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

Consolidated Financial Report

December 31, 2014

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 "Organization"), which comprise the consolidated balance sheet as of December 31, 2014 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.

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

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, 2014 and the results of their operations 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2015 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 20, 2015

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

Consolidated Balance Sheet

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 1,868,211	$ 1,430,441
Investments - Short-term (Note 14)	9,608,851	9,902,136
Receivables - Net of allowances:		
Accounts	726,695	628,690
United Way - Operating	87,502	87,502
Receivables from Detroit Leadership Academy and Detroit Innovation Academy (Note 16)	899,081	794,631
Other	361,933	446,684
Contributions receivable - Net (Note 2)	281,440	349,899
Prepaid expenses and other current assets	148,166	109,085
Investments - Long-term (Note 14)	5,832,054	5,907,424
Cash equivalents held for long-term use	535,203	432,715
Bond issue costs - Net	430,291	468,702
Other noncurrent assets	490,795	474,594
Property and equipment - Net (Note 3)	50,091,259	51,438,309
Total assets	**$ 71,361,481**	**$ 72,470,812**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,334,325	$ 1,246,660
Accrued liabilities and other	1,082,720	1,236,142
Deferred revenue	1,361,025	1,371,692
Obligations under life income contracts	220,362	199,786
Capital lease obligations (Note 4)	422,768	194,106
Bonds payable (Note 6)	27,835,000	28,105,000
Long-term notes payable (Note 6)	189,464	224,759
Fair value of interest rate swap agreement (Note 7)	131,228	-
Total liabilities	32,576,892	32,578,145
Net Assets		
Unrestricted:		
Undesignated	22,263,455	23,344,515
Board-designated (Notes 9 and 15)	9,105,677	9,398,608
Temporarily restricted (Note 9)	1,044,309	812,646
Permanently restricted (Notes 9 and 15)	6,371,148	6,336,898
Total net assets	38,784,589	39,892,667
Total liabilities and net assets	**$ 71,361,481**	**$ 72,470,812**

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, 2014
(with comparative totals for the year ended December 31, 2013)

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Contributions and bequests	$ 935,394	$ 564,303	$ 34,250	$ 1,533,947	$ 1,910,284
Grants and government contracts	2,221,614	-	-	2,221,614	1,995,223
Membership fees	14,945,500	-	-	14,945,500	14,822,206
Camping and program fees	12,263,963	-	-	12,263,963	11,608,212
Educational services	7,347,498	-	-	7,347,498	5,888,787
First year membership fees	135,687	-	-	135,687	249,531
United Way - Operating	113,860	78,740	-	192,600	192,600
Rentals	710,904	-	-	710,904	871,527
Change in fair value of interest swap agreement (Note 7)	(131,228)	-	-	(131,228)	-
Net special events	402,327	-	-	402,327	375,658
Net realized and unrealized gains and (losses) on investments	(76,997)	29,286	-	(47,711)	1,924,042
Interest income	476,918	-	-	476,918	362,471
Distributions on life income contracts	(36,724)	-	-	(36,724)	(29,953)
Change in value of life income contracts	-	(20,576)	-	(20,576)	(3,699)
Loss on disposal of fixed assets	-	-	-	-	(59,023)
Other revenue	822,525	-	-	822,525	786,340
Total revenue, gains, and other support	40,131,241	651,753	34,250	40,817,244	40,894,206
Net Assets Released from Restrictions	420,090	(420,090)	-	-	-
Total revenue, gains, other support, and net assets released from restrictions	40,551,331	231,663	34,250	40,817,244	40,894,206
Expenses					
Program services	37,642,667	-	-	37,642,667	36,320,234
Management and general	3,067,933	-	-	3,067,933	3,117,044
Fundraising	758,794	-	-	758,794	774,093
Total expenses	41,469,394	-	-	41,469,394	40,211,371
Increase (Decrease) in Net Assets - Before extraordinary items	(918,063)	231,663	34,250	(652,150)	682,835
Extraordinary Item - Loss on extinguishment of debt (Note 6)	(455,928)	-	-	(455,928)	-
(Decrease) Increase in Net Assets	(1,373,991)	231,663	34,250	(1,108,078)	682,835
Net Assets - Beginning of year	32,743,123	812,646	6,336,898	39,892,667	39,209,832
Net Assets - End of year	**$ 31,369,132**	**$ 1,044,309**	**$ 6,371,148**	**$ 38,784,589**	**$ 39,892,667**

See Notes to Consolidated Financial Statements.

