through June 2023. Principal and interest are due quarterly beginning July 2023 and continue thereafter until maturity, June 2053. The loans are secured by an interest in the borrower's ownership of the BOA CDE and Cinnaire CDE, respectively. Total interest earned in 2018 and 2017 was \$73,056 and \$85,563, respectively, and accrued interest was \$7,130 at December 31, 2018 and 2017.

The proceeds from the loan to the NMTC Investment Funds, combined with equity contributions from other private investors, were passed through to the BOA CDE and the Cinnaire CDE. The CDEs used the equity contributions and loan proceeds to make loans to DPAL as the QALICB, totaling \$10,840,000 ("QLICI Loans") to finance redevelopment of the historic Tigers Stadium site. Each CDE made two notes to DPAL. The notes are interest only through June 2023, with principal and interest payable annually commencing July 2023 through June 2053. The details of these notes payable are disclosed in Note 6. As a condition of the agreements, the CDE's require that the Foundation guarantee the payment of the notes and certain performance requirements. The guarantee is in effect until maturity of the loans.

The transaction is subject to a put/call option. The NMTC Investment Funds have a put option whereby upon exercise of the option after the last day of the tax credit investment period, the Foundation is obligated to purchase the NMTC Investment Funds' 100% membership interest in the the BOA CDE and the Cinnaire CDE. At the end of the seven year tax credit investment period, the Foundation has a call option whereby if exercised, they have the right to purchase NMTC Investment Funds' 100% membership interest in the BOA CDE and Cinnaire CDE at fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 5 - New Market Tax Credit Program and Project (cont.)

The tax credits associated with the transaction are contingent on the Organization maintaining compliance with applicable portions of Section 42 of the Internal Revenue Code. Failure to maintain compliance or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus penalties and interest. As of December 31, 2018 and 2017, no such events have occurred.

NOTE 6 - Long-Term Debt

Long-term debt consists of the following at December 31:

	2018	2017
DPAL		
BOA CDE Loan A1 with an original principal of \$2,017,200: Bearing interest at 1% per annum; interest only payments due quarterly until June 2023; at which point interest and principal payments will be due quarterly until maturity on June 16, 2053.	\$ 2,017,200	\$ 2,017,200
Cinnaire CDE Loan A2 with an original principal of \$5,499,200: Bearing interest at 1% per annum; interest only payments due quarterly until June 2023; at which point interest and principal payments will be due quarterly until maturity on June 16, 2053.	5,499,200	5,499,200
BOA CDE Loan B1 with an original principal of \$982,800: Bearing interest at 1.0175% per annum; interest only payments due quarterly until June 2023; at which point interest and principal payments will be due quarterly until maturity on June 16, 2053.	982,800	982,800
Cinnaire CDE Loan B2 with an original principal of \$2,340,800: Bearing interest at 1% per annum; interest only payments due quarterly until June 2023; at which point interest and principal payments will be due quarterly until maturity on June 16, 2053.	2,340,800	2,340,800
Fifth Third bridge loan (available principal of \$3,400,000): This is a note under which advances and repayments, but not re-advances, may be made. Bearing interest at thirty day LIBOR plus 3.10% (effective rate 4.475%) per annum; collateralized by 2017 grants, certain pledged accounts, property in possession of lender, intangible assets, books and records, and additional property, as specified in the loan agreements. The loan stipulates payments of accrued and unpaid interest on the unpaid principal balance are to paid in arrears each month. The principal and unpaid interest is due on the maturity date of November 17, 2023.	<u>2,750,000</u>	<u>99,366</u>
DPAL Total	<u>\$ 13,590,000</u>	<u>\$ 10,939,366</u>

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
DETROIT PAL FUNDRAISING FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - Long Term Debt (cont.)

All loans payable above, unless noted otherwise, are collateralized by a mortgage conveying and encumbering certain real and personal property of the Kids at the Corner Redevelopment. The loans cannot be prepaid until June 2023. Each lender has the option to call the above loans within 120 days prior to the seventh anniversary of the loan to accelerate the maturity date.

