

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

**FINANCIAL STATEMENTS
December 31, 2015**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
 FINANCIAL STATEMENTS	
Statement of Financial Position.....	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
 Notes to Financial Statements	 7



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Young Men's Christian Association of Metropolitan Milwaukee, Inc., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Young Men's Christian Association of Metropolitan Milwaukee, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. On June 4, 2014, the Organization 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 Organization was also in default on certain covenants of its loan agreements at December 31, 2014 and its lender/creditors were involved in the Organization's bankruptcy reorganization plan. On January 30, 2015, the Organization emerged from bankruptcy as its reorganization plan was accepted by the Bankruptcy Court. Those conditions raise substantial doubt about the Organization's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Milwaukee, Wisconsin
July 12, 2016

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2015

ASSETS

Cash and cash equivalents	\$	996,583
Investments		3,958,991
Accounts receivable, net		194,503
Grants receivable		274,483
Pledges receivable, net		486,802
Prepaid expenses		53,556
Property and equipment, net		14,600,894
Other assets		<u>482,872</u>
TOTAL ASSETS	\$	<u>21,048,684</u>

LIABILITIES

Accounts payable	\$	1,356,442
Accrued liabilities		711,522
Deferred revenue		493,530
Other Liabilities		1,700,399
Capital lease obligations		<u>103,886</u>
Total liabilities		<u>4,365,779</u>

NET ASSETS

Unrestricted		8,464,334
Temporarily restricted		3,731,972
Permanently restricted		<u>4,486,599</u>
Total net assets		<u>16,682,905</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>21,048,684</u>

The accompanying notes are an integral part of the financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND PUBLIC SUPPORT				
Contributions	\$ 1,091,923	\$ 430,831	\$ 467	\$ 1,523,221
Government and private grants	124,513	-	-	124,513
United Way	225,979	225,978	-	451,957
Membership and program fees	12,579,328	-	-	12,579,328
Services and sales	449,999	-	-	449,999
Net investment income appropriated	1,604,222	-	-	1,604,222
Other	606,601	54,105	-	660,706
Satisfaction of restrictions	<u>138,605</u>	<u>-</u>	<u>(138,605)</u>	<u>-</u>
Total revenue, gains, and public support	<u>16,821,170</u>	<u>710,914</u>	<u>(138,138)</u>	<u>17,393,946</u>
EXPENSES				
Program	12,458,423	-	-	12,458,423
Management and general	5,619,052	-	-	5,619,052
Fundraising	<u>766,089</u>	<u>-</u>	<u>-</u>	<u>766,089</u>
Total expenses	<u>18,843,564</u>	<u>-</u>	<u>-</u>	<u>18,843,564</u>
CHANGES IN NET ASSETS FROM OPERATIONS	<u>(2,022,394)</u>	<u>710,914</u>	<u>(138,138)</u>	<u>(1,449,618)</u>
NON-OPERATING REVENUES AND EXPENSES				
Net investment loss restricted	-	(1,750,474)	-	(1,750,474)
Change in cash surrender value of life insurance	-	-	47,200	47,200
Net loss on disposal of capital assets	(8,336,324)	-	-	(8,336,324)
Gain on extinguishment of debt	17,704,601	-	-	17,704,601
Bankruptcy related expenses	(362,193)	-	-	(362,193)
Disbursement of endowment funds including interest	<u>(200,473)</u>	<u>-</u>	<u>-</u>	<u>(200,473)</u>
Total non-operating revenues and expenses	<u>8,805,611</u>	<u>(1,750,474)</u>	<u>47,200</u>	<u>7,102,337</u>
CHANGES IN NET ASSETS	6,783,217	(1,039,560)	(90,938)	5,652,719
NET ASSETS, BEGINNING OF YEAR	<u>1,681,117</u>	<u>4,771,532</u>	<u>4,577,537</u>	<u>11,030,186</u>
NET ASSETS, END OF YEAR	<u>\$ 8,464,334</u>	<u>\$ 3,731,972</u>	<u>\$ 4,486,599</u>	<u>\$ 16,682,905</u>

The accompanying notes are an integral part of the financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2015

