

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

**Consolidated Financial Report
December 31, 2016**

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

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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

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, 2016, 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. 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.

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

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, 2016, and the changes in their net assets 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Plante & Moran, PLLC

April 25, 2017

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

Consolidated Balance Sheet December 31, 2016

(with summarized comparative totals for December 31, 2015)

| | December 31, 2016 | December 31, 2015 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,050,025 | \$ 1,667,696 |
| Investments - Short-term (Note 13) | 8,600,503 | 8,177,527 |
| Receivables - Net of allowances: | | |
| Accounts | 659,133 | 484,707 |
| United Way - Operating | 83,338 | 87,502 |
| Receivables from Detroit Innovation Academy (Note 15) | 377,145 | 288,419 |
| Other | 224,241 | 143,433 |
| Contributions receivable - Net (Note 2) | 252,146 | 265,415 |
| Prepaid expenses and other current assets | 97,581 | 55,388 |
| Investments - Long-term (Note 13) | 5,739,241 | 5,668,607 |
| Cash equivalents held for long-term use | 634,160 | 704,606 |
| Other noncurrent assets | 507,425 | 490,462 |
| Property and equipment - Net (Note 3) | 46,782,671 | 48,397,621 |
| | <u>\$ 65,007,609</u> | <u>\$ 66,431,383</u> |
| Total assets | | |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 1,393,021 | \$ 1,073,311 |
| Accrued liabilities and other | 949,959 | 987,985 |
| Deferred revenue | 1,552,012 | 1,583,783 |
| Obligations under life income contracts | 184,644 | 210,083 |
| Bonds payable - Net (Note 5) | 25,913,841 | 26,671,775 |
| Long-term notes payable (Note 5) | 649,189 | 683,952 |
| Fair value of interest rate swap agreement (Note 6) | 98,717 | 155,242 |
| | <u>30,741,383</u> | <u>31,366,131</u> |
| Total liabilities | | |
| Net Assets | | |
| Unrestricted: | | |
| Undesignated | 18,774,376 | 20,061,473 |
| Board designated (Notes 8 and 14) | 8,144,809 | 7,717,079 |
| Temporarily restricted (Note 8) | 975,693 | 915,352 |
| Permanently restricted (Notes 8 and 14) | 6,371,348 | 6,371,348 |
| | <u>34,266,226</u> | <u>35,065,252</u> |
| Total net assets | | |
| Total liabilities and net assets | <u>\$ 65,007,609</u> | <u>\$ 66,431,383</u> |

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, 2016

(with summarized comparative totals for the year ended December 31, 2015)

| | 2016 | | | 2015 | |
|--|----------------------|------------------------|------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| Revenue, Gains, and Other Support | | | | | |
| Contributions and bequests | \$ 1,026,179 | \$ 493,175 | \$ - | \$ 1,519,354 | \$ 1,540,758 |
| Grants and government contracts | 1,510,256 | - | - | 1,510,256 | 1,821,726 |
| Membership fees | 14,321,214 | - | - | 14,321,214 | 14,980,647 |
| Camping and program fees | 13,600,662 | - | - | 13,600,662 | 13,199,548 |
| Educational services | 3,215,545 | - | - | 3,215,545 | 5,759,887 |
| First-year membership fees | 73,130 | - | - | 73,130 | 102,428 |
| United Way - Operating | 106,518 | 79,832 | - | 186,350 | 192,600 |
| Rentals | 760,914 | - | - | 760,914 | 618,615 |
| Change in fair value of interest swap agreement (Note 6) | 56,525 | - | - | 56,525 | (24,014) |
| Net special events | 499,954 | - | - | 499,954 | 441,025 |
| Net realized and unrealized gains (losses) on investments | 843,176 | 35,930 | - | 879,106 | (1,052,097) |
| Interest income | 277,814 | - | - | 277,814 | 345,772 |
| Distributions on life income contracts | (31,727) | - | - | (31,727) | (36,004) |
| Change in value of life income contracts | - | 25,439 | - | 25,439 | 10,279 |
| Gain (loss) on disposal of fixed assets | 26,545 | - | - | 26,545 | (258,948) |
| Other revenue | 602,035 | - | - | 602,035 | 510,527 |
| Total revenue, gains, and other support | 36,888,740 | 634,376 | - | 37,523,116 | 38,152,749 |
| Net Assets Released from Restrictions | 574,035 | (574,035) | - | - | - |
| Total revenue, gains, other support, and net assets released from restrictions | 37,462,775 | 60,341 | - | 37,523,116 | 38,152,749 |
| Expenses | | | | | |
| Program services | 33,385,886 | - | - | 33,385,886 | 37,067,033 |
| Management and general | 4,006,016 | - | - | 4,006,016 | 3,241,480 |
| Fundraising | 930,240 | - | - | 930,240 | 896,496 |
| Total expenses | 38,322,142 | - | - | 38,322,142 | 41,205,009 |
| (Decrease) Increase in Net Assets | (859,367) | 60,341 | - | (799,026) | (3,052,260) |
| Net Assets - Beginning of year | 27,778,552 | 915,352 | 6,371,348 | 35,065,252 | 38,117,512 |
| Net Assets - End of year | \$ 26,919,185 | \$ 975,693 | \$ 6,371,348 | \$ 34,266,226 | \$ 35,065,252 |

