

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION  
OF METROPOLITAN MILWAUKEE, INC.**

Milwaukee, Wisconsin

December 31, 2008 and 2007

**CONSOLIDATED FINANCIAL STATEMENTS**

Including Independent Auditors' Report

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended. These consolidated financial statements are the responsibility of The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s management. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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 Milwaukee, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 27, 2009 on our consideration of The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming our opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and supplemental information identified in the table of contents are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, the Provider Agency Audit Guide, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections and the State Single Audit Guidelines, and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Vinchow, Krause + company, LLP

Milwaukee, Wisconsin  
May 27, 2009

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2008 and 2007

<b>ASSETS</b>		
	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,653,298	\$ 1,535,551
Accounts receivable	1,061,418	656,619
Grants receivable	772,096	671,225
Unconditional promises to give	1,360,243	2,482,985
Prepaid expenses	88,236	100,376
Other current assets	187,380	206,939
Property held for sale	-	96,001
Total Current Assets	<u>5,122,671</u>	<u>5,749,696</u>
<b>PROPERTY AND EQUIPMENT</b>	<u>66,615,318</u>	<u>67,674,073</u>
<b>OTHER ASSETS</b>		
Long-term investments	6,350,500	9,340,979
Other long-term assets	593,293	555,808
Unconditional promises to give	754,150	1,014,208
Total Other Assets	<u>7,697,943</u>	<u>10,910,995</u>
<b>TOTAL ASSETS</b>	<u>\$ 79,435,932</u>	<u>\$ 84,334,764</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 23,563	\$ 21,980
Current maturities of capital lease obligations	633,446	809,221
Line of credit	1,878,000	2,000,000
Accounts payable	3,046,317	4,095,423
Accrued liabilities	1,612,126	1,833,542
Deferred revenue	1,315,117	1,173,453
Total Current Liabilities	<u>8,508,569</u>	<u>9,933,619</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	30,035,567	30,662,879
Capital lease obligations	759,889	1,213,243
Other long-term obligations	4,968,174	496,019
Total Long-Term Liabilities	<u>35,763,630</u>	<u>32,372,141</u>
Total Liabilities	<u>44,272,199</u>	<u>42,305,760</u>
<b>NET ASSETS</b>		
Unrestricted	21,891,620	23,737,764
Temporarily restricted	7,965,212	12,503,367
Permanently restricted	5,306,901	5,787,873
Total Net Assets	<u>35,163,733</u>	<u>42,029,004</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 79,435,932</u>	<u>\$ 84,334,764</u>

See accompanying notes to consolidated financial statements.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
<b>PUBLIC SUPPORT</b>								
Government grants	\$ 1,952,713	\$ -	\$ -	\$ 1,952,713	\$ 2,190,132	\$ -	\$ -	\$ 2,190,132
Contributions	1,672,872	2,289,464	52,222	4,014,558	910,469	3,492,423	54,535	4,457,427
In-kind contributions - land	-	-	-	-	-	4,300,000	-	4,300,000
United Way	313,660	313,660	-	627,320	290,426	290,426	-	580,852
Net assets released from restrictions	7,674,473	(7,141,279)	(533,194)	-	2,432,371	(2,432,371)	-	-
Total Public Support	<u>11,613,718</u>	<u>(4,538,155)</u>	<u>(480,972)</u>	<u>6,594,591</u>	<u>5,823,398</u>	<u>5,650,478</u>	<u>54,535</u>	<u>11,528,411</u>
<b>REVENUE</b>								
Membership and program fees	29,302,844	-	-	29,302,844	30,712,125	-	-	30,712,125
Department of Public Instruction	5,669,331	-	-	5,669,331	5,916,941	-	-	5,916,941
Services and sales	993,066	-	-	993,066	874,263	-	-	874,263
Investment income (loss)	(2,001,915)	-	-	(2,001,915)	595,146	-	-	595,146
Gain (loss) on sale of property and equipment	195,928	-	-	195,928	(3,213)	-	-	(3,213)
Other	122,887	-	-	122,887	243,368	-	-	243,368
Total Revenue	<u>34,282,141</u>	<u>-</u>	<u>-</u>	<u>34,282,141</u>	<u>38,338,630</u>	<u>-</u>	<u>-</u>	<u>38,338,630</u>
Total Public Support and Revenue	<u>45,895,859</u>	<u>(4,538,155)</u>	<u>(480,972)</u>	<u>40,876,732</u>	<u>44,162,028</u>	<u>5,650,478</u>	<u>54,535</u>	<u>49,867,041</u>
<b>EXPENSES</b>								
Program	42,516,201	-	-	42,516,201	41,732,585	-	-	41,732,585
Management and general	4,495,379	-	-	4,495,379	5,007,832	-	-	5,007,832
Fundraising	730,423	-	-	730,423	1,042,151	-	-	1,042,151
Total Expenses	<u>47,742,003</u>	<u>-</u>	<u>-</u>	<u>47,742,003</u>	<u>47,782,568</u>	<u>-</u>	<u>-</u>	<u>47,782,568</u>
<b>CHANGE IN NET ASSETS</b>								
	(1,846,144)	(4,538,155)	(480,972)	(6,865,271)	(3,620,540)	5,650,478	54,535	2,084,473
NET ASSETS - Beginning of Year	<u>23,737,764</u>	<u>12,503,367</u>	<u>5,787,873</u>	<u>42,029,004</u>	<u>27,358,304</u>	<u>6,852,889</u>	<u>5,733,338</u>	<u>39,944,531</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 21,891,620</u>	<u>\$ 7,965,212</u>	<u>\$ 5,306,901</u>	<u>\$ 35,163,733</u>	<u>\$ 23,737,764</u>	<u>\$ 12,503,367</u>	<u>\$ 5,787,873</u>	<u>\$ 42,029,004</u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (6,865,271)	\$ 2,084,473
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	4,214,512	4,118,943
Amortization	27,511	24,666
(Gain) loss on sale of property and equipment	(195,928)	3,213
Interest rate swap	2,386,538	330,893
Contributions restricted for the capital campaign and endowments	(1,666,115)	(1,254,557)
Realized gain on investments	(148,901)	(123,441)
Unrealized (gain) loss on investments	2,502,092	(183,829)
Bad debt expense	997,307	546,619
In-kind contributions - land	-	(4,300,000)
Interest paid with debt proceeds	221,199	-
Changes in assets and liabilities		
Accounts and grants receivable	(772,556)	53,991
Unconditional promises to give	315,865	(61,504)
Prepaid expenses and other assets	13,884	60,811
Accounts payable	663,491	123,558
Accrued liabilities, deferred revenue, and other long-term obligations	47,799	(255,131)
Net Cash Flows from Operating Activities	<u>1,741,427</u>	<u>1,168,705</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(7,323,185)	(2,892,612)
Purchase of investments	(4,054,425)	(2,720,074)
Proceeds from sale of investments	4,691,713	2,872,182
Increase in cash surrender value	(44,352)	(25,219)
Proceeds from life insurance policies	272,224	-
Proceeds from sale of property	4,877,100	-
Net Cash Flows from Investing Activities	<u>(1,580,925)</u>	<u>(2,765,723)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(1,121,981)	(847,239)
Net change in line of credit	(122,000)	1,400,000
Principal payments on capital lease obligations	(801,403)	(832,133)
Collections of capital campaign pledges and gifts	2,002,629	1,193,096
Net Cash Flows from Financing Activities	<u>(42,755)</u>	<u>913,724</u>
<b>Net Change in Cash and Cash Equivalents</b>	117,747	(683,294)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,535,551</u>	<u>2,218,845</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,653,298</u>	<u>\$ 1,535,551</u>
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 1,995,247	\$ 2,002,643
Noncash investing and financing activities:		
Fixed assets purchased with accounts payable	\$ 622,935	\$ 2,335,532
Purchase of equipment with capital lease obligation	\$ 172,274	\$ 1,481,060
Purchase of vehicle with long-term debt	\$ -	\$ 31,841
Deferred gain on sale of property	\$ 1,958,066	\$ -
Refinancing costs paid with debt proceeds	\$ 275,053	\$ -

