Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate

Consolidated Financial Report
December 31, 2018

Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate

Contents

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Independent Auditor's Report

To the Board of Directors
Young Men's Christian Association of
Metropolitan Detroit and Subsidiary
and Affiliate

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate (the "Association"), which comprise the consolidated balance sheet as of December 31, 2018 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements

Management's Responsibility for the Consolidated 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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 auditor's 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 financial position of the Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate as of December 31, 2018 and the changes in their net assets, their functional expenses, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Report on Summarized Comparative Information

We have previously audited the Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate's 2017 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 24, 2018 In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived

To the Board of Directors
Young Men's Christian Association of
Metropolitan Detroit and Subsidiary
and Affiliate

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Association adopted the provisions of Accounting Standards Update (ASU) No 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*, as of December 31, 2018 Our opinion is not modified with respect to this matter

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2019 on our consideration of the Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate's internal control over financial reporting and compliance

Plante & Moran, PLLC

April 23, 2019

Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate

Consolidated Balance Sheet

December 31, 2018
(with summarized comparative totals for December 31, 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 1,059,935	$ 555,551
Cash - Strategic growth fund (Note 6)	694,924	1,000,000
Investments - Short term (Note 14)	945,068	1,995,739
Receivables - Net of allowances		
Accounts	255,662	487,781
United Way - Operating	259,309	84,500
Other	269,211	191,508
Contributions receivable - Net (Note 3)	258,990	234,684
Prepaid expenses and other current assets	122,296	119,079
Cash equivalents held for long-term use	379,966	564,891
Investments - Long term (Note 14)	6,065,279	5,870,014
Other noncurrent assets	535,489	524,388
Fair value of interest rate swap agreement (Notes 7 and 14)	20,406	-
Property and equipment - Net (Note 4)	43,722,428	45,360,219
Total assets	**$ 54,588,963**	**$ 56,988,354**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,117,170	$ 1,069,985
Accrued liabilities and other	1,011,066	1,027,828
Bank line of credit (Note 5)	425,904	-
Deferred revenue	1,318,761	1,379,886
Obligations under life income contracts	144,639	135,019
Fair value of interest rate swap agreement (Notes 7 and 14)	-	26,142
Bonds payable - Net (Note 6)	17,149,722	17,980,910
Long-term notes payable (Note 6)	1,002,402	668,911
Total liabilities	22,169,664	22,288,681
Net Assets		
Net assets without donor restrictions		
Undesignated	24,261,241	25,675,354
Board designated (Note 15)	570,189	1,568,324
Total net assets without donor restrictions	24,831,430	27,243,678
Net assets with donor restrictions (Notes 9 and 15)	7,587,869	7,455,995
Total net assets	32,419,299	34,699,673
Total liabilities and net assets	**$ 54,588,963**	**$ 56,988,354**

Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018

(with summarized comparative totals for the year ended December 31, 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, Gains, and Other Support				
Camping and program fees	$ 13,827,588	$ -	$ 13,827,588	$ 13,743,176
Contributions and bequests	1,002,823	299,415	1,302,238	1,516,173
Grants and government contracts	1,829,248	-	1,829,248	1,746,683
Membership fees	14,149,927	-	14,149,927	14,205,729
First-year membership fees	36,634	-	36,634	60,644
Educational services	-	-	-	1,819,528
United Way - Operating	186,511	282,489	469,000	217,000
Rentals	647,059	-	647,059	721,036
Change in fair value of interest swap agreement	46,548	-	46,548	72,575
Net special events	548,438	-	548,438	535,175
Net realized and unrealized (losses) gains on investments	(755,297)	(16,786)	(772,083)	2,083,511
Interest income	183,926	-	183,926	242,098
Distributions on life income contracts	(30,411)	-	(30,411)	(34,372)
Change in value of life income contracts	-	(9,620)	(9,620)	49,625
Loss on disposal of fixed assets	(60)	-	(60)	(58,351)
Other revenue	197,259	-	197,259	462,198
Total revenue, gains, and other support	31,870,193	555,498	32,425,691	37,382,428
Net Assets Released from Restrictions	423,624	(423,624)	-	-
Total revenue, gains, other support, and net assets released from restrictions	32,293,817	131,874	32,425,691	37,382,428
Expenses				
Program expenses	28,007,207	-	28,007,207	32,287,304
Support services				
Management and general	5,355,955	-	5,355,955	3,640,472
Fundraising	1,342,903	-	1,342,903	1,021,205
Total support services	6,698,858	-	6,698,858	4,661,677
Total expenses	34,706,065	-	34,706,065	36,948,981
(Decrease) Increase in Net Assets	(2,412,248)	131,874	(2,280,374)	433,447
Net Assets - Beginning of year	27,243,678	7,455,995	34,699,673	34,266,226
Net Assets - End of year	**$ 24,831,430**	**$ 7,587,869**	**$ 32,419,299**	**$ 34,699,673**

Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

(with summarized comparative totals for the year ended December 31, 2017)

		Support Services			Total	
	Program Services	Management and General	Fundraising	Total Support Services	2018	2017
Salaries	$ 14,217,847	$ 2,061,514	$ 640,498	$ 2,702,012	$ 16,919,859	$ 18,102,012
Health and retirement costs	1,164,166	367,484	131,526	499,010	1,663,176	1,834,266
Payroll taxes	1,300,400	147,055	49,536	196,591	1,496,991	1,601,772
Total salaries and related expenses	16,682,413	2,576,053	821,560	3,397,613	20,080,026	21,538,050
Contracted program instruction and other fees	1,189,812	288,422	71,203	359,625	1,549,437	2,052,903
Legal, audit, and consulting	-	132,479	63,443	195,922	195,922	291,361
Supplies	2,303,758	60,096	18,676	78,772	2,382,530	2,491,144
Telephone	129,431	74,284	6,731	81,015	210,446	210,747
Postage and shipping	28,597	24,264	1,465	25,729	54,326	45,773
Occupancy	466,146	92,615	-	92,615	558,761	774,542
Utilities	1,755,480	269,516	85,954	355,470	2,110,950	2,005,708
Repairs and maintenance	891,608	130,472	40,511	170,983	1,062,591	1,130,032
Insurance and taxes	336,852	76,359	16,332	92,691	429,543	422,655
Promotion and advertising	505,764	-	1,143	1,143	506,907	546,205
Travel and entertainment	107,195	86,165	10,521	96,686	203,881	199,807
Conferences and trainings	134,020	106,017	14,503	120,520	254,540	236,300
Dues and fees	88,922	516,716	6,164	522,880	611,802	476,472
Federation membership dues to national office	-	398,469	-	398,469	398,469	397,868
Equipment rental	160,948	55,339	5,804	61,143	222,091	304,040
Miscellaneous	4,096	-	-	-	4,096	4,459
Bad debt expense	324,931	24,635	37,274	61,909	386,840	349,582
In-kind expense	22,857	-	-	-	22,857	-
Interest expense	467,490	72,389	23,087	95,476	562,966	633,909
Depreciation	2,406,887	371,665	118,532	490,197	2,897,084	2,837,724
Special events	-	-	469,459	469,459	469,459	496,143
Total functional expenses	**$ 28,007,207**	**$ 5,355,955**	**$ 1,812,362**	**$ 7,168,317**	**$ 35,175,524**	**$ 37,445,424**

See notes to consolidated financial statements

Consolidated Statement of Cash Flows

Year Ended December 31, 2018

(with summarized comparative totals for the year ended December 31, 2017)