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

Consolidated Statement of Functional Expenses Year Ended December 31, 2016 (with summarized comparative totals for the year ended December 31, 2015)

| | Program Services | Support Services | | | Total Expenses | |
|---|----------------------|------------------------|---------------------|------------------------|----------------------|----------------------|
| | | Management and General | Fundraising | Total Support Services | 2016 | 2015 |
| Salaries | \$ 16,544,230 | \$ 1,541,085 | \$ 472,087 | \$ 2,013,172 | \$ 18,557,402 | \$ 19,464,859 |
| Health and retirement costs | 1,757,146 | 178,195 | 85,373 | 263,568 | 2,020,714 | 2,246,594 |
| Payroll taxes | 1,504,271 | 111,775 | 40,955 | 152,730 | 1,657,001 | 1,733,730 |
| Total salaries and related expenses | 19,805,647 | 1,831,055 | 598,415 | 2,429,470 | 22,235,117 | 23,445,183 |
| Contracted program instruction and other fees | 1,598,400 | 223,397 | 34,829 | 258,226 | 1,856,626 | 2,820,405 |
| Legal, audit, and consulting | 75,313 | 168,420 | - | 168,420 | 243,733 | 369,970 |
| Telephone | 167,660 | 39,075 | 4,892 | 43,967 | 211,627 | 176,077 |
| Supplies | 2,345,568 | 51,269 | 27,793 | 79,062 | 2,424,630 | 2,128,087 |
| Occupancy | 817,320 | 86,371 | - | 86,371 | 903,691 | 1,008,473 |
| Postage and shipping | 4,555 | 49,317 | 36 | 49,353 | 53,908 | 64,986 |
| Utilities | 1,710,640 | 157,098 | 51,342 | 208,440 | 1,919,080 | 2,225,793 |
| Repairs and maintenance | 1,745,948 | 164,938 | 48,813 | 213,751 | 1,959,699 | 2,065,680 |
| Insurance and taxes | 408,792 | 60,035 | 11,374 | 71,409 | 480,201 | 492,450 |
| Promotion and advertising | 546,877 | 1,324 | 1,372 | 2,696 | 549,573 | 660,961 |
| Travel and entertainment | 107,259 | 118,826 | 10,754 | 129,580 | 236,839 | 289,458 |
| Conferences and trainings | 144,298 | 124,350 | 6,816 | 131,166 | 275,464 | 249,523 |
| Dues and fees | 25,442 | 458,246 | 12,266 | 470,512 | 495,954 | 196,878 |
| Support payments to national office | 395,137 | - | - | - | 395,137 | 375,595 |
| Equipment rental | 203,604 | 145,056 | 4,092 | 149,148 | 352,752 | 382,729 |
| Miscellaneous | 20,725 | 12,012 | 25 | 12,037 | 32,762 | 6,562 |
| Bad debt expense | 151,017 | 27,549 | 23,403 | 50,952 | 201,969 | 656,316 |
| In-kind gift | - | - | - | - | - | 189,100 |
| Interest expense | 516,007 | 47,705 | 15,591 | 63,296 | 579,303 | 558,905 |
| Depreciation | 2,595,677 | 239,973 | 78,427 | 318,400 | 2,914,077 | 2,841,878 |
| Total functional expenses before special events | 33,385,886 | 4,006,016 | 930,240 | 4,936,256 | 38,322,142 | 41,205,009 |
| Special events | - | - | 454,467 | 454,467 | 454,467 | 461,304 |
| Total functional expenses | <u>\$ 33,385,886</u> | <u>\$ 4,006,016</u> | <u>\$ 1,384,707</u> | <u>\$ 5,390,723</u> | <u>\$ 38,776,609</u> | <u>\$ 41,666,313</u> |

