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

Consolidated Financial Report

December 31, 2017

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

Contents

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate (the "Association"), which comprise the consolidated balance sheet as of December 31, 2017 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

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, 2017 and the changes in its net assets, its functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

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

Report on Summarized Comparative Information

We have previously audited the Young Men's Christian Association of Metropolitan Detroit and Subsidiary and Affiliate's 2016 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 25, 2017 In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited consolidated 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 24, 2018 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 24, 2018

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

Consolidated Balance Sheet

December 31, 2017
(with summarized comparative totals for December 31, 2016)

	2017	2016
Assets		
Cash and cash equivalents	$ 555,551	$ 1,050,025
Cash - Strategic growth fund (Note 6)	1,000,000	-
Investments - Short-term (Note 14)	1,995,739	8,600,503
Receivables - Net of allowances		
Accounts	487,781	659,133
United Way - Operating	84,500	83,338
Receivables from Detroit Innovation Academy (Note 16)	-	377,145
Other	191,508	224,241
Contributions receivable - Net (Note 3)	234,684	252,146
Prepaid expenses and other current assets	119,079	97,581
Investments - Long-term (Note 14)	5,870,014	5,739,241
Cash equivalents held for long-term use	564,891	634,160
Other noncurrent assets	524,388	507,425
Property and equipment - Net (Note 4)	45,360,219	46,782,671
Total assets	**$ 56,988,354**	**$ 65,007,609**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,069,985	$ 1,393,021
Accrued liabilities and other	1,027,828	949,959
Deferred revenue	1,379,886	1,552,012
Obligations under life income contracts	135,019	184,644
Fair value of interest rate swap agreement (Notes 7 and 14)	26,142	98,717
Bonds payable - Net (Note 6)	17,980,910	25,913,841
Long-term notes payable (Note 6)	668,911	649,189
Total liabilities	22,288,681	30,741,383
Net Assets		
Unrestricted		
Undesignated	25,675,354	18,774,376
Board designated (Notes 9 and 15)	1,568,324	8,144,809
Temporarily restricted (Note 9)	1,019,049	975,693
Permanently restricted (Note 15)	6,436,946	6,371,348
Total net assets	34,699,673	34,266,226
Total liabilities and net assets	**$ 56,988,354**	**$ 65,007,609**

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017
(with summarized comparative totals for the year ended December 31, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Camping and program fees	$ 13,743,176	$ -	$ -	$ 13,743,176	$ 13,600,662
Contributions and bequests	1,166,255	284,320	65,598	1,516,173	1,519,354
Grants and government contracts	1,746,683	-	-	1,746,683	1,510,256
Membership fees	14,205,729	-	-	14,205,729	14,321,214
First-year membership fees	60,644	-	-	60,644	73,130
Educational services	1,819,528	-	-	1,819,528	3,215,545
United Way - Operating	116,234	100,766	-	217,000	186,350
Rentals	721,036	-	-	721,036	760,914
Change in fair value of interest swap agreement (Note 7)	72,575	-	-	72,575	56,525
Net special events	535,175	-	-	535,175	499,954
Net realized and unrealized gains on investments	2,011,583	71,928	-	2,083,511	879,106
Interest income	242,098	-	-	242,098	277,814
Distributions on life income contracts	(34,372)	-	-	(34,372)	(31,727)
Change in value of life income contracts	-	49,625	-	49,625	25,439
(Loss) gain on disposal of fixed assets	(58,351)	-	-	(58,351)	26,545
Other revenue	462,198	-	-	462,198	602,035
Total revenue, gains, and other support	36,810,191	506,639	65,598	37,382,428	37,523,116
Net Assets Released from Restrictions	463,283	(463,283)	-	-	-
Total revenue, gains, other support, and net assets released from restrictions	37,273,474	43,356	65,598	37,382,428	37,523,116
Expenses					
Program expenses	32,287,304	-	-	32,287,304	33,385,886
Support services					
Management and general	3,640,472	-	-	3,640,472	4,006,016
Fundraising	1,021,205	-	-	1,021,205	930,240
Total support services	4,661,677	-	-	4,661,677	4,936,256
Total expenses	36,948,981	-	-	36,948,981	38,322,142
Increase (Decrease) in Net Assets	324,493	43,356	65,598	433,447	(799,026)
Net Assets - Beginning of year	26,919,185	975,693	6,371,348	34,266,226	35,065,252
Net Assets - End of year	**$ 27,243,678**	**$ 1,019,049**	**$ 6,436,946**	**$ 34,699,673**	**$ 34,266,226**

