



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

YMCA OF GREATER SEATTLE

December 31, 2018

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Report of Independent Auditors

To the Board of Directors
YMCA of Greater Seattle

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of YMCA of Greater Seattle (Y), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of YMCA of Greater Seattle as of December 31, 2018, 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.

Adoption of New Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in the year ending December 31, 2018, the Y adopted ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Correction of an Error

As discussed in Note 2 to the consolidated financial statements, the Y has restated its net assets as of January 1, 2017, to properly recognize net assets with donor restrictions. Our opinion is not modified with respect to this matter.

Other Matters***Report on Summarized Comparative Information***

We have previously audited YMCA of Greater Seattle's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The management report included in this document and the information on communities served and donated goods and services included in Note 1 of the consolidated financial statements are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Mess Adams LLP

Seattle, Washington
May 21, 2019

YMCA of Greater Seattle
Consolidated Statement of Financial Position – Assets
December 31, 2018

	<u>2018</u>	<u>2017</u> (Restated)
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,805,185	\$ 5,783,000
Accounts receivable, net	2,456,065	1,658,898
Pledges receivable, net	1,300,278	1,174,982
Prepaid expenses and other current assets	<u>865,742</u>	<u>838,436</u>
Total current assets	<u>8,427,270</u>	<u>9,455,316</u>
LONG-TERM ASSETS		
Restricted cash	705,000	680,000
Pledges receivable, noncurrent, net	8,679,514	13,637,210
Note receivable	4,238,000	-
Long-term investments	52,847,785	56,045,713
Split-interest agreements	959,123	1,130,877
Land, buildings, and equipment, net	153,131,365	143,972,511
Other long-term assets	<u>656,242</u>	<u>666,186</u>
Total long-term assets	<u>221,217,029</u>	<u>216,132,497</u>
Total assets	<u>\$ 229,644,299</u>	<u>\$ 225,587,813</u>

YMCA of Greater Seattle
Consolidated Statement of Financial Position – Liabilities and Net Assets
December 31, 2018

	2018	2017 (Restated)
CURRENT LIABILITIES		
Accounts payable	\$ 4,260,021	\$ 2,468,654
Accrued expenses	3,623,924	3,160,172
Deferred program revenue	3,996,144	3,398,401
Bonds payable, current	1,095,622	1,051,226
Other current liabilities	1,311,305	905,735
Total current liabilities	14,287,016	10,984,188
LONG-TERM LIABILITIES		
Liabilities under split-interest agreements	242,158	381,294
Interest rate swap agreements	10,751	192,675
Deferred program revenue, noncurrent	1,105,928	1,362,196
Capital leases	1,492,607	1,326,947
Line of credit	12,000,000	4,875,000
Bonds payable, noncurrent	25,148,410	26,282,942
Total long-term liabilities	39,999,854	34,421,054
Total liabilities	54,286,870	45,405,242
NET ASSETS		
Net assets without donor restrictions		
General and designated reserves	28,440,962	32,959,904
Debt service sinking fund	7,989,181	8,885,421
Invested in net fixed assets	83,479,590	74,491,757
Total net assets without donor restrictions	119,909,733	116,337,082
Net assets with donor restrictions	55,447,696	63,845,489
Total net assets	175,357,429	180,182,571
Total liabilities and net assets	\$ 229,644,299	\$ 225,587,813