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

Consolidated Statement of Cash Flows Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

| | Year Ended | |
|--|----------------------|----------------------|
| | December 31, 2016 | December 31, 2015 |
| Cash Flows from Operating Activities | | |
| Decrease in net assets | \$ (799,026) | \$ (3,052,260) |
| Adjustments to reconcile decrease in net assets to net cash from operating activities: | | |
| Depreciation | 2,914,077 | 2,841,878 |
| Bad debt expense | 201,969 | 656,315 |
| Amortization of bond issue costs | 22,066 | 22,066 |
| (Gain) loss on investments | (879,106) | 1,052,097 |
| (Gain) loss on disposition of assets | (26,545) | 258,948 |
| Change in value of life income contracts | 6,288 | 25,725 |
| Change in fair value of interest rate swap agreement | (56,525) | 24,014 |
| Changes in operating assets and liabilities which (used) provided cash: | | |
| Accounts receivable | (528,496) | 430,860 |
| Prepaid expenses and other assets | (59,156) | 93,111 |
| Accounts payable | 319,710 | (261,014) |
| Accrued liabilities and other | (38,026) | (94,735) |
| Deferred revenue | (31,771) | (444,319) |
| Net cash provided by operating activities | 1,045,459 | 1,552,686 |
| Cash Flows from Investing Activities | | |
| Purchases of property and equipment | (1,386,726) | (1,408,161) |
| Proceeds from disposition of property and equipment | 114,144 | 973 |
| Purchases of investments | (3,558,066) | (7,011,507) |
| Sale of investments | 4,014,008 | 7,384,778 |
| Net cash used in investing activities | (816,640) | (1,033,917) |
| Cash Flows from Financing Activities | | |
| Principal payments on long-term debt | (367,628) | (303,938) |
| Principal payments on bonds payable | (780,000) | (755,000) |
| Proceeds from debt financing | 332,865 | 375,658 |
| Distributions on life income contracts | (31,727) | (36,004) |
| Net cash used in financing activities | (846,490) | (719,284) |
| Net Decrease in Cash and Cash Equivalents | (617,671) | (200,515) |
| Cash and Cash Equivalents - Beginning of year | 1,667,696 | 1,868,211 |
| Cash and Cash Equivalents - End of year | <u>\$ 1,050,025</u> | <u>\$ 1,667,696</u> |
| Supplemental Disclosure of Cash Flow Information - Cash paid for interest | <u>\$ 554,171</u> | <u>\$ 532,699</u> |

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

Notes to Consolidated Financial Statements December 31, 2016

Note 1 - Nature of Business and Significant Accounting Policies

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 YMCA 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 five 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 operation of the Detroit Leadership Academy (the "DLA") and Detroit Innovation Academy (the "DIA"), Michigan public school academies. During 2015, Y-ES ceased its management relationship with DLA. The Foundation is a separate legal entity formed in 2003 to manage certain investment activity and to provide financial support to the Organization. The Association and the Foundation have certain common board members.