	2018	2017
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (2,280,374)	$ 433,447
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities		
Depreciation	2,897,084	2,837,724
Bad debt expense	386,840	349,582
Amortization of debt issuance costs	22,068	22,068
Loss (gain) on investments	772,083	(2,083,511)
Loss on disposition of assets	60	58,351
Change in value of life income contracts	40,031	(15,253)
Change in fair value of interest rate swap agreement	(46,548)	(72,575)
Contributions restricted for endowment	(5,000)	(65,598)
Changes in operating assets and liabilities that (used) provided cash		
Accounts receivable	(431,539)	247,948
Prepaid expenses and other current assets	(14,318)	(38,461)
Accounts payable	47,185	(323,036)
Accrued liabilities and other	(16,762)	77,869
Deferred revenue	(61,125)	(172,126)
Net cash provided by operating activities	1,309,685	1,256,429
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,259,353)	(1,473,623)
Purchases of investments	(2,572,389)	(775,282)
Proceeds from sales of investments	2,840,637	9,402,053
Net cash (used in) provided by investing activities	(991,105)	7,153,148
Cash Flows from Financing Activities		
Proceeds from line of credit	675,000	-
Payments on line of credit	(249,096)	-
Principal payments on long-term notes payable	(303,658)	(311,605)
Principal payments on bonds payable	(853,256)	(7,955,000)
Proceeds from debt financing	637,149	331,328
Distributions on life income contracts	(30,411)	(34,372)
Proceeds from endowment gifts	5,000	65,598
Net cash used in financing activities	(119,272)	(7,904,051)
Net Increase in Cash and Cash Equivalents	199,308	505,526
Cash and Cash Equivalents - Beginning of year	1,555,551	1,050,025
Cash and Cash Equivalents - End of year	**$ 1,754,859**	**$ 1,555,551**
Consolidated Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 1,059,935	$ 555,551
Cash - Strategic growth fund	694,924	1,000,000
Total cash and cash equivalents	**$ 1,754,859**	**$ 1,555,551**
Supplemental Cash Flow Information - Cash paid for interest	$ 512,607	$ 643,152

Note 1 - Nature of Business

The accompanying consolidated financial statements reflect the consolidated balance sheet and consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the Young Men's Christian Association of Metropolitan Detroit (the "Organization"), its wholly owned subsidiary, Y-Education Services, L3C (Y-ES), and its affiliate, the Young Men's Christian Association of Metropolitan Detroit Foundation (the "Foundation") (collectively, the "Association") All material intercompany accounts and transactions have been eliminated

The Young Men's Christian Association of Metropolitan Detroit is an association of men, women, and children committed to bringing about lasting personal and social change With a focus on nurturing the potential of every child and teen, improving the nation's health and well-being, and providing opportunities to give back and support neighbors, the Organization enables youth, adults, families, and communities to be healthy, confident, connected, and secure The Organization is composed of 10 branches, two resident camps, and six outreach programs, located primarily in the southeastern Michigan area Y-ES is a Michigan low-profit limited liability company formed in 2010 to provide management, supervision, and administrative oversight and services related to the operations of two Michigan public school academies All Y-ES management relationships ended prior to 2018 The Foundation is a separate legal entity formed in 2003 to manage certain investment activity and to provide financial support to the Organization The Organization and the Foundation have certain common board members

Note 2 - Significant Accounting Policies

Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Association considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents

Cash Equivalents Held for Long-term Use

Cash equivalents held for long-term use consist of cash equivalents held for the purpose of fulfilling the agreements on life income contracts and cash equivalents of endowment funds held temporarily until invested in long-term investments

Investments

Investments are recorded at fair market value Estimated fair values are provided by external investment managers The Association reviews and evaluates the values provided by the investment manager and agrees with the valuation methods and significant assumptions used in determining fair value of the nonmarketable alternative investments

These alternative investments include hedged investments and private investments, which may contain elements of both credit and market risk Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for these securities existed

Accounts Receivable

Accounts receivable are stated at the applicable membership or program fee The Association's policy is to record accounts receivable for certain types of memberships and programs when a commitment to participate has been made by the third party to the Association An allowance for uncollectible amounts is calculated by considering historical losses and applying that information to total accounts receivable Amounts deemed to be uncollectible are charged to the provision for doubtful accounts in the period that such a determination is made The Association has recorded an allowance for doubtful accounts for accounts receivable of $210,000 at December 31, 2018

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Purchased property and equipment are recorded at cost Property and equipment received as contributions are recorded at the fair market value at the date of receipt When certain events or changes in operating conditions occur, an impairment assessment is performed and the value and lives of property and equipment may be adjusted Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets Costs of repairs and maintenance are charged to expense as incurred

Deferred Revenue

Revenue from the sale of certain types of memberships and programs is deferred and recognized as income over the period of the membership or program

