

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

FINANCIAL STATEMENTS

AUGUST 31, 2017 AND DECEMBER 31, 2016

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
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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 statements of financial position as of August 31, 2017 and December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the eight months ended August 31, 2017, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

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

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 August 31, 2017 and December 31, 2016, and the changes in its net assets and its cash flows for the eight months ended August 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Milwaukee, Wisconsin
January 17, 2018

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2017 AND DECEMBER 31, 2016**

ASSETS	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 1,075,097	\$ 885,027
Investments	3,812,183	3,745,434
Accounts Receivable, Net	479,854	679,719
Grants Receivable	421,508	208,801
Pledges Receivable, Net	314,766	501,135
Prepaid Expenses	38,487	54,842
Property and Equipment, Net	13,709,945	14,161,774
Other Assets	389,129	435,302
	<u> </u>	<u> </u>
Total Assets	<u>\$ 20,240,969</u>	<u>\$ 20,672,034</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 746,287	\$ 840,047
Accrued Liabilities	728,123	639,116
Deferred Revenue	222,267	679,668
Other Liabilities	1,572,801	1,623,839
Capital Lease Obligations	272,034	359,611
Total Liabilities	<u>3,541,512</u>	<u>4,142,281</u>
NET ASSETS		
Unrestricted:		
Undesignated	6,216,546	6,081,301
Board Designated	2,294,635	2,294,635
Temporarily Restricted	6,588,816	6,554,357
Permanently Restricted	1,599,460	1,599,460
Total Net Assets	<u>16,699,457</u>	<u>16,529,753</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 20,240,969</u>	<u>\$ 20,672,034</u>

See accompanying Notes to Financial Statements.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
STATEMENT OF ACTIVITIES
EIGHT MONTHS ENDED AUGUST 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND PUBLIC SUPPORT				
Contributions	\$ 291,679	\$ 437,064	\$ -	\$ 728,743
Government and Private Grants	205,172	-	-	205,172
United Way	67,981	339,899	-	407,880
Membership and Program Fees	9,099,164	-	-	9,099,164
Services and Sales	266,877	-	-	266,877
Other	195,400	6,925	-	202,325
Satisfaction of Restrictions	<u>1,021,959</u>	<u>(1,021,959)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains, and Public Support	11,148,232	(238,071)	-	10,910,161
EXPENSES				
Program	8,208,124	-	-	8,208,124
Management and General	2,507,667	-	-	2,507,667
Fundraising	<u>293,285</u>	<u>-</u>	<u>-</u>	<u>293,285</u>
Total Expenses	<u>11,009,076</u>	<u>-</u>	<u>-</u>	<u>11,009,076</u>
CHANGES IN NET ASSETS FROM OPERATIONS	139,156	(238,071)	-	(98,915)
NONOPERATING REVENUES AND EXPENSES				
Net Investment Income Restricted	-	309,087	-	309,087
Change in Cash Surrender Value of Life Insurance	-	(36,557)	-	(36,557)
Net Loss on Disposal of Capital Assets	<u>(3,911)</u>	<u>-</u>	<u>-</u>	<u>(3,911)</u>
Total Nonoperating Revenues and Expenses	<u>(3,911)</u>	<u>272,530</u>	<u>-</u>	<u>268,619</u>
CHANGE IN NET ASSETS	135,245	34,459	-	169,704
Net Assets - Beginning of Year	<u>8,375,936</u>	<u>6,554,357</u>	<u>1,599,460</u>	<u>16,529,753</u>
NET ASSETS - END OF YEAR	<u>\$ 8,511,181</u>	<u>\$ 6,588,816</u>	<u>\$ 1,599,460</u>	<u>\$ 16,699,457</u>

See accompanying Notes to Financial Statements.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
EIGHT MONTHS ENDED AUGUST 31, 2017**

	Program	Management and General	Fundraising	Total Functional Expenses
EXPENSES - GENERAL OPERATIONS				
Salaries, Wages, and Related Expenses	\$ 4,940,179	\$ 1,144,926	\$ 220,622	\$ 6,305,727
Professional Fees	55,397	374,547	54,253	484,197
Program and Supplies Expense	715,710	71,052	5,589	792,351
Postage and Shipping	3,913	74,990	4,409	83,312
Occupancy	1,098,664	27,558	25	1,126,247
Utilities and Telephone	491,526	91,645	-	583,171
Insurance	142,543	-	46	142,589
Equipment Leases, Rental, and Maintenance	56,274	287,427	-	343,701
Advertising, Printing, and Promotion	29,739	129,210	7,181	166,130
Conferences, Training, and Employee Expense	61,329	27,740	245	89,314
Dues	762	152,872	915	154,549
Interest Expense	-	10,615	-	10,615
Depreciation	612,088	115,085	-	727,173
 Total Expenses - General Operations	 <u>\$ 8,208,124</u>	 <u>\$ 2,507,667</u>	 <u>\$ 293,285</u>	 <u>\$ 11,009,076</u>

