# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

Milwaukee, Wisconsin

## Consolidated Financial Statements and Supplementary Information

For the Years Ending December 31, 2013 and 2012

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WIPFLi LLP

# Independent Auditor's Report

Board of Directors
The Young Men's Christian Association of Metropolitan Milwaukee, Inc.
Milwaukee, Wisconsin

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. (the "Association"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial position of the Association as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

#### *Subsequent Event*

As discussed in Note 17 to the financial statements, on June 4, 2014, the Association filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code and was authorized to continue managing and operating the business as the debtor in possession subject to control and supervision of the Bankruptcy Court. The Association was also in default on certain covenants of its loan agreements at December 31, 2013 and its lender/creditors were involved in the Association's bankruptcy reorganization plan. On January 30, 2015, the Association emerged from bankruptcy as its reorganization plan was accepted by the Bankruptcy Court. The financial statements do not include any adjustments that might result from the outcome of the success or failure of the entities reorganization plan. Our opinion is not modified with respect to that matter.

## Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 32 to 34 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Wipfli LLP

Wipfli LLP

February 6, 2015
Milwaukee, Wisconsin

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidated Statements of Financial Position

December 31, 2013 and 2012

| ***Assets*** | **2013** | **2012** |
|---|---|---|
| Cash and cash equivalents | $ 4,436,869 | $ 2,347,877 |
| Investments | 7,237,932 | 6,493,578 |
| Accounts receivable | 190,790 | 314,793 |
| Grants receivable | 610,572 | 515,429 |
| Unconditional promises to give | 572,268 | 1,051,461 |
| Prepaid expenses | 114,214 | 105,789 |
| Property and equipment - Net | 38,703,324 | 61,903,670 |
| Other assets | 1,133,469 | 1,100,672 |
| **TOTAL ASSETS** | $ 52,999,438 | $ 73,833,269 |

| ***Liabilities and Net Assets*** | **2013** | **2012** |
|---|---|---|
| Line of credit | $ 3,000,000 | $ - |
| Accounts payable | 1,249,467 | 1,159,709 |
| Accrued liabilities | 1,464,756 | 1,669,738 |
| Deferred revenue | 936,599 | 906,541 |
| Other liabilities | 1,853,516 | 1,915,676 |
| Capital lease obligations | 898,761 | 1,655,088 |
| Bonds and note payable | 25,370,000 | 26,670,000 |
| Interest rate swap agreements | 1,628,382 | 2,646,096 |
| Total liabilities | 36,401,481 | 36,622,848 |
| Net assets: | | |
| Unrestricted | 6,809,899 | 27,952,665 |
| Temporarily restricted | 5,224,233 | 4,733,652 |
| Permanently restricted | 4,563,825 | 4,524,104 |
| Total net assets | 16,597,957 | 37,210,421 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 52,999,438 | $ 73,833,269 |

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidated Statements of Activities

Years Ended December 31, 2013 and 2012

| | 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Public support: | | | | |
| Contributions | $ 2,054,199 | $ 612,345 | $ 28,022 | $ 2,694,566 |
| Government and private grants | 354,453 | - | - | 354,453 |
| United Way | 284,041 | 307,706 | - | 591,747 |
| Total public support | 2,692,693 | 920,051 | 28,022 | 3,640,766 |
| Revenue: | | | | |
| Membership and program fees | 29,637,866 | - | - | 29,637,866 |
| Department of public instruction | 4,488,781 | - | - | 4,488,781 |
| Services and sales | 696,499 | - | - | 696,499 |
| Investment income appropriated | 304,666 | - | - | 304,666 |
| Other | 91,130 | 106,610 | - | 197,740 |
| Total revenue | 35,218,942 | 106,610 | - | 35,325,552 |
| Net assets released from restrictions | 1,337,833 | (1,337,833) | - | - |
| Total public support and revenue | 39,249,468 | (311,172) | 28,022 | 38,966,318 |
| Expenses: | | | | |
| Program | 36,423,941 | - | - | 36,423,941 |
| Management and general | 2,920,309 | - | - | 2,920,309 |
| Fundraising | 930,531 | - | - | 930,531 |
| Total expenses | 40,274,781 | - | - | 40,274,781 |
| Public support and revenue over (under) expense | (1,025,313) | (311,172) | 28,022 | (1,308,463) |
| Other changes in net assets: | | | | |
| Investment income restricted | - | 801,753 | - | 801,753 |
| Change in cash surrender value of life insurance | - | - | 11,699 | 11,699 |
| Net gain (loss) on disposal of capital assets | 83,054 | - | - | 83,054 |
| Net impairment loss on capital assets | (21,218,221) | - | - | (21,218,221) |
| Gain on interest rate swap agreements | 1,017,714 | - | - | 1,017,714 |
| Total other changes in net assets | (20,117,453) | 801,753 | 11,699 | (19,304,001) |
| Changes in net assets | (21,142,766) | 490,581 | 39,721 | (20,612,464) |
| Net assets - Beginning of year | 27,952,665 | 4,733,652 | 4,524,104 | 37,210,421 |
| Net assets - End of year | $ 6,809,899 | $ 5,224,233 | $ 4,563,825 | $ 16,597,957 |

| | 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | $ 2,506,516 | $ 984,457 | $ 30,539 | $ 3,521,512 |
| | 431,607 | - | - | 431,607 |
| | 305,574 | 305,574 | - | 611,148 |
| | 3,243,697 | 1,290,031 | 30,539 | 4,564,267 |
| | 30,730,482 | - | - | 30,730,482 |
| | 4,704,138 | - | - | 4,704,138 |
| | 707,455 | - | - | 707,455 |
| | 459,939 | - | - | 459,939 |
| | 188,060 | 3,350 | - | 191,410 |
| | 36,790,074 | 3,350 | - | 36,793,424 |
| | 5,676,004 | (5,676,004) | - | - |
| | 45,709,775 | (4,382,623) | 30,539 | 41,357,691 |
| | 37,209,697 | - | - | 37,209,697 |
| | 3,516,044 | - | - | 3,516,044 |
| | 928,653 | - | - | 928,653 |
| | 41,654,394 | - | - | 41,654,394 |
| | 4,055,381 | (4,382,623) | 30,539 | (296,703) |
| | - | 265,046 | - | 265,046 |
| | - | - | 16,282 | 16,282 |
| | (587,963) | - | - | (587,963) |
| | - | - | - | - |
| | 458,955 | - | - | 458,955 |
| | (129,008) | 265,046 | 16,282 | 152,320 |
| | 3,926,373 | (4,117,577) | 46,821 | (144,383) |
| | 24,026,292 | 8,851,229 | 4,477,283 | 37,354,804 |
| | $ 27,952,665 | $ 4,733,652 | $ 4,524,104 | $ 37,210,421 |

See accompanying notes to consolidated financial statements.