See accompanying notes to consolidated financial statements.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
Years Ended December 31, 2008 and 2007

	Program	Management and General	Fundraising	2008 Total	Program	Management and General	Fundraising	2007 Total
Wages and related expenses	\$ 21,034,532	\$ 3,034,249	\$ 514,386	\$ 24,583,167	\$ 21,119,748	\$ 3,497,321	\$ 613,063	\$ 25,230,132
Professional services	2,140,760	240,952	77,148	2,458,860	2,639,567	133,051	219,035	2,991,653
Program and supplies expense	3,394,546	74,837	7,159	3,476,542	3,596,381	101,434	15,865	3,713,680
Postage and shipping	104,683	11,888	9,191	125,762	165,514	11,906	18,339	195,759
Building rental, maintenance and taxes	1,750,378	45,956	4	1,796,338	1,753,713	50,446	50	1,804,209
Utilities and telephone	2,810,675	119,071	342	2,930,088	2,578,638	44,289	613	2,623,540
Insurance	436,152	39,658	-	475,810	483,828	44,600	-	528,428
Equipment leases, rental and maintenance	897,953	30,468	292	928,713	834,576	31,585	2,105	868,266
Advertising, printing and promotion	1,655,069	30,382	113,689	1,799,140	2,220,687	80,152	152,915	2,453,754
Conferences, training, and employee expense	294,778	82,398	7,923	385,099	368,781	224,871	17,871	611,523
Dues	283,201	24,671	289	308,161	250,708	27,328	2,295	280,331
Interest expense	1,873,273	-	-	1,873,273	2,031,457	-	-	2,031,457
Unrealized loss on interest rate swap	2,386,538	-	-	2,386,538	330,893	-	-	330,893
Depreciation expense	3,453,663	760,849	-	4,214,512	3,358,094	760,849	-	4,118,943
<b>Total Expenses</b>	<b>\$ 42,516,201</b>	<b>\$ 4,495,379</b>	<b>\$ 730,423</b>	<b>\$ 47,742,003</b>	<b>\$ 41,732,585</b>	<b>\$ 5,007,832</b>	<b>\$ 1,042,151</b>	<b>\$ 47,782,568</b>

See accompanying notes to consolidated financial statements.



# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### NOTE 1 - Nature of Activities

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The Young Men's Christian Association of Metropolitan Milwaukee, Inc. (the "YMCA" or the "Association") is a not-for-profit, volunteer-led 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 11 city and suburban membership centers, a K4-8 Charter School, a Community Development Center, three full-day child care centers, and two resident camps for children and families.

The Association improves the quality of life for families and communities through programs (social, educational and health) that provide support and enrichment, promote good health, teach life skills, develop youth, instill values, and foster international understanding. Core programs include health and wellness, child care, camping, aquatics, youth leadership and family programs. Everyone is welcome to participate in YMCA programs. The Association's financial assistance program provides funds for those in need. The YMCA builds strong kids, strong families and strong communities.