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Functional Expenses</u>
EXPENSES - GENERAL OPERATIONS				
Salaries, wages and related expenses	\$ 7,699,699	\$ 3,364,536	\$ 643,709	\$ 11,707,944
Professional fees	227,280	515,746	57,315	800,341
Program and supplies expense	901,705	75,599	2,295	979,599
Postage and shipping	9,282	9,485	11,577	30,344
Occupancy	1,548,803	44,316	-	1,593,119
Utilities and telephone	870,384	62,222	-	932,606
Insurance	237,422	11,755	-	249,177
Equipment leases, rental and maintenance	64,819	488,377	76	553,272
Advertising, printing, and promotion	33,083	538,992	46,379	618,454
Conferences, training and employee expense	88,219	70,680	3,688	162,587
Dues	-	181,981	1,050	183,031
Interest expense	12,304	7,452	-	19,756
Depreciation	765,423	247,911	-	1,013,334
TOTAL EXPENSES	<u>\$ 12,458,423</u>	<u>\$ 5,619,052</u>	<u>\$ 766,089</u>	<u>\$ 18,843,564</u>

The accompanying notes are an integral part of the financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 5,652,719
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	1,013,334
Loss on sale of property and equipment	8,336,324
Deferred gain on sale leaseback	(81,304)
Gain on extinguishment of debt	(17,704,601)
Realized loss on investments	(1,313,445)
Unrealized gain on investments	1,580,126
Effects of changes in operating assets and liabilities:	
Accounts and grants receivable	534,257
Pledges receivable	(369,951)
Prepaid expenses and other assets	134,315
Accrued liabilities and other liabilities	(1,122,126)
Accounts payable	(2,119,866)
Deferred revenue	14,200
	<u>14,200</u>
Cash used in operating activities	<u>(5,446,018)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Payment for purchase of fixed assets	(468,152)
Purchases of investments	(6,257,568)
Proceeds from the sale of investments	9,440,791
Change in cash surrender value of life insurance	47,200
	<u>47,200</u>
Net cash provided by investing activities	<u>2,762,271</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on long term debt	(6,200,000)
Payments on revolving line of credit	(3,000,000)
Capitalized lease payments	(124,848)
	<u>(124,848)</u>
Net cash used in financing activities	<u>(9,324,848)</u>
 DECREASE IN CASH AND CASH EQUIVALENTS	 (12,008,595)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>13,005,178</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 996,583</u></u>

The accompanying notes are an integral part of the financial statements.

YOUNG MEN’S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - NATURE OF OPERATIONS

Description of Organization

The Young Men’s Christian Association of Metropolitan Milwaukee, Inc. (the “YMCA”) 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 YMCA 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 YMCAs 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 Organization’s financial assistance program provides funds for those in need – everyone is welcome to participate in YMCA programs.

During 2015, the Organization sold two properties pursuant to a bankruptcy reorganization plan (see Footnote 12). The accompanying financial statements reflect the operating results of the membership centers, day care center, overnight camps for children and families, and programing at numerous community-based locations through the date of sale or transfer.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Those resources over which the board of directors has discretionary control. Designated amounts represent those revenues that the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organizations or the passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions.

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity, at the date of acquisition, of three months or less. Excluded from this definition are cash equivalents held for long-term purposes.

The Organization may at times have funds on deposit at one financial institution that exceeds the federally insured limits.

Investments and Investment Income

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 Organization records the change of ownership of bonds and stocks on the day a trade is made.

Investment income is reported as operating revenue and is included in the changes in unrestricted net assets unless the income or loss is restricted by donor or law.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are generally uncollateralized member/client obligations due upon receipt. Accounts receivable are carried at the original invoice amount, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The allowance for uncollectible accounts is \$50,000 as of December 31, 2015.

Grants Receivable

Grants receivable consist of various Federal and State grant funds passed through governmental agencies to the Organization 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.

Pledges Receivable

Unconditional promises to give to the Organization 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 statement 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.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of cash and cash equivalents, receivables, and investments. These financial instruments are carried at their approximate fair value. The Organizations' policy is to limit credit exposure on financial instruments and place its cash with financial institutions deemed as being credit worthy.

Concentration of credit risk with respect to receivables is limited due to the large member base and the expectation that government programs will make timely payments.

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.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair 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 estimated 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.

Property and equipment are depreciated using the straight-line method over their estimated useful lives. The principal depreciation rates are based upon the following estimated useful lives:

Land improvements	15 years
Buildings and improvements	10 - 50 years
Machinery and equipment	5 - 12 years
Leasehold improvements	30 - 50 years

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less cost to sell.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 service fees are earned. Revenue from membership dues is recognized on a pro rata basis over the period to which the membership relates.

Deferred revenue consisted of the following at December 31:

Membership	\$ 157,710
Program	<u>335,820</u>
Total deferred revenue	<u>\$ 493,530</u>

Tax-Exempt Status

The YMCA is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the IRC. The Organization had no unrelated business income for the year ended. None of the Organization's federal or state informational returns are currently under examination.