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Changes in net assets | $ (20,612,464) | $ (144,383) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,549,224 | 3,699,176 |
| Amortization | 39,128 | 39,129 |
| Impairment loss on capital assets | 21,218,221 | - |
| (Gain) loss on disposal of capital assets | (1,750) | 669,267 |
| Deferred gain on sale leaseback | (81,304) | (81,304) |
| Change in fair value of interest rate swap agreements | (1,017,714) | (458,955) |
| Contributions for restricted purposes | (1,310,740) | (930,996) |
| Realized gain on investments | (122,477) | (417,891) |
| Unrealized gain on investments | (852,074) | (169,225) |
| Bad debt expense | 276,598 | 277,346 |
| Changes in assets and liabilities: | | |
| Accounts and grants receivable | (177,944) | 179,634 |
| Unconditional promises to give | 961,573 | 418,400 |
| Prepaid expenses and other assets | (92,049) | (116,182) |
| Accounts payable | 77,171 | 290,481 |
| Accrued liabilities and deferred revenue | (155,779) | (72,048) |
| Net cash provided by operating activities | 1,697,620 | 3,182,449 |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,552,762) | (1,383,771) |
| Purchases of investments | (1,287,905) | (2,802,397) |
| Proceeds from sale of investments | 1,518,102 | 2,665,254 |
| Change in cash surrender value of life insurance | 11,699 | 16,282 |
| Net cash used in investing activities | (1,310,866) | (1,504,632) |

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | $ (1,300,000) | $ (1,240,000) |
| Net change in line of credit | 3,000,000 | (900,000) |
| Principal payments on capital lease obligations | (756,327) | (715,170) |
| Collections of restricted campaign pledges | 758,565 | 649,336 |
| Net cash flows provided by (used in) financing activities | 1,702,238 | (2,205,834) |
| Net change in cash and cash equivalents | 2,088,992 | (528,017) |
| Cash and cash equivalents - Beginning of year | 2,347,877 | 2,875,894 |
| Cash and cash equivalents - End of year | $ 4,436,869 | $ 2,347,877 |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest | $ 1,406,522 | $ 1,505,154 |
| Noncash investing and financing activities: | | |
| Capital expenditures included in accounts payable at year end | $ 180,844 | $ 191,765 |
| Equipment financed with capital lease obligations | $ - | $ 807,413 |

See accompanying notes to consolidated financial statements.

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidated Statements of Functional Expenses

Year Ended December 31, 2013

| | 2013 | | | |
|---|---|---|---|---|
| | Program | Management and General | Fundraising | Total |
| Wages and related expenses | $ 20,030,263 | $ 2,171,454 | $ 806,739 | $ 23,008,456 |
| Professional services | 1,427,905 | 155,804 | 18,083 | 1,601,792 |
| Program and supplies expense | 2,692,154 | 41,564 | 5,614 | 2,739,332 |
| Postage and shipping | 71,178 | 7,859 | 24,153 | 103,190 |
| Building rental, maintenance, and taxes | 2,460,313 | 72,464 | - | 2,532,777 |
| Utilities and telephone | 2,455,403 | 61,418 | - | 2,516,821 |
| Insurance | 391,147 | 14,628 | 1,066 | 406,841 |
| Equipment leases, rental, and maintenance | 620,340 | 85,386 | - | 705,726 |
| Advertising, printing, and promotion | 1,037,451 | 12,570 | 65,414 | 1,115,435 |
| Conferences, training, and employee expense | 223,665 | 61,368 | 4,287 | 289,320 |
| Dues | 313,969 | - | 5,175 | 319,144 |
| Interest expense | 1,386,703 | - | - | 1,386,703 |
| Depreciation expense | 3,313,450 | 235,794 | - | 3,549,244 |
| Total expenses | $ 36,423,941 | $ 2,920,309 | $ 930,531 | $ 40,274,781 |

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

**Consolidated Statements of Functional Expenses** (Continued)
Year Ended December 31, 2012

| | 2012 | | | |
|---|---|---|---|---|
| | **Program** | **Management and General** | **Fundraising** | **Total** |
| Wages and related expenses | $ 20,558,813 | $ 2,667,872 | $ 826,391 | $ 24,053,076 |
| Professional services | 941,619 | 226,072 | 18,747 | 1,186,438 |
| Program and supplies expense | 2,930,625 | 39,808 | 2,423 | 2,972,856 |
| Postage and shipping | 29,997 | 7,382 | 7,607 | 44,986 |
| Building rental, maintenance, and taxes | 2,550,595 | 139,377 | - | 2,689,972 |
| Utilities and telephone | 2,338,839 | 56,788 | - | 2,395,627 |
| Insurance | 360,268 | 13,355 | 1,806 | 375,429 |
| Equipment leases, rental, and maintenance | 673,937 | 88,529 | - | 762,466 |
| Advertising, printing, and promotion | 1,236,788 | 5,405 | 65,374 | 1,307,567 |
| Conferences, training, and employee expense | 265,918 | 51,666 | 5,970 | 323,554 |
| Dues | 307,416 | - | 335 | 307,751 |
| Interest expense | 1,535,496 | - | - | 1,535,496 |
| Depreciation expense | 3,479,386 | 219,790 | - | 3,699,176 |
| Total expenses | $ 37,209,697 | $ 3,516,044 | $ 928,653 | $ 41,654,394 |

See accompanying notes to consolidated financial statements.