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, 2017
(with summarized comparative totals for the year ended December 31, 2016)

	Program Services	Support Services: Management and General	Support Services: Fundraising	Support Services: Total Support Services	Total: 2017	Total: 2016
Salaries	$ 16,249,252	$ 1,385,424	$ 467,336	$ 1,852,760	$ 18,102,012	$ 18,557,402
Health and retirement costs	1,546,833	190,124	97,309	287,433	1,834,266	2,020,714
Payroll taxes	1,446,651	113,973	41,148	155,121	1,601,772	1,657,001
Total salaries and related expenses	19,242,736	1,689,521	605,793	2,295,314	21,538,050	22,235,117
Contracted program instruction and other fees	1,728,294	266,086	58,523	324,609	2,052,903	1,856,626
Legal, audit, and consulting	73,002	215,837	2,522	218,359	291,361	243,733
Supplies	2,357,951	47,627	85,566	133,193	2,491,144	2,424,630
Telephone	137,876	68,075	4,796	72,871	210,747	211,627
Postage and shipping	25,674	19,270	829	20,099	45,773	53,908
Occupancy	685,745	89,051	(254)	88,797	774,542	903,691
Utilities	1,792,917	156,630	56,161	212,791	2,005,708	1,919,080
Repairs and maintenance	1,017,685	82,525	29,822	112,347	1,130,032	1,959,699
Insurance and taxes	364,208	47,431	11,016	58,447	422,655	480,201
Promotion and advertising	542,147	2,685	1,373	4,058	546,205	549,573
Travel and entertainment	102,415	90,632	6,760	97,392	199,807	236,839
Conferences and trainings	130,839	98,325	7,136	105,461	236,300	275,464
Dues and fees	33,319	437,855	5,298	443,153	476,472	495,954
Support payments to national office	397,868	-	-	-	397,868	395,137
Equipment rental	245,262	54,310	4,468	58,778	304,040	352,752
Miscellaneous	2,586	1,873	-	1,873	4,459	32,762
Bad debt expense	305,494	357	43,731	44,088	349,582	201,969
Interest expense	565,824	49,895	17,890	67,785	633,609	579,303
Depreciation	2,535,462	222,487	79,775	302,262	2,837,724	2,914,077
Special events	-	-	496,143	496,143	496,143	454,467
Total functional expenses	**$ 32,287,304**	**$ 3,640,472**	**$ 1,517,348**	**$ 5,157,820**	**$ 37,445,124**	**$ 38,776,609**

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

Consolidated Statement of Cash Flows

Year Ended December 31, 2017
(with summarized comparative totals for the year ended December 31, 2016)

	2017	2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 433,447	$ (799,026)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities		
Depreciation	2,837,724	2,914,077
Bad debt expense	349,582	201,969
Amortization of debt issuance costs	22,068	22,066
Gain on investments	(2,083,511)	(879,106)
Loss (gain) on disposition of assets	58,351	(26,545)
Change in value of life income contracts	(15,253)	6,288
Change in fair value of interest rate swap agreement	(72,575)	(56,525)
Contributions restricted for endowment	(65,598)	-
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	247,948	(528,496)
Prepaid expenses and other current assets	(38,461)	(59,156)
Accounts payable	(323,036)	319,710
Accrued liabilities and other	77,869	(38,026)
Deferred revenue	(172,126)	(31,771)
Net cash provided by operating activities	1,256,429	1,045,459
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,473,623)	(1,386,726)
Proceeds from disposition of property and equipment	-	114,144
Purchases of investments	(775,282)	(3,558,066)
Proceeds from sales of investments	9,402,053	4,014,008
Net cash provided by (used in) investing activities	7,153,148	(816,640)
Cash Flows from Financing Activities		
Principal payments on long-term notes payable	(311,605)	(367,628)
Principal payments on bonds payable	(7,955,000)	(780,000)
Proceeds from debt financing	331,328	332,865
Distributions on life income contracts	(34,372)	(31,727)
Proceeds from endowment gifts	65,598	-
Net cash used in financing activities	(7,904,051)	(846,490)
Net Increase (Decrease) in Cash and Cash Equivalents	505,526	(617,671)
Cash and Cash Equivalents - Beginning of year	1,050,025	1,667,696
Cash and Cash Equivalents (Including Cash - Strategic Growth Fund) - End of year	**$ 1,555,551**	**$ 1,050,025**
Supplemental Cash Flow Information - Cash paid for interest	$ 643,152	$ 554,171