	2018	2017
Foundation		
Fifth Third bridge loan (original principal of \$5,000,000): Bearing interest at thirty day LIBOR plus 3% (effective rate 4.375%) per annum; collateralized by certain pledges, bank accounts, software, and intangibles as specified in the loan agreements. The loan stipulates payments of principal and interest are to be paid from the cash then on deposit in the primary pledged account. Loan can be prepaid without penalty or premium. The loan matures June 16, 2021.	<u>\$ 199,843</u>	<u>\$ 999,843</u>

The above bridge loan is secured by DPAL's major grants, all property in possession of Fifth Third, a separate cash account to repay the above loan, all general intangibles, all books and records, and all property, rights, products or proceeds resulting from any sale or exchange thereof.

The Organization's total debt is summarized below at December 31:

	2018	2017
DPAL Total	\$ 13,590,000	\$ 10,939,366
Foundation Total	<u>199,843</u>	<u>999,843</u>
Organization Total	13,789,843	11,939,209
Less: Debt issuance costs, net	<u>426,127</u>	<u>522,071</u>
Long-Term Portion	<u>\$ 13,363,716</u>	<u>\$ 11,417,138</u>

Total interest expense on all debt was \$208,008 and \$143,860 for the years ended December 31, 2018 and 2017, respectively.

The Organization is subject to certain requirements and covenants related to their debt. As of December 31, 2018, the Organization was in compliance with all established covenants or has obtained waivers.

NOTE 7 - Related Parties

During 2016, the Foundation received a loan of \$200,025 from a board member to assist in funding and serve as collateral for the NMTC financing transaction. The loan bears interest at a rate of 0.77% per annum and is callable on demand.

For the year ended December 31, 2018 and 2017, contributions from the board of directors to the Organization were approximately \$669,000 and \$504,000, respectively.

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - Line of Credit

Detroit PAL has a \$50,000 line of credit as of December 31, 2018 and 2017, which bears interest at 0.25% above the prime rate. (The effective rate as of December 31, 2018 and 2017 was 5.75% and 4.75%, respectively.) Total amount outstanding on the line of credit at December 31, 2018 and 2017 was \$43,148.

NOTE 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes and/or periods as of December 31:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Kids at the Corner Campaign	\$ 476,601	\$ 2,880,407
Youth sports programs	279,370	416,218
Workforce development	536,213	807,110
Youth enrichment	21,332	70,000
Other purpose restrictions	<u>79,602</u>	<u>25,130</u>
Total	<u>\$ 1,393,118</u>	<u>\$ 4,198,865</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Kids at the Corner Campaign	\$ 4,419,362	\$ 725,346
Youth sports programs	1,111,857	968,317
Workforce development	295,897	541,346
Youth enrichment	48,668	5,000
Other programs	<u>541,898</u>	<u>-</u>
Total	<u>\$ 6,417,682</u>	<u>\$ 2,240,009</u>

NOTE 10 - Leases

The Organization entered into lease agreements for temporary office facilities which expired February 28, 2018, upon completion of the construction. Rental expense under all leases, including all office leases and programming, was \$182,638 and \$266,780 for the years ended December 31, 2018 and 2017, respectively.

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 - Defined Contribution Plan

The Organization has a profit-sharing plan under section 401(k) of the Internal Revenue Code. Eligible employees of the Organization may elect to make contributions upon meeting eligibility requirements. The Organization may make discretionary matching contributions and contributed \$63,751 and \$50,177 to the plan during the years ended December 31, 2018 and 2017, respectively.

NOTE 12 - Fair Value of Financial Instruments

The Organization follows current authoritative guidance, which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. The guidance applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined in the guidance, fair value is 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 determining fair value, the Organization uses various valuation methods. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimizes the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are unobservable and not corroborated by market data.

There have been no changes in the methodology used for the years ended December 31, 2018 and 2017.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 12 - Fair Value of Financial Instruments (cont.)

The tables below presents information about the Organization's assets that are measured at fair value on a recurring basis by level within the three-tier hierarchy:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Beneficial Interest	\$ 25,468	\$ -	\$ -	\$ 25,468
	December 30, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Beneficial Interest	\$ 28,145	\$ -	\$ -	\$ 28,145

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Balance at January 1	\$ 28,145	\$ 25,607
Grants paid to Detroit PAL	(1,184)	(1,193)
Administrative expenses	(265)	(301)
Net realized and unrealized gains/(losses)	(1,228)	4,032
Balance at December 31	\$ 25,468	\$ 28,145

NOTE 13 - Pledges Receivable

The Organization has engaged with a related party of the Organization to manage construction of the Kids at the Corner Redevelopment. The agreement states that the construction manager's fee is to be 2.25% of the cost of the work. The guaranteed maximum price was stated at \$10,300,000 which is subject to change order. At December 31, 2017, approximately \$2,150,000 was remaining on the contract with no balance as of December 31, 2018. Approximately \$1,016,022 and \$3,049,000, as of December 31, 2018 and 2017, respectively, was in accounts payable on the Consolidated Statements of Financial Position.