The Association has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes.

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### NOTE 2 - Summary of Significant Accounting Policies

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#### *Basis of Presentation*

The accompanying consolidated financial statements include the accounts of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. and its wholly controlled subsidiary, the YMCA Youth Leadership Academy, Inc. 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. The fiscal year-end of the Academy is June 30, however, the consolidated financial statements include amounts as of December 31. Significant intercompany accounts and transactions have been eliminated in consolidation.

#### *Net Assets*

The financial statements focus on the organization as a whole and 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 they be maintained permanently by the Association.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### **NOTE 2 - Summary of Significant Accounting Policies (continued)**

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#### *Estimates*

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

#### *Fair Value of Financial Instruments*

The carrying amount of cash and cash equivalents of the Association approximates fair value because of the short maturity of those investments.

The fair value of the Association's long-term investments are based on quoted market prices.

Unconditional promises to give are recorded at their net present value based on discounted cash flows and the carrying value approximates fair market value.

The debt of the Association is stated at cost. The fair value of the Association's variable rate debt is estimated based on current rates for similar variable rate debt with the same remaining maturities. The Association also considers its creditworthiness in determining the fair value of its variable rate debt.

The fair values of the Association's interest rate swaps (used for purposes other than trading) are the estimated amounts that the Association would receive, or pay, to sell, or transfer to another entity with the same credit standing, these agreements at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets, and creditworthiness of the Association for liabilities.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

### **NOTE 2 - Summary of Significant Accounting Policies (continued)**

#### *Cash and Cash Equivalents*

The Association defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

#### *Accounts Receivable*

The Association has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

#### *Promises to Give*

Unconditional promises to give made to the Association are recorded in the year the pledge is made. Amounts that are expected to be collected after one year have been discounted at 3.00% for the years ending December 31, 2008 and 2007, and are reflected in the financial statements at their net present value. An allowance for uncollectible promises to give is determined based on experience.

#### *Investments*

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of 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.

#### *Other Long-Term Assets*

Other long-term assets include capitalized loan fees, which are being amortized to expense over the life of the loan. Accumulated amortization as of December 31, 2008 and 2007 was \$197,143 and \$169,632, respectively.

Capitalized Loan Fees:	<u>2008</u>	<u>2007</u>
Balance, beginning of the year	\$ 225,172	\$ 249,838
Amortization of loan fees	(27,511)	(24,666)
2008 refinancing costs	<u>279,544</u>	<u>-</u>
Balance, End of Year	<u>\$ 477,205</u>	<u>\$ 225,172</u>

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### **NOTE 2 - Summary of Significant Accounting Policies (continued)**

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#### *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 \$2,500 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.

The Association owns four buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The Association has not recognized the asset retirement obligation for asbestos removal in its consolidated financial statements because it currently believes that the potential liability to remove these materials is immaterial. If sufficient information becomes available to change the estimate of the liability, it will be recognized at that time.

#### *Impairment of Long-Lived Assets*

The Association reviews long-lived assets, including property and equipment and intangible assets, 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. The Association has not recognized any impairment of long-lived assets during 2008 and 2007.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

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**NOTE 2 - Summary of Significant Accounting Policies (continued)**

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*Derivatives*

The Association follows Statements of Financial Accounting Standards ("SFAS") No. 133, *"Accounting for Derivative Instruments and Hedging Activities (as subsequently amended by SFAS Nos. 137 and 138)"*, to account for its derivative transactions, which consist entirely of interest rate swaps. SFAS No. 133 requires an organization to recognize all of its derivative instruments as either assets or liabilities in the statements of financial position at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, whether the hedge is a cash flow or a fair value hedge.

The Association uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges 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. The Association documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. 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. No derivative contracts were terminated prior to their maturity during 2008 or 2007.

*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.

*Advertising and Promotion*

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion expense was \$1,799,140 and \$2,453,754 for the years ended December 31, 2008 and 2007, respectively.

*Reclassification*

Certain amounts as previously reported in 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications have no effect on the reported amounts of net assets or change in net assets.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### NOTE 3 - Fair Value Measurements

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Effective January 1, 2008, the Association adopted FASB Statement No. 157, "*Fair Value Measurements*" ("SFAS No. 157"), which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. SFAS No. 157 applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis. There was no impact on the Association's financial statements as a result of adopting SFAS No. 157.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Association uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Association attempts to utilize valuation methods that maximize the use of observable inputs and minimizes the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Association is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

The Association holds as an investment various equity and fixed income mutual funds that are publicly traded securities. Fair values are based on quoted prices and are classified as level 1. The fair value of the Association's variable rate debt is estimated based on current rates for similar variable rate debt with the same remaining maturities and are classified as level 2. The interest rate swaps are pay fixed, receive variable interest rate swaps based on SIFMA and LIBOR swap rates. The swap rates are unobservable at commonly quoted intervals for the full terms of the swaps and are considered level 3 items.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**NOTE 3 - Fair Value Measurements** (continued)

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The estimated carrying and fair values of the Association's financial instruments are as follows:

	<b>2008</b>		<b>2007</b>	
	<b>Carrying Value</b>	<b>Estimated Fair Value</b>	<b>Carrying Value</b>	<b>Estimated Fair Value</b>
Financial assets:				
Stocks and bonds	\$ 6,350,500	\$ 6,350,500	\$ 9,340,979	\$ 9,340,979
Financial liabilities:				
Debt	(30,059,130)	(30,059,130)	(30,684,859)	(30,684,859)
Interest rate swaps	(2,882,557)	(2,882,557)	(496,019)	(496,019)