Significant accounting policies are as follows:

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 in common stock and bonds are recorded at fair market value based on quoted market prices. For a portion of the investments (approximately \$542,000), which are principally comprised of nonmarketable alternative investments, 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.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

These alternative investments include common stock, private equities, and private real estate securities, 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 \$56,000 at December 31, 2016.

Contributions Receivable - 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 \$80,070 at December 31, 2016.

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.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

At December 31, 2016, contributions receivable consisted of several unconditional promises to give generated from annual fundraising campaigns.

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. There were no such services received in 2016.

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.

Long-lived Assets - The Association reports gifts of land, buildings, and equipment as unrestricted support 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 restricted support. 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. There were no gifts of long-lived assets in 2016.

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.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Functional Allocation of Expenses - The consolidated statement of functional expenses reflects all funds of the Association. Employee salaries and wages are allocated between program services and support services on the basis of actual or estimated time devoted to these activities. Other expenses have been allocated on various bases, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different results.

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.

Tax Status - The Association is an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and, as such, is exempt from taxation under IRC Section 501(a). 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, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated 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, 2013.

Use of 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 revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 for the Year Ended December 31, 2015 - The financial information presented for comparative purposes for the year ended December 31, 2015 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 2015 consolidated financial statements, from which the summarized information was derived.

Upcoming Accounting Changes - In August 2016, the Financial Accounting Standards Board (FASB) issued 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 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Association, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Association's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Association is currently evaluating the impact this standard will have on the consolidated financial statements.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 to be applied using one of two retrospective application methods. The Association has begun to assess the effect of the new standard on the consolidated financial statements by reviewing its various sources of contract revenue to determine what impact, if any, the new standard will have on the consolidated financial statements.

In February 2016, the Financial Accounting Standards Board 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 the beginning of the earliest period presented. After analysis of the Association's current leases, management does not expect this standard to have a significant effect on the consolidated financial statements.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including April 25, 2017, which is the date the consolidated financial statements were available to be issued.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Change in Accounting Principle - As of December 31, 2016, the Organization adopted new guidance related to the presentation of debt issuance costs in its consolidated balance sheet. Under the new guidance, debt issuance costs are reported as a direct deduction from the carrying amount of the related debt. Previously, debt issuance costs were presented as an asset. The new presentation requirements have been applied retrospectively and amounts reported in the 2015 consolidated balance sheet have been restated. For the 2015 consolidated balance sheet, debt issuance costs of \$408,225 which were previously reported as an asset have been restated as a contra liability. The new guidance does not affect how the debt issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt. The adoption of this guidance had no effect on the December 31, 2015 net assets or changes in net assets as previously reported.

Note 2 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give generated from annual fundraising campaigns. They are expected to be collected as follows:

| | |
|--------------------------------------|-------------------|
| Within one year | \$ 332,216 |
| Less allowance for doubtful accounts | <u>(80,070)</u> |
| Net contributions receivable | <u>\$ 252,146</u> |

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

Notes to Consolidated Financial Statements December 31, 2016

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

| | Amount | Depreciable Life - Years |
|---------------------------------|----------------------|-----------------------------|
| Land | \$ 5,689,350 | - |
| Land improvements | 1,381,570 | 10-15 |
| Buildings | 69,951,962 | 15-50 |
| Building improvements | 14,712,951 | 10-15 |
| Machinery and equipment | 3,195,082 | 2-5 |
| Transportation equipment | 254,705 | 5 |
| Furniture and fixtures | 4,869,705 | 5-10 |
| Computer equipment and software | 1,303,986 | 3-5 |
| Leasehold improvements - Cost | 237,927 | 5-20 |
| Construction in progress | <u>224,603</u> | - |
| Total cost | 101,821,841 | |
| Accumulated depreciation | <u>(55,039,170)</u> | |
| Net carrying amount | <u>\$ 46,782,671</u> | |

Depreciation expense was \$2,914,077 for 2016.