YMCA of Greater Seattle
Consolidated Statement of Activities
Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without donor restrictions	With donor restrictions	2018 Total	2017 Total (Restated)
PUBLIC SUPPORT AND REVENUE				
Public support				
Contributions	\$ 7,059,178	\$ 3,016,198	\$ 10,075,376	\$ 13,539,390
Contributed assets	-	650,000	650,000	-
United Way	598,856	-	598,856	1,154,278
Total public support	<u>7,658,034</u>	<u>3,666,198</u>	<u>11,324,232</u>	<u>14,693,668</u>
Revenue				
Program, net	34,460,876	-	34,460,876	31,145,751
Membership, net	38,275,721	-	38,275,721	35,670,738
Government	13,367,833	-	13,367,833	13,050,631
Other	490,669	-	490,669	519,783
Total earned revenue	<u>86,595,099</u>	<u>-</u>	<u>86,595,099</u>	<u>80,386,903</u>
Net assets released from restrictions	<u>11,430,310</u>	<u>(11,430,310)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and reclassifications	<u>105,683,443</u>	<u>(7,764,112)</u>	<u>97,919,331</u>	<u>95,080,571</u>
EXPENSES				
Program services	83,115,311	-	83,115,311	78,020,066
Management and general	13,603,844	-	13,603,844	11,661,442
Fundraising	2,766,576	-	2,766,576	2,482,444
Total expenses	<u>99,485,731</u>	<u>-</u>	<u>99,485,731</u>	<u>92,163,952</u>
PUBLIC SUPPORT AND REVENUE IN EXCESS OF EXPENSES BEFORE OTHER INCOME AND LOSSES	<u>6,197,712</u>	<u>(7,764,112)</u>	<u>(1,566,400)</u>	<u>2,916,619</u>
OTHER INCOME AND LOSSES				
Investment return (loss), net	(2,783,209)	(628,837)	(3,412,046)	7,191,191
Gain (Loss) on sale of assets	4,000	-	4,000	(34,318)
Change in value of split-interest agreements	(27,776)	(4,844)	(32,620)	78,052
Change in value of interest rate swap agreements	181,924	-	181,924	197,931
Total other income and losses	<u>(2,625,061)</u>	<u>(633,681)</u>	<u>(3,258,742)</u>	<u>7,432,856</u>
CHANGE IN NET ASSETS	3,572,651	(8,397,793)	(4,825,142)	10,349,475
NET ASSETS				
Beginning of year - restated	<u>116,337,082</u>	<u>63,845,489</u>	<u>180,182,571</u>	<u>169,833,096</u>
End of year	<u>\$ 119,909,733</u>	<u>\$ 55,447,696</u>	<u>\$ 175,357,429</u>	<u>\$ 180,182,571</u>

YMCA of Greater Seattle
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Program Services				Support Services		2018 Total	2017 Total
	Youth Development	Healthy Living	Social Responsibility	Total Program Services	Management and General	Fundraising		
Salaries	\$ 14,690,648	\$ 19,957,782	\$ 6,869,026	\$ 41,517,456	\$ 5,974,939	\$ 1,442,018	\$ 48,934,413	\$ 46,442,635
Employee health and retirement benefits	2,080,349	2,561,202	1,424,333	6,065,884	891,190	255,490	7,212,564	6,383,753
Payroll taxes	1,422,225	1,912,512	643,656	3,978,393	478,142	119,449	4,575,984	4,081,767
Subtotal	<u>18,193,222</u>	<u>24,431,496</u>	<u>8,937,015</u>	<u>51,561,733</u>	<u>7,344,271</u>	<u>1,816,957</u>	<u>60,722,961</u>	<u>56,908,155</u>
Supplies	3,222,945	2,838,949	1,106,556	7,168,450	839,997	100,667	8,109,114	7,543,584
Occupancy	2,342,889	3,850,112	1,004,517	7,197,518	78,931	8,443	7,284,892	7,050,449
Depreciation and amortization	1,762,780	4,112,428	732,191	6,607,399	1,217,308	-	7,824,707	7,045,964
Professional fees and contract services	1,672,576	1,626,985	547,408	3,846,969	1,101,129	248,097	5,196,195	4,471,633
Public relations	64,178	221,145	13,892	299,215	1,047,569	492,283	1,839,067	1,601,880
Transportation and travel	1,169,199	384,816	285,902	1,839,917	211,920	63,740	2,115,577	1,792,845
Equipment rental and maintenance	346,880	527,526	101,654	976,060	472,723	1,627	1,450,410	1,116,969
Interest	248,359	580,153	82,114	910,626	623	-	911,249	818,452
Conferences and training	149,323	156,926	121,140	427,389	483,661	24,584	935,634	870,777
Telephone	123,782	134,074	141,162	399,018	440,708	2,419	842,145	784,634
Agency dues	160,866	346,963	52,092	559,921	83,446	4,579	647,946	591,810
Other	63,395	133,113	73,393	269,901	255,558	3,180	528,639	405,432
Specific assistance	84	-	1,051,111	1,051,195	26,000	-	1,077,195	1,161,368
Total expenses	<u>\$ 29,520,478</u>	<u>\$ 39,344,686</u>	<u>\$ 14,250,147</u>	<u>\$ 83,115,311</u>	<u>\$ 13,603,844</u>	<u>\$ 2,766,576</u>	<u>\$ 99,485,731</u>	<u>\$ 92,163,952</u>
Allocation Percentage	29.67%	39.55%	14.32%	83.54%	13.67%	2.79%	100.00%	

YMCA of Greater Seattle
Consolidated Statement of Cash Flows
Year Ended December 31, 2018