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

	<b>December 31, 2008</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Stocks and bonds	\$ 6,350,500	\$ 6,350,500	\$ -	\$ -
Interest rate swaps	(2,882,557)	-	-	(2,882,557)

The changes in Level 3 liabilities measured at fair value on a recurring basis are summarized as follows:

	<b>Interest Rate Swap</b>
Balances, January 1, 2008	\$ (496,019)
Net losses (realized and unrealized) included in change in net assets	<u>(2,386,538)</u>
Balances, December 31, 2008	<u>\$ (2,882,557)</u>
Net unrealized losses included in change in net assets relating to liabilities still held at December 31, 2008	<u>\$ (2,386,538)</u>

Unrealized net losses included in change in net assets are reported in the consolidated statement of functional expenses as unrealized loss on interest rate swap.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 4 - Property and Equipment**

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

	Depreciable Lives	2008	2007
Land	N/A	\$ 7,478,909	\$ 7,441,939
Land improvements	15 yrs.	995,792	826,162
Buildings	30-50 yrs.	78,818,991	75,187,106
Buildings under construction	N/A	787,633	4,713,640
Machinery and equipment	5-12 yrs.	20,021,346	19,736,121
Leasehold improvements	30-50 yrs.	<u>540,985</u>	<u>655,560</u>
 Total Property and Equipment		 108,643,656	 108,560,528
 Less: Accumulated Depreciation		 <u>42,028,338</u>	 <u>40,886,455</u>
 Net Property and Equipment		 <u>\$ 66,615,318</u>	 <u>\$ 67,674,073</u>

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. In 2008, the Association recognized \$74,529 of the deferred gain, thus recognizing a total gain of \$1,664,216. Deferred gain of \$1,958,066 as of December 31, 2008 was recorded as other long-term obligations.

The lease agreement requires the Association to make payments of \$120,000 per year with the first payment due May 1, 2010. Beginning February 2013 the lease payments will increase by the consumer price index every five years. While the Association did not have any required lease payments in 2008, it did recognize lease expense of \$127,549 and an increase in other long-term obligations of the same amount.

Estimated future minimum lease payments relating to this agreement as December 31, 2008 are as follows:

2009	\$ -
2010	80,000
2011	120,000
2012	120,000
2013	120,000
Thereafter	<u>3,038,621</u>
	<u>\$ 3,478,621</u>



# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

### **NOTE 4 - Property and Equipment (continued)**

In July 2008 the Association sold one of the buildings located on the 2.9 acres of land leased for \$1,125,000. Carrying value of the building was \$2,262,796 and a loss \$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. While the Association did not receive any lease payments in 2008, it did recognize lease revenue of \$13,324 and an increase in other long-term assets of the same amount.

Estimated future payments to be received relating to this agreement as December 31, 2008 are as follows:

2009	\$	-
2010		-
2011		-
2012		-
2013		17,500
Thereafter		<u>781,920</u>
	\$	<u>799,420</u>

In April 2007, the Association obtained land in Franklin, Wisconsin to build a new facility to serve the south suburban communities. The land was a donation valued at \$4.3 million and is restricted to be used for the new facility. The donation is the lead gift toward the project, which is estimated at \$12 million. The ground breaking and anticipated facility opening have yet to be determined following a planning and fundraising phase.

### **NOTE 5 - Investments**

Following is a summary of investments as of December 31:

	2008		Total Investments at Fair Value
	Cost or Gift Value	Unrealized Gains (Losses)	
Stocks and bonds	<u>\$ 7,267,104</u>	<u>\$ (916,604)</u>	<u>\$ 6,350,500</u>
	2007		Total Investments at Fair Value
	Cost or Gift Value	Unrealized Gains (Losses)	
Stocks and bonds	<u>\$ 7,755,491</u>	<u>\$ 1,585,488</u>	<u>\$ 9,340,979</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**NOTE 5 - Investments (continued)**

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Earnings from investment securities are summarized as follows:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 384,081	\$ 312,879
Net realized gains	148,901	123,441
Net unrealized gains (loss)	(2,502,092)	183,829
Less: fees	<u>(32,805)</u>	<u>(25,003)</u>
Total	<u>\$ (2,001,915)</u>	<u>\$ 595,146</u>

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**NOTE 6 - Unconditional Promises to Give**

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

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 1,360,243	\$ 2,482,985
One to five years	996,350	1,291,840
More than five years	13,000	4,550
Less: Discount to present value	(73,200)	(99,279)
Allowance for uncollectible promises to give	<u>(182,000)</u>	<u>(182,903)</u>
Total Unconditional Promises to Give	<u>\$ 2,114,393</u>	<u>\$ 3,497,193</u>

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**NOTE 7 - Deferred Revenue**

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Deferred revenue consists of the following:

	<u>2008</u>	<u>2007</u>
Membership dues / gift certificates	\$ 849,000	\$ 808,757
Program fees	261,140	79,200
Youth Leadership Academy	<u>204,977</u>	<u>285,496</u>
Total	<u>\$ 1,315,117</u>	<u>\$ 1,173,453</u>

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**NOTE 8 - Line of Credit**

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The Association has a revolving line of credit loan with \$2,000,000 available from M&I Marshall & Ilsley Bank with \$1,878,000 and \$2,000,000 outstanding as of December 31, 2008 and 2007, respectively. The revolving credit loan bears interest at LIBOR plus 275 basis points (4.66% at December 31, 2008) and is collateralized by substantially all assets of the Association. The revolving credit loan expires June 30, 2009.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