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

Consolidated Statement of Functional Expenses
Year Ended December 31, 2014
(with comparative totals for the year ended December 31, 2013)

	Program Services	Support Services: Management and General	Support Services: Fundraising	Support Services: Total Support Services	Total Expenses: 2014	Total Expenses: 2013
Salaries	$ 18,449,036	$ 1,268,715	$ 344,621	$ 1,613,336	$ 20,062,372	$ 18,787,852
Health and retirement costs	2,000,597	146,371	59,968	206,338	2,206,936	1,831,291
Payroll taxes	1,649,623	68,311	29,206	97,517	1,747,140	1,718,957
Total salaries and related expenses	22,099,256	1,483,397	433,795	1,917,192	24,016,448	22,338,100
Contracted program instruction and other fees	1,800,410	215,871	27,688	243,559	2,043,969	1,809,525
Legal, audit, and consulting	233,804	184,900	753	185,653	419,457	424,116
Telephone	127,156	39,930	2,739	42,669	169,825	182,110
Supplies	2,072,022	48,289	34,619	82,908	2,154,930	2,199,801
Occupancy	586,319	78,258	542	78,800	665,119	665,332
Rental of equipment	484,391	137	40	177	484,568	444,433
Postage and shipping	36,030	36,373	967	37,340	73,370	75,762
Utilities	2,029,722	125,800	36,788	162,588	2,192,310	2,313,357
Repairs and maintenance	2,311,120	168,612	36,783	205,395	2,516,515	2,389,245
Insurance and taxes	469,871	27,511	8,441	35,952	505,823	402,702
Promotion and advertising	669,598	738	2,402	3,140	672,738	618,857
Travel and entertainment	164,774	116,601	15,483	132,084	296,858	333,809
Conferences and trainings	185,948	50,354	10,154	60,508	246,456	283,571
Dues and support payments to national office	335,026	192,401	16,780	209,181	544,207	497,186
Equipment rental	323,804	66,287	4,020	70,307	394,111	663,351
Miscellaneous	14,959	13,877	57	13,934	28,893	10,698
Bad debt expense	315,048	-	62,819	62,819	377,867	421,246
In-kind gift	138,229	-	-	-	138,229	389,066
Interest expense	563,358	37,817	11,059	48,876	612,234	843,674
Depreciation and amortization	2,681,822	180,780	52,865	233,645	2,915,467	2,905,430
Total functional expenses before special events	37,642,667	3,067,933	758,794	3,826,727	41,469,394	40,211,371
Special events	-	-	472,796	472,796	472,796	393,198
Total functional expenses	**$ 37,642,667**	**$ 3,067,933**	**$ 1,231,590**	**$ 4,299,523**	**$ 41,942,190**	**$ 40,604,569**

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

Consolidated Statement of Cash Flows

	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (1,108,078)	$ 682,835
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	2,891,660	2,879,883
Loss on disposal of property and equipment	-	59,023
Bad debt expense	377,867	421,246
Amortization of bond issue costs	23,807	25,547
Loss (gain) on investments	47,711	(1,924,042)
Change in value of life income contracts	57,300	33,652
Change in fair value of interest rate swap agreement	131,228	-
Loss on extinguishment of debt	455,928	-
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(427,112)	(157,081)
Prepaid expenses and other assets	(55,282)	(45,859)
Accounts payable	87,665	131,975
Accrued liabilities and other	(153,422)	212,560
Deferred revenue	(10,667)	(18,622)
Net cash provided by operating activities	2,318,605	2,301,117
Cash Flows from Investing Activities		
Purchases of property and equipment	(963,637)	(825,480)
Purchases of investments	(7,660,151)	(10,966,963)
Sale of investments	7,878,607	11,058,922
Net cash used in investing activities	(745,181)	(733,521)
Cash Flows from Financing Activities		
Principal payments under capital lease obligations	(352,311)	(248,005)
Principal payments on long-term debt	(35,295)	(92,118)
Principal payments on bonds payable	(28,405,000)	(920,000)
Proceeds from issuance of bonds	28,135,000	-
Bond issuance costs	(441,324)	-
Distributions on life income contracts	(36,724)	(29,953)
Net cash used in financing activities	(1,135,654)	(1,290,076)
Net Increase in Cash and Cash Equivalents	437,770	277,520
Cash and Cash Equivalents - Beginning of year	1,430,441	1,152,921
Cash and Cash Equivalents - End of year	**$ 1,868,211**	**$ 1,430,441**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 254,682**	**$ 61,150**
Significant Noncash Investing and Financing Transactions During the Year - Equipment acquired under capital leases	**$ 580,973**	**$ 326,594**

See Notes to Consolidated Financial Statements.