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Notes to Consolidated Financial Statements

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### Note 1 Nature of Operations

The Young Men's Christian Association of Metropolitan Milwaukee, Inc. (the "Y" or the "Association") is a not-for-profit, volunteer-led, human development charitable organization whose mission is to put Christian principles into practice through programs that build healthy spirit, mind, and body for all. The Association operates ten membership centers in the city of Milwaukee and surrounding area, a K4-8 Charter School, two full-day child care centers, two overnight camps for children and families, and conducts programming at numerous community-based locations.

The Y is a diverse organization of men, women, and children joined together by a shared commitment to nurturing the potential of kids, promoting healthy living and fostering a sense of social responsibility. Since no two communities are exactly alike, no two Ys are exactly alike. They are united by a deep commitment to strengthening their communities and to ensure that those they serve learn, grow, and thrive. Core programs include health and well-being, early childhood education, elementary education and academic mentoring, camping, aquatics, youth leadership, and family programs. The Association's financial assistance program provides funds for those in need - everyone is welcome to participate in Y programs.

### Note 2 Summary of Significant Accounting Policies

#### Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. ("YMCA") and its wholly-controlled subsidiary, the YMCA Youth Leadership Academy, Inc. ("Academy"). The Academy is a not-for-profit organization which qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and is a non-stock corporation that operates a charter school. The Y is the sole member of the non-stock corporation. The fiscal year-end of the Academy is June 30; however, the consolidated financial statements include amounts as of and for the year ended December 31. Significant intercompany accounts and transactions are eliminated in consolidation.

#### Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP).

## Note 2 Summary of Significant Accounting Policies (Continued)

### Net Assets

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Association.

### Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Revenue Recognition

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

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Fees and dues revenue are recognized when earned.

Grant revenue is recognized as revenue in the period in which it is expended for cost-reimbursed agreements.

## Note 2 Summary of Significant Accounting Policies (Continued)

**Fair Value Measurements**

The Association measures the fair value of its financial instruments, unconditional promises to give, and certain other assets using a three-tier hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The Association determines fair value by:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

- Level 2 Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets.
  - Quoted prices for identical or similar assets or liabilities in active markets.
  - Inputs, other than quoted prices, that is observable for the asset or liability.
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Cash and Cash Equivalents**

The Association defines cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less, excluding amounts held as long-term investments in the Association's investment portfolio.

**Accounts Receivable**

Accounts receivable are generally uncollateralized client obligations due upon receipt. Management individually reviews all past due accounts receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amount of accounts receivable is reduced by allowances that reflect management's estimate of uncollectible amounts. The allowance for uncollectible accounts is $30,000 and $5,000 as of December 31, 2013 and 2012, respectively.

## Note 2 Summary of Significant Accounting Policies (Continued)

### Grants Receivable

Grants receivable consist of various Federal and State grant funds passed through governmental agencies to the Association for various programs. Management believes no allowance for uncollectible grants is required based upon management's judgment and consideration of the collectability of each grant.

### Unconditional Promises to Give

Unconditional promises to give made to the Association are recorded as receivables in the year the pledge was made. Pledges and other promises to give whose eventual uses are restricted by the donor are recorded as increases in temporarily restricted net assets. Unrestricted pledges to be collected in future periods are also recorded as an increase in temporarily restricted net assets and reclassified to unrestricted net assets when received.

Unconditional promises to give are reported in the statements of financial position net of unamortized discounts and an allowance for uncollectible pledges. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows using a discount rate that approximates the rate of government securities. Amortization of the discount is recorded as an increase or decrease in contribution revenue. An allowance for uncollectible accounts is determined by management based on past collection history.

### Investments

Investments are generally recorded at fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Association records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the Consolidated Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

## Note 2 Summary of Significant Accounting Policies (Continued)

### Capitalized Loan Fees

Capitalized loan fees, included in other assets in the accompanying consolidated statements of financial position, are being amortized to expense over the life of the loan. Accumulated amortization as of December 31, 2013 and 2012, was $342,827 and $303,699, respectively.

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of year | $ 381,916 | $ 421,045 |
| Amortization of loan fees | (39,128) | (39,129) |
| Balance, end of year | $ 342,788 | $ 381,916 |

### Property and Equipment

Property and equipment are stated at cost if purchased or fair market value at date of the gift if donated. All acquisitions of property and equipment in excess of $1,000 and all expenditures for repairs, maintenance, improvements, and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Donated property and equipment are recorded as increases in unrestricted net assets at their estimated fair market value as of the date received, unless restricted by donor. Contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. The Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line method over their estimated useful lives (see Note 4).

## Note 2 Summary of Significant Accounting Policies (Continued)

**Impairment of Long-Lived Assets**

The Association reviews long-lived assets, including property and equipment for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset.

Subsequent to December 31, 2013 and prior to the issuance of its financial statements, the Association filed for Chapter 11 bankruptcy protection, sold various long-lived assets and reassessed the value of its remaining long-lived assets in contemplation of filing its bankruptcy reorganization plan. The Association has recognized an impairment of long-lived assets at December 31, 2013 as a result of sales of properties in 2014. The affected properties included the Northside YMCA, the Feith Family YMCA, the Southwest YMCA, the Tri County YMCA and the West Suburban YMCA and were written down to the amounts recovered through the sales.

As a result of these sales, the Association evaluated the carrying values of its remaining properties and determined that the carrying values of certain other properties were no longer recoverable and were in fact impaired, and wrote them down to their estimated fair value. Fair value of these assets was determined based on the per square foot sales price of the Association's properties sold in 2014, as well as other factors. The affected properties include the Association Office, Camp Matawa, the Downtown YMCA, the John C. Cudahy YMCA and the South Shore YMCA.

The impairment loss recognized in 2013 was $21,218,221. No impairment loss was recognized in 2012. As some of the aforementioned properties are currently listed for sale, it is reasonably possible that the estimated fair value may change in the near term resulting in the need to further adjust the determination of fair value.

## Note 2 Summary of Significant Accounting Policies (Continued)

**Derivatives**

The Association follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 815, *Derivatives and Hedging*, to account for its derivative transactions, which consist entirely of interest rate swap contracts. FASB ASC 815 requires an organization to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value.