Note 4 - Lines of Credit

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 (3.01 percent as of December 31, 2016). The revolving line of credit expires on August 1, 2017. The nonrevolving \$500,000 capital expenditure draw-to-term line bears interest at a rate of 2.50 percent plus the 30-day LIBOR (3.26 percent as of December 31, 2016). The capital expenditure draw-to-term line expires on August 1, 2017, at which point the line converts to a term loan and amortizes over a four-year period. At December 31, 2016, there was no outstanding balance on either line.

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

During 2016, the Organization used approximately \$333,000 of proceeds from the non-revolving capital expenditure draw-to-term line to purchase equipment.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 5 - Bonds and Notes Payable

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 subsequently purchased by a bank for the outstanding principal amount of \$28,135,000.

The bank will hold the Series 2014 Bonds until June 1, 2021. Monthly principal payments remaining range from \$65,000 to \$165,000 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 .65001 multiplied by the sum of LIBOR and 210 basis points (an effective rate of 1.77 percent at December 31, 2016). The amount reported at December 31, 2016 is \$25,913,841, which represents the outstanding principal due of \$26,300,000, net of unamortized debt issuance costs of \$386,159. Debt issuance costs are being amortized on a straight-line basis over the term of the bonds. Amortization expense was \$22,066 in 2016.

The maturity date of the bond agreement is July 1, 2034. Because the date the bank has agreed to hold the bonds is before the bond's 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.

Long-term notes payable related to the Detroit Leadership Academy building in the amount of \$86,396, with monthly payments of \$5,000, including interest at 6 percent, which began in August 2010 and are due the first day of each month through July 1, 2017, at which time the remaining unpaid principal and accrued interest are due. The note is collateralized by the building.

The remaining long-term debt relates to outstanding equipment term loans for equipment purchases financed through third parties. The remaining leases expire between January 2017 and June 2020. Monthly principal payments range from \$7,236 to \$16,850.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 5 - Bonds and Notes Payable (Continued)

Minimum principal payments on the bonds and note payable to maturity as of December 31, 2016 are as follows:

| <u>Years Ending December 31</u> | <u>Amount</u> |
|-------------------------------------|----------------------|
| 2017 | \$ 1,238,996 |
| 2018 | 1,380,749 |
| 2019 | 1,338,791 |
| 2020 | 1,310,653 |
| 2021 | 1,300,000 |
| 2022 and thereafter | <u>20,380,000</u> |
| Total | <u>\$ 26,949,189</u> |

Total interest expense was \$579,303 in 2016, which includes \$22,066 of bond amortization expense.

Note 6 - 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.

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, 2016 was recorded in the Organization's consolidated financial statements as a liability of \$98,717. Accordingly, the Organization recognized an unrealized gain of \$56,525 for the year ended December 31, 2016 related to the fair value of the interest rate swap agreement (see Note 13).

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

Notes to Consolidated Financial Statements December 31, 2016

Note 7 - Operating Leases

The Association leases educational, program, and other space and certain equipment and vehicles under operating lease agreements that expire through 2020. The following is a schedule of future minimum rental payments for the years ending December 31:

| <u>Years Ending December 31</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| 2017 | \$ 315,848 |
| 2018 | 25,758 |
| 2019 | 19,285 |
| 2020 | 19,285 |
| Total | <u>\$ 380,176</u> |

Total expense under these leases for 2016 was approximately \$545,000.

Note 8 - Net Assets

Net assets of the Association are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Association's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Board-designated net assets are unrestricted net assets designated by the board primarily for endowments. These designations are based on board actions, which can be altered or revoked at a future time by the board.

Temporarily restricted net assets consist of the following:

| | |
|---|-------------------|
| United Way - Purpose and time restricted | \$ 79,832 |
| Contributions - Purpose and time restricted | 510,611 |
| Life Income Fund - Time restricted | <u>385,250</u> |
| Total temporarily restricted net assets | <u>\$ 975,693</u> |

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.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 8 - Net Assets (Continued)

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.

Permanently restricted net assets are restricted in perpetuity by the donors in order to generate earnings to support operations in the future.