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value Donor promises to give in the future are recorded at the present value of estimated future cash flows Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as support without donor restrictions Other donor-restricted gifts are reported as donor-restricted support and net assets with donor restrictions

At December 31, 2018, contributions receivable consisted of several unconditional promises to give generated from annual fundraising campaigns

The Association's policy is to record pledges when such pledges are made to the Association, less an allowance for uncollectible amounts, if applicable The Association has recorded an allowance for doubtful accounts for contributions receivable of $100,070 at December 31, 2018

Donated Services and Assets

Certain donated services are recognized as support in the consolidated statement of activities and changes in net assets The value of these services is determined based on estimated fair value During 2018, the Association received the use of a vehicle as a donation The value of the services is $22,857 and has been recorded as an in-kind expense and contribution in the consolidated financial statements

Other volunteers have donated significant amounts of their time to the Association's program services These volunteer services are not recordable under accounting principles generally accepted in the United States of America The value of the volunteer services is not disclosed, as no objective basis is available to measure the value of such services

Note 2 - Significant Accounting Policies (Continued)

Long-lived Assets

The Association reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service During 2018, the Association received a donated vehicle with a fair market value of approximately $15,000 which has been capitalized into fixed assets

Grants and Government Contracts

Grants and government contracts determined to be exchange transactions are recognized as services are provided Grant money received in excess of that earned is recorded as deferred revenue

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of functional expenses The financial statements report certain categories of expenses that are attributable to more than one program or supporting function Therefore, these expenses require allocation on a reasonable basis that is consistently applied Salaries and related expenses are allocated on the basis of time and effort Depreciation and amortization are allocated on the basis of the program or support service, which uses the fixed asset Costs have been allocated between the various programs and support services based on estimates, as determined by management In 2018, the Association updated this allocation based on an analysis of current time and effort estimates, resulting in a reassignment of expenses Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts

Financial Assistance

The Association provides financial assistance to low-income individuals for membership and program fees Membership and program fees revenue has been reported net of any applicable financial assistance

Income Taxes

The Association is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3) Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities Management has analyzed the tax positions taken by the Association and has concluded that, as of December 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements The Association is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress Management believes it is no longer subject to income tax examinations for years prior to December 31, 2015

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue, expenses, and other changes during the reporting period Actual results could differ from those estimates

Note 2 - Significant Accounting Policies (Continued)

Concentration of Credit Risk Arising from Deposit Accounts

The Association maintains cash balances at several banks Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000 The Association evaluates the financial institutions with which it deposits funds, however, it may not be practical to insure all cash deposits

Risks and Uncertainties

The Association invests in various investment securities Investment securities are exposed to various risks, such as interest rate, market, and credit risks Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet

Summarized Comparative Information

The financial information presented for comparative purposes for the year ended December 31, 2017 is not intended to be a complete consolidated financial statement presentation in accordance with accounting principles generally accepted in the United States of America Accordingly, such information should be read in conjunction with the Association's 2017 consolidated financial statements, from which the summarized information was derived

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No 2014-09, *Revenue from Contracts with Customers (Topic 606),* which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition* The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract The new guidance will be effective for the Association's year ending December 31, 2019 The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods The Association has not yet determined which application method it will use Management has assessed the timing and pattern of revenue recognized and believes that there will not be a material change to its income recognition

In February 2016, the FASB issued ASU No 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840 The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance The new lease guidance will be effective for the Association's year ending December 31, 2020 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard Management has analyzed the Association's current leases and does not expect this standard to have a significant effect on the consolidated financial statements

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional The new guidance will be effective for the Association's year ending December 31, 2019 and will be applied on a modified prospective basis The Association does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions

Adoption of New Accounting Pronouncement

As of December 31, 2018, the Association adopted Accounting Standards Update No 2016-14, *Not-for-Profit Entities* This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications This standard also requires changes in the way certain information is aggregated and reported by the Association, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general For the year ended December 31, 2017, net assets of $1,019,049 previously reported as temporarily restricted net assets and net assets of $6,436,946 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 23, 2019, which is the date the consolidated financial statements were available to be issued