Note 1 - Nature of Business

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

The 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 During 2017, Y-ES ceased its management relationship with DIA Management expects financial activity in Y-ES to be minimal going forward The Foundation is a separate legal entity formed in 2003 to manage certain investment activity and to provide financial support to the Organization The Organization and the Foundation have certain common board members

Note 2 - Significant Accounting Policies

Cash Equivalents

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

Cash Equivalents Held for Long-term Use

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

Investments

Investments in common stock and bonds are recorded at fair market value based on quoted market prices For a portion of the investments (approximately $382,500), which are principally composed 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

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

Note 2 - Significant Accounting Policies (Continued)

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 $160,000 at December 31, 2017

Property and Equipment

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

Deferred Revenue

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

Contributions

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

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

At December 31, 2017, contributions receivable consisted of several unconditional promises to give generated from annual fundraising campaigns

The Association's policy is to record pledges when such pledges are made to the Association, less an allowance for uncollectible amounts, if applicable The Association has recorded an allowance for doubtful accounts for contributions receivable of $90,070 at December 31, 2017

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 2017

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

Note 2 - Significant Accounting Policies (Continued)

Long-lived Assets

The Association reports gifts of land, buildings, and equipment as 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 2017

Grants and Government Contracts

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

Functional Allocation of Expenses

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

Income Taxes

The Association is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3) Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements The Association is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress Management believes it is no longer subject to income tax examinations for years prior to December 31, 2014

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes during the reporting period Actual results could differ from those estimates

Note 2 - Significant Accounting Policies (Continued)

Concentration of Credit Risk Arising from Deposit Accounts

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

Risks and Uncertainties

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

Summarized Comparative Information

The financial information presented for comparative purposes for the year ended December 31, 2016 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 2016 consolidated financial statements, from which the summarized information was derived

Upcoming Accounting Pronouncements

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 Organization, 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 standard is expected to have an impact on the presentation of net assets and to result in enhanced disclosures related to liquidity and availability

In May 2014, the FASB issued 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 not yet determined which application method it will use Management has assessed the timing and pattern of revenue recognized and believes that there will not be a material change to its income recognition

Note 2 - Significant Accounting Policies (Continued)

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

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 24, 2018, which is the date the consolidated financial statements were available to be issued

Note 3 - Contributions Receivable

Included in contributions receivable at December 31, 2017 are several unconditional promises to give generated from annual fundraising campaigns They are expected to be collected as follows

Within one year	$ 324,754
Less allowance for uncollectible contributions	(90,070)
Net contributions receivable	$ 234,684

Note 4 - Property and Equipment

Property and equipment at December 31, 2017 are summarized as follows

	Amount	Depreciable Life - Years
Land	$ 5,689,350	-
Land improvements	1,462,593	10-15
Buildings	70,008,969	15-50
Building improvements	15,649,134	10-15
Machinery and equipment	3,022,183	2-5
Transportation equipment	266,705	5
Furniture and fixtures	4,571,206	5-10
Computer equipment and software	1,305,132	3-5
Construction in progress	104,482	-
Total cost	102,079,754	
Accumulated depreciation	56,719,535	
Net property and equipment	$ 45,360,219	

Depreciation expense for 2017 was $2,837,724

Note 5 - Lines of Credit

The Organization has two separate lines of credit, a revolving line of credit and a nonrevolving draw-to-term line for capital expenditures The revolving line of credit allows for borrowings up to $500,000 and bears interest at a rate of 2 25 percent plus the 30-day LIBOR (3 81 percent as of December 31, 2017) The revolving line of credit expires on August 1, 2018 The nonrevolving $500,000 capital expenditure draw-to-term line bears interest at a rate of 2 50 percent plus the 30-day LIBOR (4 06 percent as of December 31, 2017) The capital expenditure draw-to-term line expires on August 1, 2018, at which point the line converts to a term loan and amortizes over a four-year period At December 31, 2017, 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 2017, the Organization used approximately $331,000 of proceeds from the nonrevolving capital expenditure draw-to-term line to purchase equipment