Note 9 - 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 \$1,801,432 at December 31, 2016. 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, 2016, the Community Foundation distributed \$90,526 to the Association.

Note 10 - 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 \$700,000.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 10 - Retirement Plans (Continued)

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 11 - Related Party Transactions

During 2016, the Association purchased various materials and services from entities that have owners or key employees who are association board members. The following is a summary of the significant transactions:

| | |
|---------------------|------------|
| Facility leases | \$ 131,470 |
| Electricity and gas | 1,339,767 |

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 5.

Note 12 - Minimum Future Rentals

Effective August 1, 2015, the Organization entered into a lease for a building with the DLA. The term of this lease expires on June 30, 2017 unless terminated earlier or extended as provided within the agreements. The base rent is \$264,000 annually in addition to a \$23,000 annual maintenance fee. Rent charged to the DLA under this lease agreement during 2016 totaled \$264,000.

The Organization has entered into a lease agreement with an unrelated third party for use of a building. The lease is effective on August 1, 2015 and expires on June 30, 2017 unless terminated earlier or extended as provided within the agreements. The base rent is \$31,995 annually. Rent charged to the unrelated third party during 2016 totaled \$31,995.

Y-ES has also entered into a lease for a building with an unrelated third party for use by the DIA. Payment of the lease is guaranteed by the Organization. The DIA entered into a sublease on this same building with Y-ES. The leases carry identical terms. The leases became effective on August 1, 2012 and expire on July 31, 2017 unless terminated earlier or extended as provided within the agreement. The base rent is 12 percent of the state aid received by the DIA or the minimum guaranteed amount as provided within the agreement. Rent charged to the DIA during 2016 totaled \$437,748.

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

| <u>Years Ending</u> <u>December 31</u> | <u>Amount</u> |
|---|-------------------|
| 2017 | \$ <u>408,172</u> |

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

Notes to Consolidated Financial Statements December 31, 2016

Note 13 - 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 table presents information about the Association's assets and liabilities measured at fair value on a recurring basis at December 31, 2016, and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities 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 and liabilities 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 or liability. 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 or liability.

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 or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2016

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Net Asset Value | Balance at December 31, 2016 |
|--|---|---|--|--------------------|------------------------------------|
| Investments | | | | | |
| Common stock | \$ 1,980,637 | \$ - | \$ - | \$ - | \$ 1,980,637 |
| Index funds | 3,381,580 | - | - | - | 3,381,580 |
| Mutual funds | 8,435,420 | - | - | - | 8,435,420 |
| Alternative investments - Hatteras multi-strategy | - | - | - | 542,107 | 542,107 |
| Total assets | <u>\$ 13,797,637</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 542,107</u> | <u>\$ 14,339,744</u> |
| Liabilities - Interest rate swap agreement | <u>\$ -</u> | <u>\$ 98,717</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 98,717</u> |

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

Notes to Consolidated Financial Statements December 31, 2016

Note 13 - Fair Value Measurements (Continued)

Fixed-income securities, which include investments primarily in bond funds, are valued using quoted market prices and other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

The fair value of the interest rate swap at December 31, 2016 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of this liability 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 seven alternative investment strategies, including Opportunistic Equity, Enhanced Fixed Income, Absolute Return, Tactical Trading, Real Estate, Private Equity, and Energy and Natural Resources. 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 the 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, 2016, 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 14 - Donor-restricted and Board-designated Endowments

The Association's endowments include 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.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

Interpretation of Relevant Law

The board of directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|---------------------------|---------------------------|----------------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 6,371,348 | \$ 6,371,348 |
| Board-designated endowment funds | 8,144,809 | - | - | 8,144,809 |
| Total funds | <u>\$ 8,144,809</u> | <u>\$ -</u> | <u>\$ 6,371,348</u> | <u>\$ 14,516,157</u> |