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 comprised 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 operation of the Detroit Leadership Academy (the "DLA") and Detroit Innovation Academy (the "DIA"), Michigan public school academies. 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 $988,000), which invests principally in 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.

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 computed using a historical loss rate factor and applied 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 acounts receivable of $54,935 at December 31, 2014.

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 contibutions receivable of $109,496 at December 31, 2014.

Bond Issue Costs - Bond issue costs consist of fees and expenses paid in connection with the issuance of the bonds discussed in Note 6. These costs are being amortized on a straight-line basis over the term of the bonds. Amortization expense was $23,807 in 2014.

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. 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.

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.

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 2014 or 2013.

Other volunteers have donated significant amounts of their time to the Organization'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 2014 or 2013.

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.

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, 2014, 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, 2011.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

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, 2013 - The financial information presented for comparative purposes for the year ended December 31, 2013 is not intended to be a complete 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 2013 consolidated financial statements, from which the summarized information was derived.

Upcoming Accounting Change - 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. As it stands now, the new guidance will be effective for the Association's year ending December 31, 2018, although the FASB is considering an extension. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Association has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including April 20, 2015, which is the date the consolidated financial statements were available to be issued.

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	$ 390,936
Less allowance for doubtful accounts	(109,496)
Net contributions receivable	$ 281,440

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

	Amount	Depreciable Life - Years
Land	$ 5,776,948	-
Land improvements	1,381,570	10-15
Buildings	69,951,962	15-50
Building improvements	13,411,231	10-15
Machinery and equipment	3,644,687	2-5
Transportation equipment	276,953	5
Furniture and fixtures	4,956,859	5-10
Computer equipment and software	1,624,756	3-5
Leasehold improvements - Cost	459,724	5-20
Total cost	101,484,690	
Accumulated depreciation	(51,393,431)	
Net carrying amount	$ 50,091,259	

Depreciation expense was $2,891,660 for 2014.

Note 4 - Capital Leases

The Organization has entered into capital leases involving certain fitness and other equipment. The future minimum lease payments on capital leases as of December 31, 2014 are as follows:

Years Ending December 31		Amount
2015		$ 216,726
2016		202,712
2017		16,893
	Total minimum lease payments	436,331
	Less amount representing interest	13,563
	Present value of net minimum lease payments	$ 422,768

Equipment purchased under the capital lease arrangements has been capitalized and is included in property and equipment (see Note 3). This equipment has a cost of $3,644,687 and a net book value of $417,061 as of December 31, 2014. Depreciation of assets under capital leases is included in depreciation expense.

Interest rates on capital leases range from 2.911 to 3.783 percent.

Total interest expense on capital leases for 2014 was $16,729.

Note 5 - Line of Credit

The Organization had a credit facility available from a bank (the "Terminated Facility") that allowed for borrowings up to $750,000. On June 27, 2014, the Terminated Facility was canceled, and the Organization entered into new credit facilities with another bank.

The working capital revolving line of credit allows for borrowings up to $1,000,000 and bears interest at a rate of 2.00 percent plus 30-day LIBOR (2.16 percent as of December 31, 2014). The working capital line of credit expires June 26, 2015. The nonrevolving $1,000,000 capital expenditure draw to term loan bears interest at a rate of 2.25 percent plus 30-day LIBOR (2.41 percent as of December 31, 2014). The capital expenditure draw-to-term loan expires June 27, 2015, at which point the line converts to a term loan and amortizes over a four year period.

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.

Note 5 - Line of Credit (Continued)

During 2014, there were no draws or interest expense associated with the lines of credit.