Note 3 - Contributions Receivable

Included in contributions receivable at December 31, 2018 are several unconditional promises to give generated from annual fundraising campaigns They are expected to be collected as follows

Within one year	$ 359,060
Less allowance for uncollectible contributions	(100,070)
Net contributions receivable	$ 258,990

Note 4 - Property and Equipment

Property and equipment at December 31, 2018 are summarized as follows

	Amount	Depreciable Life - Years
Land	$ 5,689,350	-
Land improvements	1,642,104	10-15
Buildings	70,063,616	15-50
Building improvements	16,176,602	10-15
Machinery and equipment	2,844,312	2-5
Transportation equipment	281,624	5
Furniture and fixtures	4,444,569	5-10
Computer equipment and software	1,186,235	3-5
Total cost	102,328,412	
Accumulated depreciation	58,605,984	
Net property and equipment	$ 43,722,428	

Depreciation expense for 2018 was $2,897,084

Note 5 - Lines of Credit

The Organization has two separate lines of credit, a revolving line of credit and a nonrevolving draw-to-term line for capital expenditures The revolving line of credit allows for borrowings up to $500,000 and bears interest at a rate of 2 25 percent plus the 30-day LIBOR (4 75 percent as of December 31, 2018) The revolving line of credit expires on August 1, 2019 The nonrevolving $500,000 capital expenditure draw-to-term line bears interest at a rate of 2 50 percent plus the 30-day LIBOR (5 00 percent as of December 31, 2018) The capital expenditure draw-to-term line expires on August 1, 2019, at which point the line converts to a term loan and amortizes over a four-year period At December 31, 2018, there was an outstanding balance on the revolving line of credit of $425,904

The lines of credit are collateralized by accounts receivable, legally available investments, land, buildings, and equipment In addition, the Organization is subject to meeting certain financial covenants, including maintaining certain financial ratios

During 2018, the Organization used approximately $637,000 of proceeds from the nonrevolving capital expenditure draw-to-term lines to purchase equipment Of that amount, approximately $480,000 was converted into a term loan, and approximately $157,000 remains outstanding on the current line of credit Both amounts are included in long-term notes payable on the consolidated balance sheet at December 31, 2018

Note 6 - Long-term Debt

In June 2014, the Organization entered into an agreement with the Michigan Strategic Fund to issue the Series 2014 Variable Rate Limited Obligation Revenue Refunding Bonds (Series 2014 Bonds) to pay off the remaining principal on the 2001 and 2003 Bonds The Series 2014 Bonds were directly purchased by a bank for the outstanding principal amount of $28,135,000

Note 6 - Long-term Debt (Continued)

The bank will hold the Series 2014 Bonds until June 1, 2021 During the year ended December 31, 2017, the Organization elected to redeem principal and renegotiate certain terms of the agreement As a part of the renegotiated agreement, the Organization redeemed a $7,000,000 principal amount of the Series 2014 Bonds in December, and the lender required the Organization to deposit $1,000,000 for the purpose of establishing a reserve account to fund the Association's strategic growth initiatives The balance of the reserve account at December 31, 2018 was $694,924 and is recorded as restricted cash on the accompanying consolidated balance sheet Over the past several years, the Organization has experienced a reduction in membership units as well as continued increases in operating costs While management is implementing plans expected to result in increased revenues as well as to prudently manage operating costs, it is anticipated that the positive impact of those plans will be long term in nature Discussions are ongoing with the primary lenders to renegotiate certain terms of the current credit agreement to provide financial flexibility to implement these plans, which include, among other things, possible modifications to the amortization schedule and changes to debt covenants

Monthly principal payments remaining range from approximately $71,000 to $98,000 until the maturity of the Series 2014 Bonds and are due on the first day of each month The debt bears interest at the rate of 0 65001 multiplied by the sum of LIBOR and 210 basis points (an effective rate of 3 00 percent at December 31, 2018) The amount reported at December 31, 2018 is $17,149,722, which represents the outstanding principal due of $17,491,744, net of unamortized debt issuance costs of $342,022 Debt issuance costs are being amortized on a straight-line basis over the term of the bonds Amortization expense was $22,068 in 2018