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

Notes to Consolidated Financial Statements December 31, 2016

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| Endowment net assets - | | | | |
| Beginning of year | \$ 7,717,079 | \$ - | \$ 6,371,348 | \$ 14,088,427 |
| Investment return: | | | | |
| Investment income | - | 272,344 | - | 272,344 |
| Net appreciation (realized and unrealized) | 848,612 | - | - | 848,612 |
| Total investment return | 848,612 | 272,344 | - | 1,120,956 |
| Contributions | 300,706 | - | - | 300,706 |
| Appropriation of endowment assets for expenditure | (721,588) | (272,344) | - | (993,932) |
| Endowment net assets - End of year | <u>\$ 8,144,809</u> | <u>\$ -</u> | <u>\$ 6,371,348</u> | <u>\$ 14,516,157</u> |

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 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.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

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 considered the long-term expected return on its endowment. Accordingly, over the long term, 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.

Note 15 - Y-Education Services

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 by Central Michigan University 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.

At December 31, 2016, Y-ES had the following assets and liabilities:

Assets:

| | | |
|---------------------------|----|----------------|
| Cash and cash equivalents | \$ | 24,350 |
| Receivable from the DIA | | 377,145 |
| Due from the Organization | | <u>334,852</u> |
| Total assets | \$ | <u>736,347</u> |

Liabilities:

| | | |
|-------------------------------|----|----------------|
| Accounts payable | \$ | 94,413 |
| Accrued liabilities and other | | <u>56,493</u> |
| Total liabilities | \$ | <u>150,906</u> |

| | | |
|---------------------------|----|----------------|
| Net assets - Unrestricted | \$ | <u>585,441</u> |
|---------------------------|----|----------------|

The assets, liabilities, and net assets shown above are included in the Association's consolidated balance sheet except for the \$334,852 due from the Organization, which is eliminated in consolidation.

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

Notes to Consolidated Financial Statements December 31, 2016

Note 15 - Y-Education Services (Continued)

The Organization has entered into a long-term note payable related to the building and property utilized by the DLA which is described further in Note 5. 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 \$1.7 million. During 2016, certain events occurred that required management to perform an assessment of the expected recoverability of the building's current net book value. The evaluation included analyzing possible scenarios for the future of DLA and the building, including making assumptions related to DLA's charter renewal, future rent streams and the ultimate sales price of the building. After evaluating the scenarios, including an assessment of the probability of likely outcomes of the various scenarios, it was determined the expected undiscounted future cash inflows exceed the net book value and that there was no impairment of the asset at December 31, 2016. However, there are uncertainties related to the assumptions used in the calculation and the probabilities assigned to each scenario. If actual events and conditions are different from those anticipated, those changes may result in a future impairment charge.

In addition, the Organization has made certain leasehold improvements and investments in property and equipment related to leased property for both the DLA and DIA which are described further in Note 12. These assets are included as leasehold improvements and property and equipment in the consolidated balance sheet at their historical cost, net of accumulated depreciation. The total net book value of these assets at December 31, 2016 was approximately \$1.8 million. As described in Note 12, Y-ES has entered into leases for school facilities with the Organization and unrelated parties.

Revenue received by Y-ES from the DIA included approximately \$3,000,000 for direct expenses Y-ES paid related to the DIA, approximately \$138,000 for the school management fee as described below, and approximately \$53,000 for overhead expenditures related to human resources, information technology, and oversight services provided to the DIA. All revenue and expenses are included in the consolidated statement of activities and changes in net assets and the consolidated statement of functional expenses.

Y-ES has a management services agreement with the DIA to provide education and operational management services and to facilitate the implementation of the DIA's obligations under their charter agreement as follows:

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

Notes to Consolidated Financial Statements December 31, 2016

Note 15 - Y-Education Services (Continued)

The management services agreement for the DIA calls for (1) a fixed fee charge of 3 or 4 percent depending on its revenue levels and shall not be less than \$70,000 nor more than \$140,000 on an annual basis and (2) payment for all costs incurred and paid by Y-ES in providing services to the DIA (excluding corporate costs of Y-ES). The management services agreement began on May 8, 2012 and is in effect through June 30, 2017 unless terminated earlier due to conditions as outlined in the agreement.