Note 6 - Bonds and Notes Payable

In October 2013, the banks that provided a letter of credit that supported the outstanding amounts under the 2001 and 2003 Michigan Strategic Fund Limited Obligation Revenue Bonds notified the Organization that they would not renew their letter of credit when it was set to expire in August 2014. 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 extinguishment of the 2001 and 2003 bonds resulted in a loss of $455,928 related to the unamortized discount and issuance costs. 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 $60,000 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 the LIBOR Rate and 210 basis points (an effective rate of 1.465 percent at December 31, 2014). The outstanding principal due at December 31, 2014 is $27,835,000. 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 have to negotiate an extended date the bank will hold the bonds.

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 $189,464, with monthly payments between $3,000 and $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.

Note 6 - Bonds and Notes Payable (Continued)

Minimum principal payments on the bonds and note payable to maturity as of December 31, 2014 are as follows:

Years Ending December 31	Amount
2015	$ 804,993
2016	833,075
2017	1,041,396
2018	1,200,000
2019	1,205,000
2020 and thereafter	22,940,000
Total	$ 28,024,464

Total interest expense was approximately $265,000 in 2014.

Note 7 - Interest Rate Swap Agreement

The Organization uses interest rate swaps to manage the risk associated with interest rates on variable rate borrowings and 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, 2014 was recorded in the Organization's financial statements as a liability of $131,228. Accordingly, the Organization recognized an unrealized loss of $131,228 for the year ended December 31, 2014 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 2017. The following is a schedule of future minimum rental payments for the years ending December 31:

Years Ending December 31	Amount
2015	$ 711,124
2016	657,196
2017	334,182
Total	$ 1,702,502

Total expense under these leases for 2014 was approximately $761,000.

Note 9 - 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-restricted	$ 97,706
Contributions - Purpose- and time-restricted	564,303
Life Income Fund - Time-restricted	382,300
Total temporarily restricted net assets	$ 1,044,309

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.

Note 9 - 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 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 $1,925,699 at December 31, 2014. 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, 2014, the Community Foundation distributed $92,159 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 $787,000.

Note 11 - 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 12 - Related Party Transactions

During 2014, 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:

Electricity and gas	$ 1,408,315
Legal services	74,122
Bank and letter of credit fees	334,933

Certain board members of the Association are also officers of the bank where the Association had a line of credit and letter of credit, which expired during 2014 and were not renewed, as described in Notes 5 and 6. 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

Y-ES has entered into a lease for a building with the Organization. The DLA has entered into a sublease on this same building with Y-ES. The leases carry identical terms. The leases are effective August 1, 2010 and expire July 31, 2015 unless terminated earlier or extended as provided within the agreements. In August 2013, the lease was modified to increase the base rent because of additional square footage made available through a renovation project. The base rent is $305,520 annually with $50,920 of this amount being set aside for facility expansion and/or improvement during the term of the lease. The base rent cannot exceed 15 percent of the total revenue of the DLA. In the event this occurs, the base rent shall be reduced to that amount and the lease amended. Rent charged to the DLA during 2014 totaled $305,520.

Y-ES has entered into a lease for a building with an unrelated third party for use by the DLA. The DLA has entered into a sublease on this same building with Y-ES. The leases carry identical terms. The leases are effective July 1, 2012 and expire June 30, 2017 unless terminated earlier or extended as provided within the agreement. The base rent is 10 percent of the State Aid received by the DLA or the minimum guaranteed amount as provided within the agreement. Rent charged to the DLA during 2014 totaled $283,314, of which $23,856 was forgiven by Y-ES and is recorded as an in-kind contribution.

Note 13 - Minimum Future Rentals (Continued)

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 August 1, 2012 and expire 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 2014 totaled $375,194.

Future minimum rental to be received on the noncancelable leases noted above is as follows:

Years Ending December 31		Amount
2015		$ 933,209
2016		737,964
2017		384,142
	Total	$ 2,055,315

Note 14 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the 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 Organization's assets and liabilities measured at fair value on a recurring basis at December 31, 2014 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 Organization 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 or liabilities and 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.

Note 14 - Fair Value Measurements (Continued)

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 Organization'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, 2014

	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, 2014
Investments				
Common stock	$ 2,624,078	$ -	$ -	$ 2,624,078
Index funds	3,908,694	-	-	3,908,694
Alternative investments - Hatteras multi-strategy	-	-	988,566	988,566
Equity mutual funds	4,941,910	-	-	4,941,910
Fixed income	-	2,977,657	-	2,977,657
Total assets	$ 11,474,682	$ 2,977,657	$ 988,566	$ 15,440,905
Liabilities - Interest rate swap agreement	$ -	$ 131,228	$ -	$ 131,228

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, 2014 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.