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 Organization 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 statement 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.

Program service fees applying to services are reflected as support in the year when the program service fees are earned. Revenue from membership dues is recognized on a pro rata basis over the period to which the membership relates.

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and Assets

The Organization receives contributions of services for its programs. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by an individual possessing those skills, and would typically need to be purchased if not provided by donation. There were no contributed services that were recognized as revenue for the year ended December 31, 2015.

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 reasonable approximation of the fair value at the date of donation.

Advertising and Promotion

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion expense was \$618,454 for the year ended December 31, 2015.

Functional Allocation of Expenses

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

NOTE 3 - INVESTMENTS

A summary of investments was as follows at December 31:

	<u>Cost or Gift Value</u>	<u>Unrealized Gains (Losses)</u>	<u>Total Investments at Fair Value</u>
Money market funds	\$ 28,223	\$ -	\$ 28,223
Equity mutual funds	2,616,832	192,723	2,809,555
Fixed income mutual funds	<u>1,157,032</u>	<u>(35,819)</u>	<u>1,121,213</u>
Total investments	<u>\$ 3,802,087</u>	<u>\$ 156,904</u>	<u>\$ 3,958,991</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - INVESTMENTS (CONTINUED)

Net investment income was summarized as follows at December 31:

Interest and dividends	\$ 145,756
Net realized gain	1,313,445
Net unrealized loss	(1,580,126)
Less - Investment fees	<u>(25,327)</u>
 Total investment income, net	 146,253
Less: Investment income appropriated	<u>(1,604,222)</u>
 Net investment loss restricted	 <u>\$ (1,750,474)</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches within the fair value measurement framework of accounting standards. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The standards define levels within the hierarchy based on the reliability of inputs as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology based on quoted prices for similar assets or liabilities or identical assets or liabilities in active markets, such as dealer or broker markets.
- Level 3 - Inputs to the valuation methodology are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions, or are supported by little or no market activity.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Equity Securities and Mutual Funds

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 Organization 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 Organization are deemed to be actively traded.

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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 28,223	\$ -	\$ -	\$ 28,223
Fixed income mutual funds:				
Short-term bond funds	26,928	-	-	26,928
Intermediate-term bond funds	995,905	-	-	995,905
Non-traditional bonds	98,380	-	-	98,380
Equity mutual funds:				
ETF large index funds	1,518,892	-	-	1,518,892
ETF mid-cap index funds	442,142	-	-	442,142
ETF small-cap index funds	298,084	-	-	298,084
Foreign equity funds	405,926	-	-	405,926
Commodity-linked derivatives funds	<u>144,511</u>	<u>-</u>	<u>-</u>	<u>144,511</u>
Total investments	<u>\$ 3,958,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,958,991</u>

NOTE 5 - PLEDGES RECEIVABLE

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

Less than one year	\$ 396,802
One to five years	<u>100,000</u>
Total	496,802
Less: Allowance for uncollectible promises to give	<u>10,000</u>
Pledges receivable, net	<u>\$ 486,802</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2015:

Land and land improvements	\$ 1,640,401
Buildings and improvements	17,303,678
Machinery and equipment	8,595,853
Leasehold improvements	500,000
Construction in progress	115,057
Total - at cost	<u>28,154,989</u>
Less accumulated depreciation	<u>(13,554,095)</u>
Property and equipment, net	<u>\$ 14,600,894</u>

Total depreciation expense for the year ended December 31, 2015 was \$1,013,334.

NOTE 7 - LEASES

Capital Lease

The Organization has a capital lease agreement with an imputed interest rate of 3.10%. Monthly payments of principal and interest are \$8,401. 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 December 31, 2015 was \$378,782. 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 \$233,583 as of December 31, 2015.

Sales Leaseback

In February 2008, the Organization 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 Organization 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 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 Organization will recognize \$81,304 of the deferred gain on an annual basis until the lease expires in January 2033. The Organization recognized \$81,304 of the deferred gain in 2015. At December 31, 2015, the remaining deferred gain was \$1,388,940. The current portion, in the amount of \$81,304, is included in accrued liabilities as of December 31, 2015, and the remainder is included in other liabilities in the accompanying statements of financial position.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7 - LEASES (CONTINUED)

Sales Leaseback (Continued)

The lease agreement requires the Organization 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 Organization paid \$134,400 in lease payments in 2015. The Organization recognized lease expense of \$139,145 and an increased accrued rent expense of \$4,745 in 2015. Accrued rent expense of \$392,763 as of December 31, 2015 is included in other liabilities in the accompanying statements of financial position.