The Association uses derivatives to manage risks related to interest rate movements. Interest rate swap agreements are reported at fair value. The change in fair value of the derivative is recognized as a change in net assets in the period of change. It is the policy of the Association to execute such contracts with creditworthy counterparties. The Association's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable rate debt to a fixed rate. The Association does not use derivatives for trading or speculative purposes. None of the contracts were terminated prior to their maturity in 2013 or 2012.

**Deferred Revenue**

Program service fees applying to services to be rendered in future periods are recorded as deferred revenue when received and reflected as support in the year when the program services fees are earned.

**Functional Expense**

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

## Note 2 Summary of Significant Accounting Policies (Continued)

### Advertising and Promotion

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion expense was $1,115,435 and $1,307,567 for the years ended December 31, 2013 and 2012, respectively.

### Income Taxes

The Association is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Association is also exempt from state income taxes on related income.

In order to account for any uncertain tax positions, the Association determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Association recorded no assets or liabilities related to uncertain tax positions in 2013 and 2012. Federal tax returns for tax years 2010 and beyond remain subject to examination by the Internal Revenue Service.

## Note 3 Fair Value Measurements

Following is a description of the valuation methodology used for each asset measured at fair value on a recurring basis:

- Money market funds are valued using $1 as the net asset value (NAV).
- Equity and fixed income mutual funds are valued at the daily closing price as reported by the mutual fund. Mutual funds held by the Association are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish daily NAV and to transact at that price. The mutual funds held by the Association are deemed to be actively traded.
- Interest rate swaps are valued using discounted cash flows based on observable yield curves and other factors.

### Note 3 Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at December 31:

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Money market funds | $ 98,059 | $ - | $ - | $ 98,059 |
| Fixed income mutual funds: | | | | |
| Short-term bond funds | 231,079 | - | - | 231,079 |
| Intermediate-term bond funds | 1,344,420 | - | - | 1,344,420 |
| Emerging markets bond funds | 115,213 | - | - | 115,213 |
| High yield bond funds | 169,363 | - | - | 169,363 |
| Equity mutual funds: | | | | |
| ETF large index funds | 2,870,307 | - | - | 2,870,307 |
| ETF mid-cap index funds | 760,577 | - | - | 760,577 |
| ETF small-cap index funds | 359,240 | - | - | 359,240 |
| Foreign equity funds | 1,079,880 | - | - | 1,079,880 |
| Commodity-linked derivatives funds | 209,794 | - | - | 209,794 |
| Total investments | $ 7,237,932 | $ - | $ - | $ 7,237,932 |
| Interest rate swaps | $ - | $ 1,628,382 | $ - | $ 1,628,382 |

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Money market funds | $ 149,692 | $ - | $ - | $ 149,692 |
| Fixed income mutual funds: | | | | |
| Short-term bond funds | 133,503 | - | - | 133,503 |
| Intermediate-term bond funds | 1,373,227 | - | - | 1,373,227 |
| Emerging markets bond funds | 159,658 | - | - | 159,658 |
| High yield bond funds | 161,638 | - | - | 161,638 |
| Equity mutual funds: | | | | |
| ETF large index funds | 2,337,062 | - | - | 2,337,062 |
| ETF mid-cap index funds | 712,642 | - | - | 712,642 |
| ETF small-cap index funds | 328,609 | - | - | 328,609 |
| Foreign equity funds | 930,847 | - | - | 930,847 |
| Commodity-linked derivatives funds | 206,700 | - | - | 206,700 |
| Total investments | $ 6,493,578 | $ - | $ - | $ 6,493,578 |
| Interest rate swaps | $ - | $ 2,646,096 | $ - | $ 2,646,096 |

## Note 3 Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a nonrecurring basis by level within the hierarchy at December 31:

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Buildings, Building improvements and land improvements | $ - | $ - | $ 27,460,783 | $ 27,460,783 |

The changes in Level 3 assets and liabilities measured at fair value on a nonrecurring basis are as follows:

| | |
|---|---|
| Balance, December 31, 2012 | $ 50,233,256 |
| Additions | 1,105,827 |
| Depreciation expense | (2,660,079) |
| Impairment loss | (21,218,221) |
| Balance, December 31, 2013 | $ 27,460,783 |

The loss of $21,218,221 represents an impairment charge related to buildings and building improvements and land improvements which was included in change in net assets for the year ended December 31, 2013. The fair value of these long-lived assets was primarily determined based on the per square foot sales price of the Association's properties sold in 2014.

## Note 4 Property and Equipment

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

| | Lives | 2013 | 2012 |
|---|---|---|---|
| Land | N/A | $ 7,418,540 | $ 7,461,240 |
| Land improvements | 15 yrs. | 566,597 | 1,268,008 |
| Buildings and improvements | 10-50 yrs. | 35,500,655 | 82,972,691 |
| Construction in progress | N/A | 262,590 | 261,181 |
| Machinery and equipment | 5-12 yrs. | 13,057,190 | 19,152,056 |
| Leasehold improvements | 30-50 yrs. | 540,232 | 540,232 |
| Total property and equipment | | 57,345,804 | 111,655,408 |
| Less - Accumulated depreciation | | (18,642,480) | (49,751,738) |
| Net property and equipment | | $ 38,703,324 | $ 61,903,670 |

### Note 5 Investments

Following is a summary of investments as of December 31:

| | 2013 | | |
|---|---|---|---|
| | Cost or Gift Value | Unrealized Gains (Losses) | Total Investments at Fair Value |
| Money market funds | $ 98,059 | $ - | $ 98,059 |
| Equity mutual funds | 3,620,272 | 1,659,526 | 5,279,798 |
| Fixed income mutual funds | 1,887,509 | (27,434) | 1,860,075 |
| Total | $ 5,605,840 | $ 1,632,092 | $ 7,237,932 |

| | 2012 | | |
|---|---|---|---|
| | Cost or Gift Value | Unrealized Gains (Losses) | Total Investments at Fair Value |
| Money market funds | $ 149,692 | $ - | $ 149,692 |
| Equity mutual funds | 3,790,267 | 725,593 | 4,515,860 |
| Fixed income mutual funds | 1,773,602 | 54,424 | 1,828,026 |
| Total | $ 5,713,561 | $ 780,017 | $ 6,493,578 |