### **NOTE 9 - Long-Term Debt**

Long-term debt consists of the following at December 31:

	<u>2008</u>	<u>2007</u>
Redevelopment Authority of the City of Milwaukee Redevelopment Revenue Bonds, series 2003 - Original loan \$15,695,000 dated November 12, 2003. Variable interest rate. Interest payable in annual installments until 2022, then principal and interest payments are due annually with a final payment due July 1, 2028. Secured by substantially all assets and supported by a letter of credit in favor of the bond trustees.	\$ 14,470,000	\$ 14,670,000
M & I Bank loan dated November 2003 was refinanced to a taxable variable rate demand note, series 2008, on May 1, 2008 payable in annual installments beginning in May 2010 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.	9,800,000	9,498,749
Community Development Authority of the Village of Saukville, WI Development Revenue Bonds, Series 1999 - Original loan \$5,000,000, dated February 2, 1999 - Interest of 4.5% - 4.81% - yearly payments of principal and quarterly payments of interest. Due January 1, 2009. Secured by the unconditional promises to give of the Organization. Paid in full during 2008.	-	900,000
Redevelopment Authority of the City of Milwaukee Development Revenue Bonds, series 1998 were refinanced to series 2008 bonds on May 1, 2008 payable in annual installments beginning in May 2018 with a final payment due May 2022. Secured by substantially all assets and supported by a letter of credit in favor of the bond trustees.	5,555,000	5,360,000
Land contract payable - Original loan \$243,318, dated July 10, 2006 - Interest of 8.5% and monthly payments of \$2,760 with the final payment due March 2018. Secured by the land purchased.	209,789	224,269
Ford Credit note payable with an interest rate of 3.9% and a monthly payment of \$719. The note is secured by the vehicle and matures in December 2011.	<u>24,341</u>	<u>31,841</u>
Totals	30,059,130	30,684,859
Less: Current portion	<u>(23,563)</u>	<u>(21,980)</u>
Long-Term Portion	<u>\$ 30,035,567</u>	<u>\$ 30,662,879</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

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**NOTE 9 - Long-Term Debt (continued)**

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Principal requirements on long-term debt for years ending after December 31, 2008 are as follows:

2009	\$ 23,563
2010	955,269
2011	1,012,094
2012	1,060,320
2013	1,122,116
Thereafter	<u>25,885,768</u>
Total	<u>\$ 30,059,130</u>

The Association is subject to certain restrictions and covenants relating to their debt. As of December 31, 2008, the Association was in compliance or obtained waivers for all of the established covenants.

Long-term debt and line of credit interest charged to expense was \$1,725,528 and \$1,941,175 for the years ended December 31, 2008 and 2007, respectively.

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**NOTE 10 - Derivative Financial Instruments and Hedging Activities**

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As disclosed in Note 9, the Redevelopment Revenue Bonds at the end of 2008 and 2007 in the amount of \$14,470,000 and \$14,670,000 respectively, bear interest at a variable rate. To minimize the effect of changes in the market, the Association entered into an interest rate swap contract in the amount of \$7,500,000 under which it pays interest at a fixed 4.22% rate. The swap contract is dated May 25, 2004 and expires June 1, 2014. On May 12, 2008, the Association entered into an additional fixed term swap contract relating to this bond in the amount of \$6,970,000 under which it pays interest at a fixed 3.42% rate. The contract expires May 1, 2016.

Also disclosed in Note 9 is the taxable variable rate demand note. At the end of 2008 the balance was \$9,800,000 and bears interest at a variable rate. To minimize the effect of changes in the market, on May 12, 2008, the Association entered into an interest rate swap contract in the amount of \$9,800,000 under which it pays interest at a fixed 4.12% rate. The swap contract is dated May 12, 2008 and expires May 1, 2018.

As disclosed in Note 9, the Redevelopment Revenue Bonds at the end of 2008 in the amount of \$5,555,000 bears interest at a variable rate. To minimize the effect of changes in the market, on May 12, 2008, the Association entered into an interest rate swap contract in the amount of \$5,555,000 under which it pays interest at a fixed 3.19% rate. The swap contract is dated May 12, 2008 and expires May 1, 2018.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

### **NOTE 10 - Derivative Financial Instruments and Hedging Activities (continued)**

The following represents the notional amount hedged, fair value of the interest rate swap outstanding at year end and the amount of exposure recorded in unrestricted net assets for the years ended December 31, 2008 and 2007.

	<u>Notional Amount</u>	<u>As of December 31 Liability</u>	<u>Year Ended December 31 Loss</u>	<u>Classification of Loss</u>
M&I Derivative 2008	\$ 7,500,000	\$ (796,726)	\$ (300,707)	Unrealized loss on interest rate swap
M&I Derivative 2008	\$ 9,800,000	\$ (963,445)	\$ (963,445)	Unrealized loss on interest rate swap
M&I Derivative 2008	\$ 5,555,000	\$ (681,143)	\$ (681,143)	Unrealized loss on interest rate swap
M&I Derivative 2008	\$ 6,970,000	\$ (441,243)	\$ (441,243)	Unrealized loss on interest rate swap
Total 2008		\$ (2,882,557)	\$ (2,386,538)	
M&I Derivative 2007	\$ 7,500,000	\$ (496,019)	\$ (330,893)	Unrealized loss on interest rate swap

### **NOTE 11 - Capital Lease**

The Association has various capital lease agreements with interest ranging from 6.25% to 8.75%. Monthly payments of principal and interest range from \$696 to \$19,038. The capitalized cost of the leased property at December 31, 2008 and 2007 was \$6,682,008 and \$6,508,723, respectively. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was \$4,756,826 and \$3,771,127 as of December 31, 2008 and 2007, respectively.