Note 6 - Long-term Debt

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

The bank will hold the Series 2014 Bonds until June 1, 2021 During the year, the Organization elected to redeem principal and renegotiate certain terms of the agreement As a part of the renegotiated agreement, the Organization redeemed a $7,000,000 principal amount of the Series 2014 Bonds in December, and the lender required the Organization to deposit $1,000,000 for the purpose of establishing a reserve account to fund the Association's strategic growth initiatives The balance of the reserve account at December 31, 2017 was $1,000,000 and is recorded as restricted cash on the accompanying consolidated balance sheet

Monthly principal payments remaining range from approximately $71,000 to $98,000 until the maturity of the Series 2014 Bonds and are due on the first day of each month The debt bears interest at the rate of 65001 multiplied by the sum of LIBOR and 210 basis points (an effective rate of 2 38 percent at December 31, 2017) The amount reported at December 31, 2017 is $17,980,910, which represents the outstanding principal due of $18,345,000, net of unamortized debt issuance costs of $364,090 Debt issuance costs are being amortized on a straight-line basis over the term of the bonds Amortization expense was $22,068 in 2017

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

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

The remaining long-term debt relates to outstanding equipment term loans for equipment purchases financed through a third party The remaining loans expire between June 2019 and August 2021 Monthly principal payments range from $6,902 to $7,826

Note 6 - Long-term Debt (Continued)

Minimum principal payments on the bonds and note payable to maturity as of December 31, 2017 are as follows

Years Ending	Amount
2018	$ 1,116,837
2019	1,069,880
2020	986,741
2021	1,068,802
2022	1,173,906
Thereafter	13,597,745
Total	$ 19,013,911

Interest expense for 2017 was $633,609, which includes $22,068 of bond amortization expense

Note 7 - Interest Rate Swap Agreement

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

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, 2017 was recorded in the Organization's consolidated financial statements as a liability of $26,142 Accordingly, the Organization recognized an unrealized gain of $72,575 for the year ended December 31, 2017 related to the fair value of the interest rate swap agreement (see Note 14)

Note 8 - Operating Leases

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

Future minimum annual commitments under these operating leases are as follows

Years Ending December 31	Amount
2018	$ 164,239
2019	159,051
2020	99,654
Total	$ 422,944

Total expense under these leases for 2017 was approximately $384,000

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 as of December 31 consist of the following

Time restrictions - Life Income Fund	$	474,048
Time and purpose restrictions		
United Way		100,765
Contributions		444,236
Total temporarily restricted net assets	$	1,019,049

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

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

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 $1,979,895 at December 31, 2017 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, 2017, the Community Foundation distributed $84,014 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 $670,000

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

Note 12 - Related Party Transactions

During 2017, 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	$ 250,168
Electricity and gas	1,295,572
Legal services	120,885

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

Note 13 - Minimum Future Rentals

Effective August 1, 2015, the Organization entered into a lease for a building with the DLA The term of this lease expired on June 30, 2017 The base rent is $264,000 annually in addition to a $23,000 annual maintenance fee The lease was renegotiated in 2017, and the term was extended to June 30, 2018 unless terminated earlier or extended as provided in the agreement The base rate continues to be $264,000, but there is no longer a maintenance fee Rent charged to the DLA under this lease agreement during 2017 totaled $264,000

The Organization has entered into a lease agreement with an unrelated third party for use of a building The lease was effective on August 1, 2015 and expires on June 30, 2018 unless terminated earlier or extended as provided within the agreement The base rent is $31,995 annually Rent charged to the unrelated third party during 2017 totaled approximately $32,000

Y-ES had also entered into a lease for a building with an unrelated third party for use by the DIA Payment of the lease was guaranteed by the Organization The DIA entered into a sublease on this same building with Y-ES The leases carried identical terms The leases became effective on August 1, 2012 and expired on July 31, 2017 The base rent was 12 percent of the state aid received by the DIA or the minimum guaranteed amount as provided within the agreement Total rent charged to DIA in 2017 was approximately $251,000

Note 13 - Minimum Future Rentals (Continued)