Earnings from investment securities are summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| Interest and dividends | $ 164,640 | $ 170,118 |
| Net realized gain | 122,477 | 417,891 |
| Net unrealized gain | 852,074 | 169,225 |
| Less - Fees | (32,771) | (32,249) |
| Total investment income | 1,106,420 | 724,985 |
| Less: Investment income appropriated | (304,666) | (459,939) |
| Investment income restricted | $ 801,754 | $ 265,046 |

### Note 6 Unconditional Promises to Give

Unconditional promises to give as of December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Less than one year | $ 559,235 | $ 855,292 |
| One to five years | 43,433 | 264,369 |
| Total | 602,668 | 1,119,661 |
| Less: Discount to present value | (300) | (3,100) |
| Allowance for uncollectible promises to give | (30,100) | (65,100) |
| Pledges receivable, net | 572,268 | 1,051,461 |

### Note 7 Deferred Revenue

Deferred revenue consisted of the following at December 31:

| | 2013 | 2012 |
|---|---|---|
| Membership dues/gift certificates | $ 585,709 | $ 456,599 |
| Program fees | 193,470 | 267,583 |
| YMCA Youth Leadership Academy, Inc. | 157,420 | 182,359 |
| Total | $ 936,599 | $ 906,541 |

### Note 8 Line of Credit

The Association has a revolving credit loan with $3,000,000 available from BMO Harris Bank N.A. with an outstanding balance of $3,000,000 as of December 31, 2013 and no outstanding balance as of December 31, 2012. The revolving credit loan bears interest at LIBOR plus 325 basis points (2.16825% at December 31, 2013) and is collateralized by substantially all assets of the Association. The revolving credit loan expired June 30, 2014 and is currently included as part of the bankruptcy reorganization plan.

## Note 9 Bonds and Note Payable

| | 2013 | 2012 |
|---|---|---|
| BMO Harris Bank N.A. taxable variable rate demand note, Series 2008, payable in annual installments with a final payment due May 2018. Secured by substantially all assets and is supported by a letter of credit in favor of the bond trustees. Any amounts drawn on the letter of credit must be reimbursed by the Association on demand. The letter of credit terminates August 15, 2014. Bond issuance costs were rolled into the loan amount. | $ 5,745,000 | $ 6,845,000 |
| The Redevelopment Authority of the City of Milwaukee Redevelopment Revenue Bonds, Series 2010. Installments of interest payable until 2018, then installments of principal and interest beginning May 2018 with a final payment due May 1, 2028. Variable interest rate, secured by substantially all assets and supported by a letter of credit in favor of the bond trustees. Any amounts drawn on the letter of credit must be reimbursed by the Association on demand. The letter of credit terminates August 15, 2014. Bond issuance costs were rolled into the loan amount. In 2013, the Association elected to make an early principal payment of $200,000. | 19,625,000 | 19,825,000 |
| Total bonds and note | 25,370,000 | 26,670,000 |

The Association is subject to certain restrictions and covenants relating to its debt. As of December 31, 2013, the Association is in default on certain covenants primarily due to the losses sustained in 2013. Subsequent to year-end the Association filed for Chapter 11 bankruptcy and is working with its lender/creditor on its reorganization plans. As a result of the covenant default and the subsequent bankruptcy filing the outstanding debt of $25,370,000 is assumed currently due and is included as part of the bankruptcy reorganization plan.

Long-term debt and line of credit interest charged to expense was $1,386,704 and $1,456,633 for the years ended December 31, 2013 and 2012, respectively.

### Note 10 Derivative Financial Instruments

As disclosed in Note 9, the Redevelopment Revenue Bonds, Series 2010, in the amount of $19,625,000 and $19,825,000 as of December 31, 2013 and 2012, respectively, bear interest at a variable rate. To minimize the effect of changes in interest rates, on January 21, 2010, the Association entered into three fixed term interest rate swap contracts with BMO Harris Bank N.A. The first contract is in the amount of $7,500,000 under which it pays interest at a fixed 4.15% rate and expires June 2, 2014. A second contract is in the amount of $6,970,000 under which it pays interest at a fixed 3.28% rate and expires May 2, 2016. The third contract is in the amount of $5,555,000 under which it pays interest at a fixed 3.19% rate and expires May 1, 2018.

Also as disclosed in Note 9, the taxable variable rate demand note in the amount of $5,745,000 and $6,845,000 as of December 31, 2013 and 2012, respectively, bears interest at a variable rate. To minimize the effect of changes in interest rates, on May 12, 2008, the Association entered into an interest rate swap agreement with a beginning amount of $9,800,000 under which it pays interest at a fixed 4.12% rate. The swap contract expires May 1, 2018.

The following represents the notional amount, fair value of the interest rate swaps outstanding at year end, and the amount of exposure recorded in unrestricted net assets for the years ended December 31, 2013 and 2012. As a result of the debt covenant default and the subsequent bankruptcy filing the outstanding interest rate swap agreements are assumed currently due and are included in the Association's bankruptcy reorganization plan.