The maturity date of the bond agreement is July 1, 2034 Because the date to which the bank has agreed to hold the bonds is before the bonds' maturity date, the bonds will either be remarketed in the future, or the Organization will negotiate with the bank to extend the terms of the agreement

The debt is collateralized by accounts receivable, legally available investments, land, buildings, and equipment of the Organization and Foundation In addition, the Association is subject to meeting certain financial covenants, including maintaining certain financial ratios

The remaining long-term debt relates to outstanding equipment term loans for equipment purchases financed through the bank The remaining loans mature between June 2019 and 2023 Monthly principal payments range from $6,902 to $10,019

Minimum principal payments on the bonds and note payable to maturity as of December 31, 2018 are as follows

Years Ending	Amount
2019	$ 1,203,126
2020	1,146,024
2021	1,228,085
2022	1,293,132
2023	1,199,943
Thereafter	12,423,836
Total	$ 18,494,146

Interest expense for 2018 was $562,966, which includes $22,068 of bond amortization expense

Note 7 - Interest Rate Swap Agreement

The Organization uses interest rate swaps to manage the risk associated with interest rates on variable-rate borrowings, which are reported in the consolidated balance sheet and the consolidated statement of activities and changes in net assets

Note 7 - Interest Rate Swap Agreement (Continued)

During 2014, the Organization entered into an interest rate swap agreement covering a notional amount (25 percent of the outstanding principal of the Series 2014 Bonds) whereby the Organization pays a fixed interest rate to, and receives a variable rate from, the counterparty to the swap based on the total notional amount The interest rate swap hedges a portion of the Organization's interest rate exposure under the variable-rate bonds held by a bank The fair value of the interest rate swap agreement at December 31, 2018 was recorded in the Organization's consolidated financial statements as an asset of $20,406 Accordingly, the Organization recognized an unrealized gain of $46,548 for the year ended December 31, 2018 related to the fair value of the interest rate swap agreement (see Note 14)

Note 8 - Operating Leases

The Association leases educational, program, and other space and certain equipment and vehicles under operating lease agreements that expire through 2020

Future minimum annual commitments under these operating leases are as follows

Years Ending December 31	Amount
2019	$ 164,051
2020	99,654
Total	$ 263,705

Total expense under these leases for 2018 was approximately $171,000

Note 9 - Donor-restricted Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes

Subject to expenditures for a specified purpose and the passage of time	
United Way	$ 282,489
Contributions for various program activities	446,203
Subject to the passage of time - Life Income Fund	417,231
Not subject to appropriation or expenditure (Note 15)	6,441,946
Total	$ 7,587,869

The Life Income Fund includes resources and obligations created by various split-interest agreements entered into with donors Under the terms of the contracts, the Association is required to invest amounts received and distribute the investment income, net of related expenses, to designated beneficiaries

Upon the death of a beneficiary, the principal remaining under each contract reverts to the Association or other designated beneficiaries, in accordance with the terms of the respective contract Investments are recorded at fair market value Liabilities are recorded at the net present value of payments due using the 1980 commissioner's standard ordinary mortality table and discount rates ranging from 6 to 7 percent

Note 10 - Van Dusen Endowment

Certain funds donated by outside donors for the benefit of the Association are held and managed by the Community Foundation for Southeastern Michigan (the "Community Foundation") The Community Foundation maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of the Association The fair market value of these funds is $1,791,519 at December 31, 2018 These funds are not reflected in the consolidated financial statements Earnings are available for distribution to the Association for operations at the discretion of the Community Foundation and are, therefore, not reflected as revenue in the consolidated financial statements until received by the Association During the year ended December 31, 2018, the Community Foundation distributed $83,310 to the Association

Note 11 - Retirement Plans

The Association participates in the YMCA Retirement Fund Retirement Plan, which is a defined contribution, money purchase, church plan that is intended to satisfy the qualification requirements of Section 401(a) of the Internal Revenue Code of 1986 (the "Code"), as amended, and the YMCA Retirement Fund Tax-Deferred Savings Plan, which is a retirement income account plan, as defined in Section 403(b)(9) of the Code Both plans are sponsored by The Young Men's Christian Association Retirement Fund (the "Fund") The Fund is a not-for-profit, tax-exempt pension fund incorporated in the state of New York (1922) organized and operated for the purpose of providing retirement and other benefits for employees of YMCAs throughout the United States The plans are operated as church pension plans Participation is available to all duly organized and reorganized YMCAs and their eligible employees As a defined contribution plan, the retirement plan and tax-deferred savings plan have no unfunded benefit obligations