Note 14 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2014 are as follows:

	Alternative Investment
Balance - December 31, 2013	$ 1,496,356
Capital distributions	(577,578)
Total realized and unrealized gains	69,788
Balance - December 31, 2014	$ 988,566

Realized and unrealized gains and losses are reported in net realized and unrealized gains and losses on investments in the consolidated statement of activities and changes in net assets.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.

Investments in Entities that Calculate Net Asset Value per Share

The alternative investment categorized as Level 3 assets 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 Fund's investment objective is to provide capital appreciation consistent with the return characteristics of larger endowments through investments in the six asset classes of opportunistic equity, enhanced fixed income, absolute return, real estate, private equity, and energy and natural resources. The Fund's underlying assets primarily consist of investments in hedge funds and private investment funds. 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, 2014, the Association had no unfunded commitments with the investment company. The Association is allowed to redeem its investment on a quarterly basis with 65 days' notice. The Association began liquidating this investment during fiscal year 2013 with the goal of being fully liquidated by December 31, 2015.

Note 15 - 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.

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 6,371,148	$ 6,371,148
Board-designated endowment funds	9,105,677	-	-	9,105,677
Total funds	$ 9,105,677	$ -	$ 6,371,148	$ 15,476,825

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

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 9,398,608	$ -	$ 6,336,898	$ 15,735,506
Investment return:				
Investment income	-	468,718	-	468,718
Net depreciation (realized and unrealized)	(68,809)	-	-	(68,809)
Total investment return	(68,809)	468,718	-	399,909
Contributions	295,010	-	34,250	329,260
Appropriation of endowment assets for expenditure	(519,132)	(468,718)	-	(987,850)
Endowment net assets - End of year	$ 9,105,677	$ -	$ 6,371,148	$ 15,476,825

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.

Note 15 - 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 5 percent plus an additional 1 percent renewable annually 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 16 - 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.

At December 31, 2014, Y-ES had the following assets and liabilities:

Assets:	
Cash and cash equivalents	$ 301,438
Receivable from the Academies (net of allowance of $80,000)	899,081
Total assets	$ 1,200,519
Liabilities:	
Accounts payable	$ 416,789
Accrued liabilities and other	96,205
Due to the Organization	303,516
Total liabilities	$ 816,510
Net assets - Unrestricted	$ 384,009

The assets, liabilities, and net assets shown above are included in the Association's consolidated balance sheet except for the $303,516 Due to the Organization, which is eliminated in consolidation.

Note 16 - 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 6. 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. 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 is described further in Note 13. These assets are also included as leasehold improvements and property and equipment in the consolidated balance sheet at their historical cost, net of accumulated depreciation. The net book value of these assets at December 31, 2014 was approximately $2,500,000. As described in Note 13, Y-ES has entered into leases for school facilities with the Organization and unrelated parties.

Revenue received by Y-ES from the Academies included approximately $6,800,000 for direct expenses Y-ES paid related to the Academies, approximately $336,000 for the school management fee as described below, and approximately $183,000 for overhead expenditures related to human resources, information technology, and oversight services provided to the Academies. 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 Academies to provide education and operational management services and to facilitate the implementation of the Academies' obligations under their charter agreements as follows:

The management services agreement for the DLA calls for (1) a fixed fee charge of 3 or 4 percent depending on its revenue levels and shall not be less than $95,000 nor more than $190,000 on an annual basis and (2) payment for all costs incurred and paid by Y-ES in providing services to the DLA (excluding corporate costs of Y-ES). The management services agreement began August 1, 2010 and is in effect through June 30, 2015 unless terminated earlier due to conditions as outlined in the agreement.

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 May 8, 2012 and is in effect through June 30, 2017 unless terminated earlier due to conditions as outlined in the agreement.

Note 16 - Y-Education Services (Continued)

The management fees recognized by Y-ES for 2014 were approximately $336,000, of which approximately $40,000 was forgiven by Y-ES and recorded as an in-kind contribution. The fees for overhead expenditures for 2014 were approximately $183,000, of which approximately $75,000 was forgiven by Y-ES and recorded as an in-kind contribution.