See accompanying Notes to Financial Statements.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
STATEMENT OF CASH FLOWS
EIGHT MONTHS ENDED AUGUST 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$	169,704
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization		727,173
Loss on Sale of Property and Equipment		3,911
Deferred Gain on Sale Leaseback		(54,202)
Change in Cash Surrender Value of Life Insurance		36,557
Realized Gain on Investments		(63,297)
Unrealized Gain on Investments		(221,406)
Effects of Changes in Operating Assets and Liabilities:		
Accounts and Grants Receivable		(12,842)
Pledges Receivable		186,369
Prepaid Expenses and Other Assets		25,971
Accrued Liabilities and Other Liabilities		92,171
Accounts Payable		(93,760)
Deferred Revenue		(457,401)
Net Cash Provided by Operating Activities		<u>338,948</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Payment for Purchase of Fixed Assets		(279,255)
Purchases of Investments		(1,647,146)
Proceeds from the Sale of Investments		<u>1,865,100</u>
Net Cash Used by Investing Activities		(61,301)

CASH FLOWS FROM FINANCING ACTIVITIES

Capitalized Lease Payments		(87,577)
Net Cash Used by Financing Activities		<u>(87,577)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

190,070

Cash and Cash Equivalents - Beginning of Period

885,027

CASH AND CASH EQUIVALENTS - END OF PERIOD

\$ 1,075,097

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

In 2017, the YMCA changed its fiscal year-end from December 31 to August 31.

Use of Estimates

The preparation of financial statements in accordance 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.

Basis of Presentation

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

Unrestricted

Undesignated - Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted. Gains or losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Board designated - 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.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted

Those resources subject to a donor imposed restriction that they be maintained permanently by the YMCA. The donors of these resources permit the YMCA 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 YMCA 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 YMCA 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 YMCA 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.

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 August 31, 2017 and December 31, 2016.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable

Grants receivable consist of various federal and state grant funds passed through governmental agencies to the YMCA 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 YMCA 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.

Credit Risk

Financial instruments, which potentially subject the YMCA 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 YMCA's 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.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 YMCA 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.

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 August 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
Membership	\$ 169,579	\$ 172,578
Program	52,688	507,090
Total Deferred Revenue	<u>\$ 222,267</u>	<u>\$ 679,668</u>

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 YMCA had no unrelated business income for the period ended August 31, 2017. None of the YMCA'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 YMCA 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.

Donated Services and Assets

The YMCA 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 period ended August 31, 2017.

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 \$166,130 for the period ended August 31, 2017.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2 INVESTMENTS

A summary of investments was as follows at August 31, 2017:

	Cost or Gift Value	Unrealized Gains (Losses)	Investments at Fair Value
Money Market Funds	\$ 82,457	\$ -	\$ 82,457
Equity Mutual Funds	2,148,217	398,139	2,546,356
Fixed Income Mutual Funds	1,172,689	10,681	1,183,370
Total Investments	<u>\$ 3,403,363</u>	<u>\$ 408,820</u>	<u>\$ 3,812,183</u>

A summary of investments was as follows at December 31, 2016:

	Cost or Gift Value	Unrealized Gains (Losses)	Investments at Fair Value
Money Market Funds	\$ 126,901	\$ -	\$ 126,901
Equity Mutual Funds	1,647,386	206,077	1,853,463
Fixed Income Mutual Funds	1,783,832	(18,762)	1,765,070
Total Investments	<u>\$ 3,558,119</u>	<u>\$ 187,315</u>	<u>\$ 3,745,434</u>

Net investment income was as follows for the period ended August 31, 2017:

	2017
Interest and Dividends	\$ 36,460
Net Realized Gain	63,297
Net Unrealized Gain	221,406
Less: Investment Fees	(12,076)
Total Net Investment Income Restricted	<u>\$ 309,087</u>

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 3 FAIR VALUE MEASUREMENTS

In determining fair value, the YMCA 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 August 31, 2017 and December 31, 2016.

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 YMCA 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 YMCA are deemed to be actively traded.

United States treasury notes are valued based on quoted prices from active markets.