The following is a schedule of future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of December 31, 2008:

2009	\$ 714,221
2010	461,656
2011	287,711
2012	47,762
2013	<u>17,721</u>
Total Future Minimum Lease Payments	1,529,071
Less: Amount representing interest	<u>(135,736)</u>
Present Value of Future Minimum Lease Payments	1,393,335
Less: Current portion	<u>(633,446)</u>
Long-Term Capital Lease Obligation	<u>\$ 759,889</u>

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### NOTE 12 - Net Assets

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Unrestricted net assets at year end are composed of:

	<u>2008</u>	<u>2007</u>
Undesignated net assets	\$ 19,970,521	\$ 19,435,359
Board designated net assets, Endowment Fund	1,421,099	3,802,405
Board designated net assets, Asset Realignment	<u>500,000</u>	<u>500,000</u>
Totals	<u>\$ 21,891,620</u>	<u>\$ 23,737,764</u>

Temporarily restricted net assets at year end are composed of:

	<u>2008</u>	<u>2007</u>
United Way	\$ 313,660	\$ 290,426
Youth Leadership Academy	39,705	47,608
Strong Kids	2,186,345	2,724,787
Capital Campaigns	<u>5,425,502</u>	<u>9,440,546</u>
Totals	<u>\$ 7,965,212</u>	<u>\$ 12,503,367</u>

Permanently restricted net assets consist of funds invested in perpetuity, the income of which is used to fund various Association programs as specified by the donors. These amounts totaled \$5,306,901 and \$5,787,873 at December 31, 2008 and 2007, respectively. During 2008 it was determined that \$533,194 of the permanently restricted net assets recorded as of December 2007 should have been recorded as unrestricted net assets. The adjustment to correct the classification is presented in the 2008 consolidated statement of activities as net assets released from restrictions.

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### NOTE 13 - Endowment Funds

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During 2008, the Association adopted Financial Accounting Standards Board ("FASB") Staff Position No. 117-1, *"Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"* (FSP 117-1), which provides the framework for disclosures about an organization's endowment funds.

The Association's endowment funds consist of 59 individual funds established for the Association. The endowment funds consists of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### **NOTE 13 - Endowment Funds (continued)**

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The Board of Trustees has interpreted Wisconsin's adoption of the Uniform Management of Institutional Funds Act of 1972 ("UMIFA") as requiring the preservation of the historical 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. If the market value of the permanently restricted net asset at year-end is below the original fair value, the deficit is recorded as an unrestricted unrealized loss, due to the fact there are no temporarily restricted endowment funds.

The primary long-term financial objective for the Association's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation 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 shall be 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.

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 is 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 no case will funds designated as permanently restricted endowments be reduced below their initial unit value. 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 is monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and asset allocation.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**NOTE 13 - Endowment Funds (continued)**

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Endowment net asset composition by type of fund as of December 31:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
Donor restricted	\$ -	\$ 5,306,901	\$ 5,306,901	\$ -	\$ 5,787,873	\$ 5,787,873
Board designated	<u>1,421,099</u>	<u>-</u>	<u>1,421,099</u>	<u>3,802,405</u>	<u>-</u>	<u>3,802,405</u>
	<u>\$ 1,421,099</u>	<u>\$ 5,306,901</u>	<u>\$ 6,728,000</u>	<u>\$ 3,802,405</u>	<u>\$ 5,787,873</u>	<u>\$ 9,590,278</u>

Changes in endowment net assets for the year ended December 31, 2008:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
Endowment net assets, beginning of year	\$ 3,802,405	\$ 5,787,873	\$ 9,590,278	\$ 3,607,013	\$ 5,733,339	\$ 9,340,352
Board designated:						
Income (loss) from investments	(2,053,978)	-	(2,053,978)	462,774	-	462,774
Contributions	-	52,222	52,222	-	54,534	54,534
Appropriation of endowment assets for expenditure	(860,522)	-	(860,522)	(267,382)	-	(267,382)
Other changes:						
Reclassification of permanently restricted net assets (see note 12)	<u>533,194</u>	<u>(533,194)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 1,421,099</u>	<u>\$ 5,306,901</u>	<u>\$ 6,728,000</u>	<u>\$ 3,802,405</u>	<u>\$ 5,787,873</u>	<u>\$ 9,590,278</u>

In January 2009, the Executive Board of Directors and the Board of Trustees approved a loan from the endowment funds of approximately \$1,200,000 to pay construction payables due in 2009. The Association expects to repay the borrowed funds with capital pledge payments received through 2011.



# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### NOTE 14 - Defined Contribution Retirement Plan

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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 contributions to the plan based on a percentage of the participating employee's salary, to be remitted to the YMCA Retirement Fund monthly. Plan expense was \$1,256,806 and \$1,276,916 for the years ended December 31, 2008 and 2007, 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 YMCA's in the United States of America. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligations.

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### NOTE 15 - Operating Leases

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The Association leases various facilities and equipment. These leases are accounted for as operating leases.

Future minimum lease payments, including the payments shown in Note 4, as of December 31, 2008 are as follows:

2009	\$ 482,967
2010	298,137
2011	316,785
2012	151,495
2013	132,827
Thereafter	<u>3,229,361</u>
	<u>\$ 4,611,572</u>

Rent expense on the operating leases was \$704,636 and \$588,950 for the years ended December 31, 2008 and 2007, respectively.