The classification of income (loss) is recorded in the statement of activities as unrealized (gain) loss on interest rate swap.

| | Notional Amount | As of December 31 Asset (Liability) | Year Ended December 31 Gain/(Loss) |
|---|---|---|---|
| **2013** | | | |
| BMO Harris Bank N.A. Deriviative | $ 7,500,000 | $ (152,429) | $ 299,452 |
| BMO Harris Bank N.A. Deriviative | 6,970,000 | (497,245) | 215,748 |
| BMO Harris Bank N.A. Deriviative | 5,555,000 | (544,433) | 241,860 |
| BMO Harris Bank N.A. Deriviative | 5,745,000 | (434,275) | 260,654 |
| Total | | $ (1,628,382) | $ 1,017,714 |
| **2012** | | | |
| BMO Harris Bank N.A. Deriviative | $ 7,500,000 | $ (451,881) | $ 248,771 |
| BMO Harris Bank N.A. Deriviative | 6,970,000 | (712,993) | 90,085 |
| BMO Harris Bank N.A. Deriviative | 5,555,000 | (786,293) | (11,852) |
| BMO Harris Bank N.A. Deriviative | 6,845,000 | (694,929) | 131,951 |
| Total | | $ (2,646,096) | $ 458,955 |

## Note 11 Leases

### Capital Leases

The Association has various capital lease agreements with imputed interest rates ranging from 2.09% to 6.17%. Monthly payments of principal and interest range from $1,153 to $12,293. The assets and liabilities under capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The capitalized cost of the leased property at both December 31, 2013 and 2012 was $2,558,742. Assets are amortized over their estimated productive lives or the lease term, if shorter, for leases that transfer ownership or contain bargain purchase clauses. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was $1,352,019 and $1,083,991 as of December 31, 2013 and 2012, respectively.

### Sale Leaseback

In February 2008, the Association sold 14.86 acres of land with a carrying value of $127,718 for $3,750,000. Total gain on the sale was $3,622,282. The Association maintained ownership of two buildings located on 2.9 acres of the land sold and entered into a 25-year lease with the purchaser for use of the land. The gain on the sale in excess of the present value of the minimum lease payments in the amount of $1,589,687 was recognized at the time of the sale, and the remaining gain of $2,032,595 was deferred and will be amortized over the life of the lease. The Association will recognize $81,304 of the deferred gain on an annual basis until the lease expires in January 2033. The Association recognized $81,304 of the deferred gain in both 2013 and 2012. At December 31, 2013 and 2012, the remaining deferred gain was $1,551,548 and $1,632,851 respectively. The current portion, in the amount of $81,304, is included in accrued liabilities as of December 31, 2013 and 2012, and the remainder is included in other liabilities in the accompanying consolidated statements of financial position.

The lease agreement requires the Association to make payments of $120,000 per year. Beginning January 2014, the lease payments will increase by the consumer price index every five years. The Association paid $134,400 and $120,000 in lease payments in 2013 and 2012, respectively. The Association recognized lease expense of $139,145 in both 2013 and 2012, and an increased accrued rent expense of $4,745 and $19,145 in both 2013 and 2012, respectively. Accrued rent expense of $383,274 and $364,129 as of December 31, 2013 and 2012, respectively, is included in other liabilities in the accompanying consolidated statements of financial position.

### Operating Leases

The Association leases various facilities and equipment under leases accounted for as operating leases. Rent expense on the operating leases was $498,100 and $683,604 for the years ended December 31, 2013 and 2012, respectively.

### Note 11 Leases (Continued)

The following is a schedule of future minimum lease payments under all leases with an initial term in excess of one year at December 31, 2013:

| | Capital Lease | Sale Leaseback | Operating Leases |
|---|---|---|---|
| 2014 | $ 509,258 | $ 134,400 | $ 326,145 |
| 2015 | 318,149 | 134,400 | 222,962 |
| 2016 | 100,819 | 134,400 | 212,766 |
| 2017 | - | 134,400 | 145,243 |
| 2018 | - | 134,400 | 142,621 |
| Thereafter | - | 2,366,621 | 2,466,497 |
| Total future minimum lease payments | 928,226 | $ 3,038,621 | $ 3,516,234 |
| Less - Amount representing interest | (29,465) | | |
| Present value of future minimum lease payments | 898,761 | | |
| Less - Current portion | (489,322) | | |
| Long-term capital lease obligation | $ 409,439 | | |

**Sublease**

In July 2008, the Association sold one of the buildings, as part of the sale leaseback noted above, located on the 2.9 acres of land leased for $1,125,000. The carrying value of the building was $2,262,796, and a loss on the sale of $1,137,796 was recorded. The building sold sits on 1.88 acres of the 2.9 acres leased by the Association. The Association entered into a 25-year sublease with the purchaser for use of this land. The lease requires the purchaser to make payments of $35,000 per year to the Association with the first payment due July 15, 2013. Beginning July 15, 2014, the lease payments will increase by the consumer price index annually. The Association received lease payments of $14,583 in 2013 and no lease payments in 2012; however it recognized lease revenue of $34,016 in each year, and an increase in other assets in the accompanying consolidated statements of financial position of the same amount.

### Note 11 Leases (Continued)

Estimated future payments to be received relative to this agreement as of December 31, 2013, are as follows:

| | |
|---|---|
| 2014 | $ 35,292 |
| 2015 | 35,998 |
| 2016 | 36,717 |
| 2017 | 37,452 |
| 2018 | 38,201 |
| Thereafter | 652,166 |
| Total | $ 835,826 |

### Note 12 Net Assets

Unrestricted net assets are composed of the following at December 31:

| | 2013 | 2012 |
|---|---|---|
| Undesignated net assets, YMCA | $ 6,856,934 | $ 27,239,333 |
| Undesignated net assets, Academy | (47,035) | 713,332 |
| Totals | $ 6,809,899 | $ 27,952,665 |

Temporarily restricted net assets are composed of the following at December 31:

| | 2013 | 2012 |
|---|---|---|
| United Way | $ 307,706 | $ 305,574 |
| Academy | 269,069 | 401,782 |
| Scholarships and programs | 1,276,065 | 1,410,080 |
| Endowment accumulated earnings not appropriated for distribution | 3,183,819 | 2,382,066 |
| Capital campaigns | 187,574 | 234,150 |
| Totals | $ 5,224,233 | $ 4,733,652 |

Permanently restricted net assets consist of funds invested in perpetuity, income of which is used to fund various Association programs as specified by the donors. These amounts totaled $4,563,825 and $4,524,104 at December 31, 2013 and 2012, respectively.

## Note 13 Endowment Funds

The Association's endowment funds consist of donor-restricted funds established for the YMCA.

The Association has interpreted Wisconsin's adoption of 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. 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 applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds in excess of the original fair value that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. If the market value of the permanently restricted net asset at year-end is below the original fair value, the deficit is recorded as a loss to the unrestricted net assets.