During February 2017, the Organization engaged in an agreement with an entity to act as Owner's Representative for the purpose of project management, assessing feasibility of value engineering options, managing the design and project scope alternatives and the construction process for the Kids at the Corner Redevelopment for total fees up to approximately \$193,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - Availability of Financial Assets

The Organization's financial assets available within one year of the statement of financial position date for general expenditure such as operating expenses, scheduled principal payments on debt, and fixed asset additions not financed with debt are as follows:

	2018
Financial Assets:	
Cash and cash equivalents	\$ 806,272
Accounts, grants, and land contracts receivable, current	1,214,810
Financial assets, at year-end	2,021,082
Less those unavailable for general expenditures within one year, due to:	
Restricted for purpose by donor	(359,243)
Financial assets available for meet cash needs for general expenditures within one year	\$ 1,661,839

NOTE 15 - Future Accounting Pronouncements

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*". ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017. The Organization may elect to apply the guidance earlier. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization is currently assessing the effect that ASU 2014-09 and 2015-14 will have on its results of operations, financial position and cash flows.

During February 2016, the FASB issued ASU 2016-02, "Leases". ASU 2016-02 establishes principles that require a lessee to recognize a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The Organization is currently assessing the effect that ASU 2016-02 will have on its results of operations, financial position and cash flows.

In November 2016 FASB issued ASU 2016-18 "*Restricted Cash*", which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and interim period within fiscal years beginning after December 15, 2019, and should be applied on a retrospective transition basis. Early adoption is permitted. The Organization is currently evaluating the effect that ASU 2016-18 will have on its operations, financial position and cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 - Future Accounting Pronouncements (cont.)

During June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For not-for-profit entities that have conduit debt, ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. All other entities should apply the amendments for fiscal years beginning after December 15, 2018. The Organization is currently assessing the impact that ASU 2018-08 will have on its results of operations, financial position and cash flows.

SUPPLEMENTAL INFORMATION

**DETROIT POLICE ATHLETIC LEAGUE, INC. AND
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of December 31, 2018

	<u>DPAL</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total Consolidated</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 806,272	\$ -	\$ -	\$ 806,272
Accounts receivable, net	44,929	12,507	(12,507)	44,929
Interest receivable	-	7,130	-	7,130
Pledges receivable, net of long-term portion	25,450	85,188	-	110,638
Grants receivable	359,243	700,000	-	1,059,243
Prepaid expenses	21,861	-	-	21,861
Total Current Assets	<u>1,257,755</u>	<u>804,825</u>	<u>(12,507)</u>	<u>2,050,073</u>
PROPERTY AND EQUIPMENT, NET	<u>15,815,137</u>	<u>-</u>	<u>-</u>	<u>15,815,137</u>
OTHER ASSETS				
Restricted cash	2,012,387	476,918	-	2,489,305
Notes receivable	-	7,516,400	-	7,516,400
Pledges receivable, net of current portion	-	10,178	-	10,178
Beneficial interest	-	25,468	-	25,468
Total Other Assets	<u>2,012,387</u>	<u>8,028,964</u>	<u>-</u>	<u>10,041,351</u>
TOTAL ASSETS	<u>\$ 19,085,279</u>	<u>\$ 8,833,789</u>	<u>\$ (12,507)</u>	<u>\$ 27,906,561</u>
CURRENT LIABILITIES				
Line of credit	\$ 43,148	\$ -	\$ -	\$ 43,148
Accounts payable	1,389,589	3,928	(12,507)	1,381,010
Accrued payroll and other expenses	73,506	604	-	74,110
Deferred revenue	74,060	-	-	74,060
Related party note	-	200,025	-	200,025
Total Current Liabilities	<u>1,580,303</u>	<u>204,557</u>	<u>(12,507)</u>	<u>1,772,353</u>
LONG-TERM DEBT, NET OF CURRENT PORTION AND DEBT ISSUANCE COSTS	<u>13,163,873</u>	<u>199,843</u>	<u>-</u>	<u>13,363,716</u>
Total Liabilities	<u>14,744,176</u>	<u>404,400</u>	<u>(12,507)</u>	<u>15,136,069</u>
NET ASSETS				
Net assets without donor restrictions	3,424,586	7,952,788	-	11,377,374
Net assets with donor restrictions	916,517	476,601	-	1,393,118
Total Net Assets	<u>4,341,103</u>	<u>8,429,389</u>	<u>-</u>	<u>12,770,492</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,085,279</u>	<u>\$ 8,833,789</u>	<u>\$ (12,507)</u>	<u>\$ 27,906,561</u>