Operating Leases

The Organization leases various facilities and equipment under leases accounted for as operating leases. Rent expense on the operating leases was \$710,953 for the year ended December 31, 2015.

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, 2015:

	<u>Capital Lease</u>	<u>Sale Leaseback</u>	<u>Operating Leases</u>
Years ending December 31:			
2016	\$ 105,561	\$ 134,400	\$ 401,164
2017	-	134,400	339,417
2018	-	134,400	119,421
2019	-	150,528	119,421
2020	-	150,528	119,421
Thereafter	<u>-</u>	<u>2,065,565</u>	<u>194,430</u>
 Total future minimum lease payments	 105,561	 <u>\$ 2,769,821</u>	 <u>\$ 1,293,274</u>
 Less amount representing interest	 <u>(1,675)</u>		
 Present value of future minimum lease payments	 <u>\$ 103,886</u>		

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7 - LEASES (CONTINUED)

Sublease

In July 2008, the Organization 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 Organization. The Organization 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 Organization with the first payment due July 15, 2013. Beginning July 15, 2014, the lease payments will increase by the consumer price index annually. The Organization received lease payments of \$35,998 in 2015; however it recognized lease revenue of \$34,016 and an increase in other assets in the accompanying statements of financial position of the same amount.

Estimated future payments to be received relative to this agreement as of December 31, 2015, are as follows:

2016	\$ 36,717
2017	37,452
2018	38,201
2019	38,965
2020	39,744
Thereafter	<u>573,457</u>
Total	<u>\$ 764,536</u>

NOTE 8 - NET ASSETS

Temporarily restricted net assets are composed of the following at December 31, 2015:

United Way	\$ 225,982
Scholarships and programs	1,845,782
Endowment accumulated earnings not appropriated for distribution	1,511,708
Capital campaigns	<u>148,500</u>
Total	<u>\$ 3,731,972</u>

Permanently restricted net assets consist of funds invested in perpetuity, income of which is used to fund various Organization programs as specified by the donors. These amounts totaled \$4,486,599 at December 31, 2015. During 2015, the Organization released permanently restricted funds totaling \$138,605 related to a program that is no longer offered by the Organization. The funds were transferred to another local nonprofit organization that will continue to offer the program.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 - ENDOWMENT FUNDS

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

The Organization 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 Organization 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 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 Organization'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 Organization'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 specific payout rate of the endowment base to support the Organization'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 of 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.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 - ENDOWMENT FUNDS (CONTINUED)

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, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Purpose:			
Building maintenance	\$ 114,869	\$ 201,187	\$ 316,056
Operations and programs	1,335,147	4,165,416	5,500,564
International programs	<u>61,692</u>	<u>119,996</u>	<u>181,688</u>
Total	<u>\$ 1,511,708</u>	<u>\$ 4,486,599</u>	<u>\$ 5,998,308</u>

Changes in endowment net assets were as follows for the year ended December 31, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at January 1, 2015	\$ 3,257,983	\$ 4,577,537	\$ 7,835,520
Investment income	(67,249)	-	(67,249)
Change in cash surrender value of life insurance	-	47,200	47,200
Contributions	300,302	467	300,769
Appropriation of endowment assets for expenditure	<u>(1,979,328)</u>	<u>(138,605)</u>	<u>(2,117,933)</u>
Endowment net assets at December 31, 2015	<u>\$ 1,511,708</u>	<u>\$ 4,486,599</u>	<u>\$ 5,998,307</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 10 - RETIREMENT PLAN

The Organization 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 Organization makes monthly contributions to the Young Men's Christian Association Retirement Fund based on a percentage of the participating employee's salary. Plan expense totaled \$645,459 for the year ended December 31, 2015.

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 11 - 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 Organization 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 Organization 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 Organization 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 Organization 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.

NOTE 12 - DISPOSAL OF PROPERTIES

During the year, the Organization had two properties assumed by the bank during as a result of their bankruptcy proceeding, Downtown YMCA and South Shore YMCA. Total loss on the assumed properties shown at December 31, 2015 is \$8,336,324.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 13 - SUBSEQUENT EVENTS

Management evaluated subsequent events through July 12, 2016, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2015, but prior to July 12, 2016 that provided additional evidence about conditions that existed at December 31, 2015, have been recognized in the financial statements for the year ended December 31, 2015. Events or transactions that provided evidence about conditions that did not exist at December 31, 2015 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2015.

This information is an integral part of the accompanying financial statements.