The primary long-term financial objective for the Association's endowments is to preserve the real purchasing power of endowment assets and income after accounting for endowment spending and costs of portfolio management. Performance of the overall endowment against this objective is measured over rolling periods of one, three, and five years.

The endowment funds are managed to optimize the long-run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that provides funding for the Association's existing spending policy. Over the short term, the return for each element of the endowment portfolio should match or exceed each of the returns for the broader capital markets in which assets are invested.

### Note 13 Endowment Funds (Continued)

The endowment assets are governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Association's programs. The endowment base will be defined as the three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of December for the prior three years). The distribution or payout rate will be calculated at a specific fixed percentage of the base. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term. Spending in a given year will reduce the unit value of each endowment element by the payout percentage. In the case of short-term declines in the market value of the endowment pool of funds, the overall spending rate may be calculated below the designated payout percentage in order to maintain the original unit value of certain elements of the true endowment. Growth of the unit values over time should allow for spending of principal, without drawing from the original corpus of a particular gift.

The endowment is invested in cash and cash equivalents and equity and fixed income mutual funds. The total endowment will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and asset allocation.

Donor-restricted endowment net asset composition by type of fund as of December 31:

| | 2013 | | |
|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total |
| Purpose: | | | |
| Building maintenance | $ 243,113 | $ 201,187 | $ 444,300 |
| Operations and programs | 2,809,974 | 4,243,642 | 7,053,616 |
| International programs | 130,732 | 118,996 | 249,728 |
| Total | $ 3,183,819 | $ 4,563,825 | $ 7,747,644 |

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Notes to Consolidated Financial Statements

**Note 13** **Endowment Funds** (Continued)

| | 2012 | | |
|---|---|---|---|
| | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Purpose: | | | |
| Building maintenance | $ 196,532 | $ 201,187 | $ 397,719 |
| Operations and programs | 2,081,959 | 4,204,921 | 6,286,880 |
| International programs | 103,575 | 117,996 | 221,571 |
| Total | $ 2,382,066 | $ 4,524,104 | $ 6,906,170 |

Changes in endowment net assets were as follows for the year ended December 31:

| | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
|---|---|---|---|
| Endowment net assets at January 1, 2012 | $ 2,117,021 | $ 4,477,283 | $ 6,594,304 |
| Investment income | 724,984 | - | 724,984 |
| Change in cash surrender value of life insurance | - | 16,282 | 16,282 |
| Contributions | - | 30,539 | 30,539 |
| Appropriation of endowment assets for expenditure | (459,939) | - | (459,939) |
| Endowment net assets at December 31, 2012 | 2,382,066 | 4,524,104 | 6,906,170 |
| Investment income | 1,106,419 | - | 1,106,419 |
| Change in cash surrender value of life insurance | - | 11,699 | 11,699 |
| Contributions | - | 28,022 | 28,022 |
| Appropriation of endowment assets for expenditure | (304,666) | - | (304,666) |
| Endowment net assets at December 31, 2013 | $ 3,183,819 | $ 4,563,825 | $ 7,747,644 |

## Note 14 Defined Contribution Retirement Plan

The Association participates in a defined contribution, individual account, money purchase retirement plan covering all eligible employees. The Plan is administered by the Young Men's Christian Association Retirement Fund (a separate corporation). The Association makes monthly contributions to the Young Men's Christian Association Retirement Fund based on a percentage of the participating employee's salary. Plan expense was $826,008 and $861,206 for the years ended December 31, 2013 and 2012, respectively.

The Young Men's Christian Association Retirement Fund is operated as a church pension plan and is a nonprofit, tax-exempt New York State corporation (1922). Participation is available to all duly organized or reorganized Ys in the United States of America. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligations.

## Note 15 Commitments and Contingencies

**Financial Awards from Grantors**

Financial awards from federal, state, and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Association for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

**Litigation**

The Association is party to various legal actions that are incidental to its activities. The outcome of legal actions cannot be predicted with certainty. Management of the Association believes that the outcome of any of these proceedings will not have a material adverse effect on its financial position or activities.

**Letter of Credit**

The Association utilizes two letters of credit to satisfy requirements of the Wisconsin Unemployment Reserve Fund: one letter of credit in the amount of $446,726 for the YMCA, and one in the amount of $58,000 for the YMCA Leadership Academy, Inc.

### Note 16 Concentrations

The Association maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. The Association maintains cash in interest-bearing accounts at these institutions, which are insured by the FDIC up to $250,000. At times, deposits may exceed FDIC insurance limits. Management has not experienced any losses with these accounts and management believes the Association is not exposed to any significant risk on cash.

### Note 17 Subsequent Events

In 2014, in conjunction with the preparation of its financial statements, the Association concluded that it could no longer continue with its business model. The Association had experienced a sustaining decline in revenues since 2011 due to the economic recession, intensified competition from fitness centers and other similar facilities, and significant employee turnover. To avoid a negative cash flow position, on June 4, 2014, the Association (the "Debtor") filed for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Eastern District of Wisconsin (the "Court"). Under Chapter 11, certain claims against the Debtor in existence before the filing of the petitions for relief under federal bankruptcy laws are stayed while the Debtor continues business operations as a debtor-in-possession. These claims are reflected in the December 31, 2013 statement of financial position. On December 17, 2014, the Association filed its reorganization plan with the Court. On January 30, 2015, the Association emerged from bankruptcy with the Court's approval of that reorganization plan. The Association is emerging from bankruptcy having sold or transferred 8 of its 11 properties, and no long-term debt. These financial statements do not include any adjustments that might result from the outcome of the success or failure of the reorganization plan.

Subsequent events have been evaluated through February 6, 2015, which is the date the financial statements were available to be issued.