In accordance with the agreement between the Association and the Fund, contributions for the YMCA Retirement Fund Retirement Plan are a percentage of the participating employees' salaries These amounts are paid by the Association Total contributions charged to retirement costs in the fiscal year were approximately $646,000

Contributions to the YMCA Retirement Fund Tax-Deferred Savings Plan are withheld from employees' salaries and remitted to the YMCA Retirement Fund There is no matching employer contribution in this plan

Note 12 - Related Party Transactions

During 2018, the Association conducted various transactions with entities that have owners or key employees who are Association board members The following is a summary of the significant transactions

Facility leases paid	$ 94,040
Facility leases received	264,000
Electricity and gas	1,386,241

In addition, a board member of the Association is an employee of the bank that is a participant in the Series 2014 Bond financing arrangement, as described in Note 6

Note 13 - Minimum Future Rentals

Effective July 1, 2018, the Organization entered into a lease for a building with an unrelated charter school The base rent is $264,000 annually The lease will end on June 30, 2023 unless terminated earlier or extended, as provided in the agreement Rent charged to the unrelated charter school under this lease agreement during 2018 totaled $264,000

Note 13 - Minimum Future Rentals (Continued)

The Organization entered into an additional lease agreement with a different unrelated party for use of the building previously mentioned The lease is also effective July 1, 2018 and expires on June 30, 2023 The annual base rent ranges from approximately $33,000 to approximately $35,000 Rent charged to the unrelated party during 2018 totaled approximately $32,000

The future minimum rental amount to be received on the noncancelable leases noted above is as follows

Years Ending December 31	Amount
2019	$ 296,962
2020	297,621
2021	298,293
2022	298,979
2023	149,663
Total	$ 1,341,518

Note 14 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value

The following tables present information about the Association's assets measured at fair value on a recurring basis at December 31, 2018 and the valuation techniques used by the Association to determine those fair values

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Association has the ability to access

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation The Association's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset

Note 14 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Assets				
Investments - Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor				
Common stocks	$ 983,312	$ -	$ -	$ 983,312
Index funds	1,510,006	-	-	1,510,006
Mutual funds	4,227,337	-	-	4,227,337
Total investments	6,720,655	-	-	6,720,655
Interest rate swap agreement	-	20,406	-	20,406
Total assets	$ 6,720,655	$ 20,406	$ -	6,741,061
Investments measured at net asset value - Alternative investments - Hatteras multistrategy				289,692
Total assets				$ 7,030,753

The fair value of the interest rate swap at December 31, 2018 was determined primarily based on Level 2 inputs The Association estimates the fair value of these investments based on contract terms and variable interest rates

Investments in Entities that Calculate Net Asset Value per Share

The alternative investment valued at net asset value consists of an investment in the Hatteras Multi-Strategy TEI Institutional Fund, L P (the "Fund") The Fund is a closed-end management investment company registered under the Investment Company Act of 1940, as amended The Foundation holds a limited partnership interest in the Fund This fund of funds investment invests in hedged investments and private investments The Fund's investment objective is to provide capital appreciation consistent with the return characteristics of larger endowments The estimated fair value of the Association's interest in the investment company is provided by an external investment manager and is based on net asset value per share (or its equivalent) of the investment company The Association reviews and evaluates the values provided by the investment manager and agrees with the valuation methods and significant assumptions used in determining fair value At December 31, 2018, the Association had no unfunded commitments with the investment company Liquidity is made available, through a tender process, on a quarterly basis with 65 days' notice

Note 15 - Donor-restricted and Board-designated Endowments

The Association's endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions

Note 15 - Donor-restricted and Board-designated Endowments (Continued)

Interpretation of Relevant Law

The Association is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures Furthermore, unrealized and realized gains and losses are considered appropriated in the year they occur and simultaneously designated by the board The board of directors of the Association had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Association considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument The Association has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law Additionally, in accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds

- The duration and preservation of the fund
- The purpose of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

	Endowment Net Asset Composition by Type of Fund as of December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 570,189	$ -	$ 570,189
Donor-restricted endowment funds - Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	6,441,946	6,441,946
Total	$ 570,189	$ 6,441,946	$ 7,012,135

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 1,568,324	$ 6,436,946	$ 8,005,270
Investment return			
Investment income	-	171,359	171,359
Net depreciation (realized and unrealized)	(712,738)	-	(712,738)
Total investment return	(712,738)	171,359	(541,379)
Contributions	-	5,000	5,000
Appropriation of endowment assets for expenditure	(285,397)	(171,359)	(456,756)
Endowment net assets - End of year	$ 570,189	$ 6,441,946	$ 7,012,135

Note 15 - Donor-restricted and Board-designated Endowments (Continued)

Underwater Endowment Funds

As of December 31, 2018, there were no funds with deficiencies

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the market index, or blended market index, net of fees selected and agreed upon by the Foundation's board that most closely correspond to the style of investment management, while displaying an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified The Association expects its endowment funds, over time, to emphasize long-term growth of principal while avoiding excessive risk Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association 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) The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association has a policy of appropriating for distribution each year 6 percent of its endowment fund's average fair value for the previous three years as of March 31 through the calendar year end preceding the fiscal year in which the distribution is planned In establishing this policy, the Association expects to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of the assets The Association has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations

Note 16 - Y-Education Services, L3C

During 2010 and 2012, the Association assisted in the formation of the DLA and DIA (the "Academies"), respectively Each academy is a separate legal entity with an independent board of directors and each academy was awarded a license to operate a charter school To facilitate the start-up and operation of the charter schools, the Association formed Y-ES to provide management, administrative oversight, and other services to the Academies The Y-ES management contract with DLA expired on June 30, 2015 and was not renewed The Y-ES management contract with DIA expired on June 30, 2017 and was not renewed

The majority of assets constructed or acquired related to the building utilized by the DLA are owned by the Organization and are included as property and equipment in the consolidated balance sheet at their historical cost, net of accumulated depreciation, which is approximately $1 6 million Management continues to perform an assessment of the expected recoverability of the building's current net book value After evaluating the assessment, including a review of the probability of likely outcomes of various scenarios, it was determined the expected undiscounted future cash inflows exceed the net book value and that there continues to be no impairment of the asset at December 31, 2018 However, there are uncertainties related to the assumptions used in the calculation If actual events and conditions are different from those anticipated, those changes may result in a future impairment charge

Note 17 - Liquidity and Availability of Financial Resources

The following reflects the Association's financial assets as of the consolidated balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date

Financial assets at year end	$ 10,188,344
Less those unavailable for general expenditures within one year due to	
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	199,914
Subject to appropriation and satisfaction of donor restrictions	6,441,946
Investments held in annuity trust	378,178
Long-term strategic growth fund	242,382
Board designations - Endowment fund, primarily for long-term investing, net of 2019 appropriation	151,077
Financial assets available to meet cash needs for general expenditures within one year	$ 2,774,847

The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due, while it also realizes there could be unanticipated liquidity needs The Association considers general expenditures to include all costs with the exception of bond debt service costs, principal and interest, and capital outlay In addition, the Association invests cash in excess of daily requirements in various short-term investments

At December 31, 2018, the Association has a committed line of credit of up to $500,000, which it could draw upon if needed, as further described in Note 5 There is a requirement that the line of credit have a $0 outstanding balance for 30 consecutive days at some point during the year

The Association's endowment consists of a board-designated endowment of $570,189 at December 31, 2018, in addition to the donor-restricted endowment Income from the endowment is not restricted and, therefore, available for general expenditure As described in Note 15, the endowment has a spending rate of 6 percent, and approximately $419,000 of appropriations from the endowment will be available within the next 12 months Although the Association does not intend to spend from its endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, certain amounts from its endowment could be made available if necessary However, the endowment contains investments with lock-up provisions that would reduce the total investments that could be made available (see Note 14 for disclosures about investments)