The future minimum rental amount to be received on the noncancelable leases noted above in 2018 is $147,998

Note 14 - Fair Value Measurements

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

The following tables present information about the Association's assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and the valuation techniques used by the Association to determine those fair values

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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, 2017				
	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, 2017
Assets					
Investments					
Common stocks	$ 963,574	$ -	$ -	$ -	$ 963,574
Index funds	2,063,275	-	-	-	2,063,275
Mutual funds	4,456,401	-	-	-	4,456,401
Alternative investments - Hatteras multistrategy	-	-	-	382,503	382,503
Total investments	$ 7,483,250	$ -	$ -	$ 382,503	$ 7,865,753
Liabilities - Interest rate swap agreement	$ -	$ 26,142	$ -	$ -	$ 26,142

The fair value of the interest rate swap at December 31, 2017 was determined primarily based on Level 2 inputs The Association estimates the fair value of these investments based on contract terms and variable interest rates

Note 14 - Fair Value Measurements (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The alternative investment valued at net asset value consists of an investment in the Hatteras Multi-Strategy TEI Institutional Fund, L P (the "Fund") The Fund is a closed-end management investment company registered under the Investment Company Act of 1940, as amended The Foundation holds a limited partnership interest in the Fund This fund of funds investment invests in hedged investments and private investments The Fund's investment objective is to provide capital appreciation consistent with the return characteristics of larger endowments The estimated fair value of the Association's interest in the investment company is provided by an external investment manager and is based on 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, 2017, the Association had no unfunded commitments with the investment company Liquidity is made available, through a tender process, on a quarterly basis with 65 days' notice

Note 15 - Donor-restricted and Board-designated Endowments

The Association's endowments include both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments Net assets associated with endowment funds, including funds designated by the board of trustees 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 trustees 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

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

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

	Endowment Net Asset Composition by Type of Fund as of December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 6,436,946	$ 6,436,946
Board-designated endowment funds	1,568,324	-	-	1,568,324
Total	$ 1,568,324	$ -	$ 6,436,946	$ 8,005,270

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 8,144,809	$ -	$ 6,371,348	$ 14,516,157
Investment return				
Investment income	-	232,753	-	232,753
Net appreciation (realized and unrealized)	2,017,731	-	-	2,017,731
Total investment return	2,017,731	232,753	-	2,250,484
Contributions	161,811	-	65,598	227,409
Appropriation of endowment assets for expenditure	(756,339)	(232,753)	-	(989,092)
Transfers to pay down long-term debt	(7,999,688)	-	-	(7,999,688)
Endowment net assets - End of year	$ 1,568,324	$ -	$ 6,436,946	$ 8,005,270

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints

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 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 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 to operate a charter school To facilitate the start-up and operation of the charter schools, the Association formed Y-ES to provide management, administrative oversight, and other services to the Academies The Y-ES management contract with DLA expired on June 30, 2015 and was not renewed The Y-ES management contract with DIA expired on June 30, 2017 and was not renewed

At December 31, 2017, Y-ES had the following assets and liabilities

Cash and cash equivalents	$	2,450
Related party receivable		702,512
Total assets	$	704,962
Net assets - Unrestricted	$	704,962

The assets, liabilities, and net assets shown above are included in the Association's consolidated balance sheet except for the $702,512 due from the Organization, which is eliminated in consolidation

Y-ES had 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 through June 30, 2017 The agreement was as follows

The management services agreement for the DIA calls for (1) a fixed fee charge of 3 or 4 percent depending on its revenue levels that 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)

Revenue received by Y-ES from the DIA included approximately $1,700,000 for direct expenses Y-ES paid related to the DIA, approximately $70,000 for the school management fee as described above, and approximately $27,000 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

The majority of assets constructed or acquired related to the building utilized by the DLA are owned by the Organization and are included as property and equipment in the consolidated balance sheet at their historical cost, net of accumulated depreciation, which is approximately $1 6 million Management continues to perform an assessment of the expected recoverability of the building's current net book value After evaluating the assessment, including a review of the probability of likely outcomes of various scenarios, it was determined the expected undiscounted future cash inflows exceed the net book value and that there continues to be no impairment of the asset at December 31, 2017 However, there are uncertainties related to the assumptions used in the calculation If actual events and conditions are different from those anticipated, those changes may result in a future impairment charge