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The table below presents the balances of assets and liabilities measured at fair value on a nonrecurring basis by level within the hierarchy at August 31, 2017:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 82,457	\$ -	\$ -	\$ 82,457
Fixed Income Mutual Funds:				
Intermediate Term Bond Funds	1,182,625	-	-	1,182,625
High Yield Bond Funds	745	-	-	745
Equity Mutual Funds:				
ETF Large Index Funds	1,468,263	-	-	1,468,263
ETF Mid-Cap Index Funds	390,299	-	-	390,299
ETF Small-Cap Index Funds	282,769	-	-	282,769
Foreign Equity Funds	405,025	-	-	405,025
Total Investments	<u>\$ 3,812,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,812,183</u>

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, 2016:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 126,901	\$ -	\$ -	\$ 126,901
Fixed Income Mutual Funds:				
Short-Term Bond Funds	25,099	-	-	25,099
Intermediate Term Bond Funds	839,060	-	-	839,060
High Yield Bond Funds	695	-	-	695
Fixed Income				
United States Treasury Notes	900,216	-	-	900,216
Equity Mutual Funds:				
ETF Large Index Funds	1,103,104	-	-	1,103,104
ETF Mid-Cap Index Funds	238,623	-	-	238,623
ETF Small-Cap Index Funds	250,888	-	-	250,888
Foreign Equity Funds	201,179	-	-	201,179
Real Estate Fund	59,669	-	-	59,669
Total Investments	<u>\$ 3,745,434</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,745,434</u>

NOTE 4 PLEDGES RECEIVABLE

Unconditional promises to give consisted of the following at August 31, 2017 and December 31, 2016:

	2017	2016
Less than One Year	\$ 324,766	\$ 336,135
One to Five Years	-	175,000
Total	<u>324,766</u>	<u>511,135</u>
Less: Allowance for Uncollectible Promises to Give	10,000	10,000
Total Pledges Receivable, Net	<u>\$ 314,766</u>	<u>\$ 501,135</u>

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MILWAUKEE, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND DECEMBER 31, 2016**

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
Land and Land Improvements	\$ 1,655,410	\$ 1,644,401
Buildings and Improvements	17,788,333	17,517,072
Machinery and Equipment	9,116,280	9,099,080
Leasehold Improvements	500,000	500,000
Construction in Progress	21,299	45,424
Total - at Cost	<u>29,081,322</u>	<u>28,805,977</u>
Less: Accumulated Depreciation	<u>(15,371,377)</u>	<u>(14,644,203)</u>
Total Property and Equipment, Net	<u>\$ 13,709,945</u>	<u>\$ 14,161,774</u>

Total depreciation expense for the period ended August 31, 2017 was \$727,173.

NOTE 6 LEASES

Capital Leases

During 2016, the YMCA entered into two capital lease agreements with an imputed interest rate of 4.95%. Monthly payments of principal and interest are \$5,909 and \$6,365. 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 August 31, 2017 and December 31, 2016 was \$482,148. 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 \$183,043 and \$75,900 as of August 31, 2017 and December 31, 2016, respectively.

Sales Leaseback

In February 2008, the YMCA 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 YMCA 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 YMCA will recognize \$81,304 of the deferred gain on an annual basis until the lease expires in January 2033. The YMCA recognized \$54,202 of the deferred gain in the period ended August 31, 2017. At August 31, 2017 and December 31, 2016, the remaining deferred gain was \$1,253,434 and \$1,307,636, respectively. The current portion, in the amount of \$81,304, is included in accrued liabilities as of August 31, 2017 and December 31, 2016, and the remainder is included in other liabilities in the accompanying statements of financial position.

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NOTE 6 LEASES (CONTINUED)

Sales Leaseback (Continued)

The lease agreement requires the YMCA 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 \$89,600 in lease payments for the period ended August 31, 2017. The YMCA recognized lease expense of \$92,764 and an increased accrued rent expense of \$3,164 for the period ended August 31, 2017. Accrued rent expense of \$400,671 and \$397,507 as of August 31, 2017 and December 31, 2016, respectively, is included in other liabilities in the accompanying statements of financial position.

Operating Leases

The YMCA leases various facilities and equipment under leases accounted for as operating leases. Rent expense on the operating leases was \$463,956 for the period ended August 31, 2017.