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### NOTE 16 - Commitments and Contingencies

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#### *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.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 and 2007

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### **NOTE 16 - Commitments and Contingencies (continued)**

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#### *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 of approximately \$434,000 for The Young Men's Christian Association of Metropolitan Milwaukee, Inc. and \$58,000 for the YMCA Youth Leadership Academy, Inc. to satisfy requirements of the Wisconsin Unemployment Reserve Fund.

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### **NOTE 17 - New Accounting Pronouncements**

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During March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133," ("SFAS 161") which requires enhanced disclosures about an entity's derivative and hedging activities. The standard requires entities to disclose the fair values of derivative instruments and their gains and losses in a tabular format to provide financial statement users with a more complete picture of the location in the entity's financial statements of both the derivative positions existing at year-end and the effect of using derivatives during the reporting period. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Association is currently assessing the effect that SFAS 161 will have on its results of operations, financial position and cash flows.

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### **NOTE 18 - Concentrations**

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The Association maintains cash balances in one institution which exceeds the federally insured limit of \$250,000. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

## **OTHER INDEPENDENT AUDITORS' REPORTS**



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
AND THE PROVIDER AGENCY AUDIT GUIDE

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

We have audited the consolidated financial statements of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. as of and for the year ended December 31, 2008, and have issued our report thereon dated May 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Provider Agency Audit Guide, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or the Provider Agency Audit Guide.

We noted certain matters that we reported to management of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. in a separate letter dated May 27, 2009.

This report is intended solely for the information and use of management, the finance committee, the board of directors, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vuchow, Krause & Company, LLP*

Milwaukee, Wisconsin  
May 27, 2009



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR  
A-133 AND THE STATE SINGLE AUDIT GUIDELINES

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

*Compliance*

We have audited the compliance of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the State Single Audit Guidelines that are applicable to each of its major federal and major state programs for the year ended December 31, 2008. The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and major state programs is the responsibility of The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s management. Our responsibility is to express an opinion on The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and the State Single Audit Guidelines. Those standards, OMB Circular A-133, and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or major state program occurred. An audit includes examining, on a test basis, evidence about The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s compliance with those requirements.

In our opinion, The Young Men's Christian Association of Metropolitan Milwaukee, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and major state programs for the year ended December 31, 2008. However, we noted certain immaterial instances of noncompliance, which we have reported to management of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. in a separate letter dated May 27, 2009.

### *Internal Control Over Compliance*

The management of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Young Men's Christian Association of Metropolitan Milwaukee, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal or state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the finance committee, the board of directors, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vincow, Krause & Company, LLP*

Milwaukee, Wisconsin  
May 27, 2009

## **SUPPLEMENTAL INFORMATION**



**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2008**

FEDERAL AWARDS Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>OFFICE OF NATIONAL DRUG CONTROL POLICY</b>			
Passed through Safe and Sound, Inc.			
Northside Safe Place Program	07.XXX	I8PMLP512Z	\$ 25,000
John C. Cudahy Safe Place Program	07.XXX	I8PMLP512Z	35,000
Holton Safe Place Program	07.XXX	I8PMLP512Z	11,574
Parklawn Safe Place Program	07.XXX	I8PMLP512Z	28,187
Total Office of National Drug Control Policy			<u>99,761</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through Milwaukee County Department of Aging			
Nutrition Site Hart Park	93.045	360-408-38	20,681
Passed through Milwaukee Public Schools			
W2 Safe Place	93.596	Not available	237,755
Passed through Milwaukee Public Schools			
Leave No Child Behind Title IV(B)	93.596	Not available	112,695
Passed through Milwaukee County Department of Health and Human Services			
COGGS Drop In Center	93.596	40-08673-300	128,750
Total U.S. Department of Health and Human Services			<u>499,881</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed through the City of Wauwatosa			
Hart Park Senior Center	14.218	Not available	130,162
Passed through the City of Milwaukee Community Development			
Block Grant Administration			
CDBG - Parklawn	14.218	C15108B073	37,587
HOME Funds - CDC	14.239	C15108M021	512,794
CDBG - Holton	14.218	C15108B071	10,104
CDBG - Northside	14.218	C15108B157	49,896
CDBG - John C. Cudahy	14.218	C15108B167	30,000
CDBG - CDC	14.218	C15108B156	343,254
Total U.S. Department of Housing and Urban Development			<u>1,113,797</u>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			
Passed through the Wisconsin Department of Administration			
AmeriCorps Programs	94.006	AD089161	<u>189,855</u>

See accompanying notes to schedule of expenditures of federal awards.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)  
Year Ended December 31, 2008**

FEDERAL AWARDS Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through Milwaukee Public Schools			
La Follette School Community Learning Center	84.287	Not available	\$ 45,632
Engleburg School Community Learning Center	84.287	Not available	56,491
Mitchell Community Learning Center	84.287	Not available	<u>43,921</u>
Total U.S. Department of Education			<u>146,044</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Passed through Milwaukee Public Schools			
Summer Stars	16.541	Not available	<u>3,000</u>
<b>UNKNOWN FEDERAL DEPARTMENT</b>			
Passed through Day Care Services for Children, Inc.			
Head Start - Northside	Not available	Not available	26,452
Head Start - John C. Cudahy	Not available	Not available	24,494
Marquette Wrap Up - John C. Cudahy	Not Available	Not Available	<u>15,660</u>
Total Unknown			<u>66,606</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 2,118,944</u></b>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2008**

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*Basis of Presentation*

The accompanying schedule of expenditures of Federal Awards includes the Federal grant activity of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Although the Youth Leadership Academy is consolidated with The Young Men's Christian Association of Metropolitan Milwaukee, Inc. for financial statements purposes, it is not included with the testing to meet the requirements of OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations because it has a separate audit under OMB Circular A-133. Youth Leadership Academy is also a subrecipient of The Young Men's Christian Association of Metropolitan Milwaukee, Inc. of approximately \$2,250 for the AmeriCorps program for the year ending December 31, 2008.