DETROIT POLICE ATHLETIC LEAGUE, INC. AND DETROIT PAL FUNDRAISING FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended December 31, 2018

	DPAL	Foundation	Total Consolidated Before Eliminations	Eliminations	Total Consolidated
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS					
Contributions and grants	\$ 1,841,793	\$ 31,324	\$ 1,873,117	\$ (891,364)	\$ 981,753
In-kind contributions	331,343	-	331,343	-	331,343
Special events	994,956	-	994,956	-	994,956
Net assets released from restrictions	<u>6,417,682</u>	<u>-</u>	<u>6,417,682</u>	<u>-</u>	<u>6,417,682</u>
Total Public Support	<u>9,585,774</u>	<u>31,324</u>	<u>9,617,098</u>	<u>(891,364)</u>	<u>8,725,734</u>
REVENUE					
Program fees	236,495	-	236,495	-	236,495
Interest income	14,405	85,563	99,968	(12,507)	87,461
Unrealized investment income	(1,228)	-	(1,228)	-	(1,228)
Rental income	97,924	-	97,924	-	97,924
Other	<u>23,646</u>	<u>-</u>	<u>23,646</u>	<u>-</u>	<u>23,646</u>
Total Revenue	<u>371,242</u>	<u>85,563</u>	<u>456,805</u>	<u>(12,507)</u>	<u>444,298</u>
Total Public Support and Revenue	<u>9,957,016</u>	<u>116,887</u>	<u>10,073,903</u>	<u>(903,871)</u>	<u>9,170,032</u>
EXPENSES					
Program Services					
Athletic programs	3,696,585	-	3,696,585	(12,507)	3,684,078
Kids at the Corner Redevelopment	<u>157,776</u>	<u>965,360</u>	<u>1,123,136</u>	<u>(891,364)</u>	<u>231,772</u>
Total Program Services	3,854,361	965,360	4,819,721	(903,871)	3,915,850
Management and general	736,941	-	736,941	-	736,941
Fundraising	<u>645,496</u>	<u>-</u>	<u>645,496</u>	<u>-</u>	<u>645,496</u>
Total Expenses	<u>5,236,798</u>	<u>965,360</u>	<u>6,202,158</u>	<u>(903,871)</u>	<u>5,298,287</u>
Change in net assets without donor restrictions	<u>4,720,218</u>	<u>(848,473)</u>	<u>3,871,745</u>	<u>-</u>	<u>3,871,745</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS					
Contributions and grants	1,563,016	2,048,919	3,611,935	-	3,611,935
Net assets released from restrictions	<u>(6,417,682)</u>	<u>-</u>	<u>(6,417,682)</u>	<u>-</u>	<u>(6,417,682)</u>
Change in net assets with donor restrictions	<u>(4,854,666)</u>	<u>2,048,919</u>	<u>(2,805,747)</u>	<u>-</u>	<u>(2,805,747)</u>
CHANGE IN NET ASSETS	(134,448)	1,200,446	1,065,998	-	1,065,998
NET ASSETS - Beginning of Year	<u>4,475,551</u>	<u>7,228,943</u>	<u>11,704,494</u>	<u>-</u>	<u>11,704,494</u>
NET ASSETS - END OF YEAR	<u>\$ 4,341,103</u>	<u>\$ 8,429,389</u>	<u>\$ 12,770,492</u>	<u>\$ -</u>	<u>\$ 12,770,492</u>