# Supplementary Information

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidating Statement of Financial Position

December 31, 2013

| Assets | YMCA | Academy | Eliminations | Total Consolidated |
|---|---|---|---|---|
| Cash and cash equivalents | $ 4,269,264 | $ 167,605 | $ - | $ 4,436,869 |
| Investments | 7,237,932 | - | - | 7,237,932 |
| Accounts receivable | 190,790 | - | - | 190,790 |
| Grants receivable | 349,739 | 260,833 | - | 610,572 |
| Unconditional promises to give | 572,189 | 79 | - | 572,268 |
| Related party receivables | (240,252) | 240,252 | - | - |
| Prepaid expenses | 114,214 | - | - | 114,214 |
| Other assets | 1,118,796 | 14,673 | - | 1,133,469 |
| Property and equipment | 38,671,408 | 31,916 | - | 38,703,324 |
| TOTAL ASSETS | $ 52,284,080 | $ 715,358 | $ - | $ 52,999,438 |

| Liabilities and Net Assets | YMCA | Academy | Eliminations | Total Consolidated |
|---|---|---|---|---|
| Liabilities: | | | | |
| Line of credit | $ 3,000,000 | $ - | $ - | $ 3,000,000 |
| Accounts payable | 1,049,352 | 200,115 | - | 1,249,467 |
| Accrued liabilities | 1,328,967 | 135,789 | - | 1,464,756 |
| Deferred revenue | 779,179 | 157,420 | - | 936,599 |
| Other liabilities | 1,853,516 | - | - | 1,853,516 |
| Capital lease obligations | 898,761 | - | - | 898,761 |
| Bonds and note payable | 25,370,000 | - | - | 25,370,000 |
| Interest rate swap agreements | 1,628,382 | - | - | 1,628,382 |
| Total liabilities | 35,908,157 | 493,324 | - | 36,401,481 |
| Net assets: | | | | |
| Unrestricted | 6,856,934 | (47,035) | - | 6,809,899 |
| Temporarily restricted | 4,955,164 | 269,069 | - | 5,224,233 |
| Permanently restricted | 4,563,825 | - | - | 4,563,825 |
| Total net assets | 16,375,923 | 222,034 | - | 16,597,957 |
| TOTAL LIABILITIES AND NET ASSETS | $ 52,284,080 | $ 715,358 | $ - | $ 52,999,438 |

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidating Statement of Activities

Year Ending December 31, 2013

| | YMCA | Academy | Eliminations | Total Consolidated |
|---|---|---|---|---|
| **Unrestricted:** | | | | |
| Public support: | | | | |
| Contributions | $ 1,991,386 | $ 62,813 | $ - | $ 2,054,199 |
| Government and private grants | 354,453 | - | - | 354,453 |
| United Way | 284,041 | - | - | 284,041 |
| Total public support | 2,629,880 | 62,813 | - | 2,692,693 |
| Revenue: | | | | |
| Membership and program fees | 29,617,220 | 20,646 | - | 29,637,866 |
| Department of public instruction | - | 4,488,781 | - | 4,488,781 |
| Services and sales | 1,158,117 | 39,363 | (500,981) | 696,499 |
| Investment income appropriated | 301,166 | 3,500 | - | 304,666 |
| Other | 306,410 | 7,222 | (222,502) | 91,130 |
| Total revenue | 31,382,913 | 4,559,512 | (723,483) | 35,218,942 |
| Net assets released from restrictions | 1,177,313 | 160,520 | - | 1,337,833 |
| Total public support and revenue | 35,190,106 | 4,782,845 | (723,483) | 39,249,468 |
| Expenses: | | | | |
| Program | 32,186,884 | 4,960,540 | (723,483) | 36,423,941 |
| Management and general | 2,346,431 | 573,878 | - | 2,920,309 |
| Fundraising | 921,737 | 8,794 | - | 930,531 |
| Total expenses | 35,455,052 | 5,543,212 | (723,483) | 40,274,781 |
| Public support and revenue under expense | (264,946) | (760,367) | - | (1,025,313) |
| Other changes in unrestricted net assets: | | | | |
| Net gain on disposal of capital assets | 83,054 | - | - | 83,054 |
| Net loss on impairment of capital assets | (21,218,221) | - | - | (21,218,221) |
| Gain on interest rate swap agreements | 1,017,714 | - | - | 1,017,714 |
| Total other changes in unrestricted net assets | (20,117,453) | - | - | (20,117,453) |
| Changes in unrestricted net assets | (20,382,399) | (760,367) | - | (21,142,766) |
| Unrestricted net assets - Beginning of year | 27,239,333 | 713,332 | - | 27,952,665 |
| Unrestricted net assets - End of year | $ 6,856,934 | $ (47,035) | $ - | $ 6,809,899 |

# The Young Men's Christian Association of Metropolitan Milwaukee, Inc.

## Consolidating Statement of Activities (Continued)

Year Ending December 31, 2013

| | YMCA | Academy | Eliminations | Total Consolidated |
|---|---|---|---|---|
| **Temporarily restricted:** | | | | |
| Public support: | | | | |
| Contributions | $ 584,537 | $ 27,808 | $ - | $ 612,345 |
| United Way | 307,706 | - | - | 307,706 |
| Total public support | 892,243 | 27,808 | - | 920,051 |
| Operating revenue: | | | | |
| Other | 106,610 | - | - | 106,610 |
| Net assets released from restrictions | (1,177,313) | (160,520) | - | (1,337,833) |
| Net public support and revenue after transfers | (178,460) | (132,712) | - | (311,172) |
| Other changes in temporarily restricted net assets: | | | | |
| Investment income restricted | 801,753 | - | - | 801,753 |
| Changes in temporarily restricted net assets | 623,293 | (132,712) | - | 490,581 |
| Temporarily restricted net assets - Beginning of year | 4,331,870 | 401,782 | - | 4,733,652 |
| Temporarily restricted net assets - End of year | $ 4,955,163 | $ 269,070 | $ - | $ 5,224,233 |
| **Permanently restricted:** | | | | |
| Public support: | | | | |
| Contributions | $ 28,022 | $ - | $ - | $ 28,022 |
| Change in cash surrender value of life insurance | 11,699 | - | - | 11,699 |
| Changes in permanently restricted net assets | 39,721 | - | - | 39,721 |
| Permanently restricted net assets - Beginning of year | 4,524,104 | - | - | 4,524,104 |
| Permanently restricted net assets - End of year | $ 4,563,825 | $ - | $ - | $ 4,563,825 |