Government grants shown on the consolidated statements of activities do not include Federal Awards which the Association treats as program fees. Those amounts totaled approximately \$238,000 and are included in Membership and program fees on the consolidated statements of activities.

W-2 participant direct payments are not included on the Schedule of Expenditures of Federal Awards due to the funding not being subject to OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. These direct payments totaling approximately \$2,100,000 are treated as program fees by the Association and are included in Membership and program fees on the consolidated statements of activities.

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended December 31, 2008

### Section I: Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued:	unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	___X___ no	
Significant deficiency identified not considered to be material weaknesses?	_____ yes	___X___ none reported	
Noncompliance material to financial statements noted?	_____ yes	___X___ no	

#### Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ yes	___X___ no	
Significant deficiency identified not considered to be material weaknesses?	_____ yes	___X___ no	

Type of auditors' report issued on compliance for major programs:	unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ yes	___X___ no
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Identification of major programs:

CFDA Number(s)

14.218

Name of Federal Program or Cluster

Community Development Block Grant

CFDA Number(s)

93.596

Name of State Single Audit Guidelines Program

Leave No Child Behind Title IV(B)

Dollar threshold used to distinguish between Type A and Type B programs:

Federal Program	\$300,000
State Single Audit Guidelines Program	\$100,000

Auditee qualified as low-risk auditee?	___X___ yes	_____ no
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**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(Concluded)  
Year Ended December 31, 2008

**Section II: Financial Statement Findings**

There were no findings.

**Section III: Federal Findings and Questioned Costs**

There were no findings or questioned costs.

**Section IV: Other Issues**

Does the auditor have substantial doubt as to the  
auditee's ability to continue as a going concern?

\_\_\_\_\_ yes        X   no

Does the audit report show audit issues (i.e. material  
non-compliance, non-material non-compliance,  
questioned costs, material weaknesses, reportable  
condition, management letter comment, excess revenue  
or excess reserve) related to grants/contracts with  
funding agencies that require audits to be in accordance  
with the Provider Agency Audit Guide or State Single  
Audit Guidelines:

Department of Health Services

      X       yes                 no

Department of Workforce Development

           yes            X       no

Department of Corrections

           yes            X       no

Department of Administration

           yes            X       no

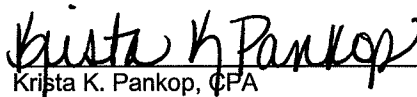
Department of Public Instruction

      X       yes                 no

Was a management letter or other document conveying  
audit comments issued as a result of this audit?

      X       yes                 no

Name and signature of partner

  
\_\_\_\_\_  
Krista K. Pankop, CPA

Date of the report

May 27, 2009

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF  
METROPOLITAN MILWAUKEE, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2008

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The prior year single audit disclosed no findings, and therefore, no uncorrected or unresolved findings exist from prior single audit.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.**

**SCHEDULE OF REVENUE AND ALLOWABLE COSTS BY CONTRACT**  
**Year Ended December 31, 2008**

	Coggs Drop-In Center	Nutrition Site Hart Park	W-2/Safe Place	Total
<b>PUBLIC SUPPORT</b>				
Government grants	\$ 128,750	\$ 20,681	\$ 237,755	\$ 387,186
<b>EXPENSES</b>				
Salaries and wages	101,121	12,136	164,801	278,058
Employee benefits	11,657	1,887	22,979	36,523
Payroll taxes expense	12,682	1,147	16,767	30,596
Total Salaries and Related Expenses	125,460	15,170	204,547	345,177
Administrative expenses	186	3,546	36,894	40,626
Supplies	6,145	1,119	3,794	11,058
Training and education	-	155	173	328
Travel expenses	-	-	1,529	1,529
Other expenses	-	691	-	691
Total Expenses	131,791	20,681	246,937	399,409
<b>NET REVENUES/EXPENSES</b>	\$ (3,041)	\$ -	\$ (9,182)	\$ (12,223)

# THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.

## RESERVE SUPPLEMENTAL SCHEDULE Year Ended December 31, 2008

1. Total units of service
2. Allowable expenses for rate-based service
3. Total revenue for rate-based service
4. Excess (deficiency) revenue over expenses
5. Total reserve from all prior periods
6. Calculation of reserve and amounts due to purchaser

909
\$ 246,937
\$ 237,755
\$ (9,182)
\$ (296,176)
\$ -

Second Test												
First Test												
		Purchaser's share of excess revenue (deficiency) (6d)	Cap on reserve for first test (6e)	Amount to add to reserve for this period (6f)	Amount due to purchaser from first test (6g)	Purchaser's share of reserve from prior periods (6h)	Purchaser's share of reserve from all periods (6i)	Cap on reserve for second test (6j)	Amount of reserve (6k)	Amount due to purchaser from second test (6l)	Total amount due to purchaser (6m)	
Purchaser (6a)	Revenue from Purchaser (6b)	Purchaser's share of total revenue (6c)										
W-2 Safeplace	\$ 237,755	100	\$ (9,182)	\$ 11,888	\$ (9,182)	\$ -	\$ (296,176)	\$ (305,358)	\$ 23,776	\$ (305,358)	\$ -	\$ -