The following is a schedule of future minimum lease payments under all leases with an initial term in excess of one year at August 31, 2017:

<u>Year Ending August 31,</u>	<u>Capital Leases</u>	<u>Sale Leaseback</u>	<u>Operating Leases</u>
2018	\$ 147,288	\$ 134,400	\$ 410,742
2019	115,463	150,528	167,997
2020	23,636	150,528	167,997
2021	-	150,528	168,841
2022	-	150,528	111,200
Thereafter	-	2,185,171	185,333
Total Future Minimum Lease Payments	<u>286,387</u>	<u>\$ 2,921,683</u>	<u>\$ 1,212,110</u>
Less: Amount Representing Interest	<u>14,353</u>		
Total Present Value of Future Minimum Lease Payments	<u>\$ 272,034</u>		

Sublease

In July 2008, the YMCA 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 YMCA. The YMCA 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 YMCA with the first payment due July 15, 2013. Beginning July 15, 2014, the lease payments will increase by the consumer price index annually. The YMCA received lease payments of \$24,825 for the period ended August 31, 2017; however, it recognized lease revenue of \$22,678 and an increase in other assets in the accompanying statements of financial position of the same amount.

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NOTE 6 LEASES (CONTINUED)

Sublease (Continued)

Estimated future payments to be received relative to this agreement as of August 31, 2017, are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2018	\$ 37,948
2019	38,707
2020	39,481
2021	40,271
2022	41,076
Thereafter	505,511
Total	<u>\$ 702,994</u>

NOTE 7 NET ASSETS

Temporarily restricted net assets are composed of the following at August 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
United Way	\$ 339,899	\$ 213,548
Scholarships and Programs	2,168,330	2,295,746
Endowment Accumulated Earnings		
Not Appropriated for Distribution	3,932,087	3,896,563
Capital Campaigns	148,500	148,500
	<u>\$ 6,588,816</u>	<u>\$ 6,554,357</u>

Permanently restricted net assets consist of funds invested in perpetuity, income from which is used to fund various YMCA programs as specified by the donors. The amounts totaled \$1,599,460 at August 31, 2017 and December 31, 2016.

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NOTE 8 ENDOWMENT FUNDS

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

The YMCA 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 YMCA 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 YMCA'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 YMCA'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 YMCA'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.

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.

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NOTE 8 ENDOWMENT FUNDS (CONTINUED)

Donor-restricted endowment net asset composition by type of fund as of August 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Purpose:				
Building Maintenance	\$ -	\$ 34,638	\$ 151,137	\$ 185,775
Operations and Programs	2,294,635	3,896,470	1,331,385	7,522,490
International Programs	-	979	116,938	117,917
Total	<u>\$ 2,294,635</u>	<u>\$ 3,932,087</u>	<u>\$ 1,599,460</u>	<u>\$ 7,826,182</u>

Donor-restricted endowment net asset composition by type of fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Purpose:				
Building Maintenance	\$ -	\$ 28,792	\$ 151,137	\$ 179,929
Operations and Programs	2,294,635	3,866,792	1,331,385	7,492,812
International Programs	-	979	116,938	117,917
Total	<u>\$ 2,294,635</u>	<u>\$ 3,896,563</u>	<u>\$ 1,599,460</u>	<u>\$ 7,790,658</u>

Changes in endowment net assets were as follows for the period ended August 31, 2017 and year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at December 31, 2016	\$ 2,294,635	\$ 3,896,563	\$ 1,599,460	\$ 7,790,658
Investment Income	-	309,087	-	309,087
Change in Cash Surrender Value of Life Insurance	-	(36,557)	-	(36,557)
Contributions	-	5,014	-	5,014
Appropriation of Endowment Assets for Expenditure	-	(242,020)	-	(242,020)
Total Endowment Net Assets as August 31, 2017	<u>\$ 2,294,635</u>	<u>\$ 3,932,087</u>	<u>\$ 1,599,460</u>	<u>\$ 7,826,182</u>

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NOTE 9 RETIREMENT PLAN

The YMCA 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 YMCA 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 \$342,662 for the period ended August 31, 2017.

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 10 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 YMCA 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.

Letter of Credit

The YMCA utilizes one letter of credit to satisfy requirements of the Wisconsin Unemployment Reserve Fund in the amount of \$446,726 for the YMCA.

NOTE 11 SUBSEQUENT EVENTS

Management evaluated subsequent events through January 17, 2018, the date the financial statements were available to be issued. Events or transactions occurring after August 31, 2017, but prior to January 17, 2018 that provided additional evidence about conditions that existed at August 31, 2017, have been recognized in the financial statements for the year ended August 31, 2017. Events or transactions that provided evidence about conditions that did not exist at August 31, 2017 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended August 31, 2017.