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,825,142)	\$ 10,349,475
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items included in change in net assets		
Depreciation	7,824,707	7,045,963
Net realized and unrealized loss (gain) on investments	5,131,267	(5,954,433)
(Gain) Loss on disposal of fixed assets	(4,000)	34,318
Noncash change in value of split-interest agreements	32,618	(78,052)
Change in allowance for doubtful accounts	75,066	-
Change in discount and allowance for uncollectable pledges	277,358	(681,667)
Change in value in interest rate swap agreements	(181,924)	(197,931)
Contribution of land	(650,000)	-
Contributions restricted for long-term purposes	(7,837,301)	(11,274,122)
Change in operating accounts		
Accounts receivable	(872,233)	664,251
Pledges receivable	4,555,042	4,756,785
Prepaid expenses and other current assets	(27,306)	11,374
Other long-term assets	9,944	9,942
Accounts payable and accrued expenses	2,255,119	(1,613,968)
Other liabilities	<u>423,370</u>	<u>(52,467)</u>
Net cash provided by operating activities	<u>6,186,585</u>	<u>3,019,468</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(25,000)	495,000
Purchase of assets to be repaid by note receivable	(4,238,000)	-
Purchases of land, buildings and equipment	(15,659,711)	(7,124,718)
Proceeds from sale of land, buildings and equipment	-	8,892
Proceeds from lease incentive obligation	400,000	-
Purchases of investments	(10,982,353)	(20,692,302)
Proceeds from sale or maturity of investments	<u>9,049,014</u>	<u>19,119,387</u>
Net cash used in investing activities	<u>(21,456,050)</u>	<u>(8,193,741)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds payable and capital leases	(1,670,651)	(1,455,614)
Borrowings on line of credit	15,000,000	-
Principal payments on line of credit	(7,875,000)	(3,779,000)
Proceeds from contributions restricted for endowment	283,951	304,836
Proceeds from contributions restricted for capital campaign	<u>7,553,350</u>	<u>10,969,286</u>
Net cash provided by financing activities	<u>13,291,650</u>	<u>6,039,508</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1,977,815)</u>	<u>865,235</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>5,783,000</u>	<u>4,917,765</u>
End of year	<u>\$ 3,805,185</u>	<u>\$ 5,783,000</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 833,372</u>	<u>\$ 821,100</u>
Equipment acquired through capital lease	<u>\$ 669,850</u>	<u>\$ 701,802</u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 1 – Background and Summary of Significant Accounting Policies

Description of organization – The Young Men's Christian Association of Greater Seattle (the Y), doing business as YMCA of Greater Seattle, is a not-for-profit Washington corporation and an association of men, women, and children of all ages from all walks of life who are joined together by a shared commitment to nurturing the potential of kids, promoting healthy living, and fostering a sense of social responsibility.

Nature of operations – The Y serves residents of King County and south Snohomish County, Washington. The Y derives its revenues from participant fees, membership dues, government contracts and grants, contributions, and miscellaneous sources. The Y's programs focus on Youth Development – nurturing of the potential of every child and teen; Healthy Living – improving the health and well-being of our communities; and Social Responsibility – giving back to our community and supporting our neighbors in need.

Principles of consolidation – The accompanying consolidated financial statements as of December 31, 2018, include the accounts of YMCA of Greater Seattle and its wholly owned subsidiary, the 909 4th YMCA Limited Partnership. All significant intercompany accounts and transactions have been eliminated.

Adoption of new accounting principle – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Y has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements in accordance with the updated accounting principles. The primary impact is the reclassification of net assets and inclusion of liquidity disclosure.

Communities served (unaudited) – The Y served 228,499 people during 2018 and engaged 15,820 volunteers who contributed 222,823 hours of service.

Basis of presentation – The Y's consolidated financial statements are presented on the accrual basis of accounting. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Y and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that will be met by action of the Y and/or the passage of time, or in perpetuity. Generally, the donors of these assets permit the Y to use all or part of the income and gains earned on related investment for general or specific purposes.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 1 – Background and Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – For reporting purposes, the Y considers all investments in highly liquid debt instruments with a purchased maturity of three months or less, other than those held in the combined investment portfolio, to be cash equivalents.

Restricted cash represents cash restricted for self-insurance purposes, which totaled \$705,000 and \$680,000 as of December 31, 2018 and 2017, respectively.

Income tax – The Y is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Y recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Y recognizes interest and penalties related to income tax matters in income tax expense. As of December 31, 2018 and 2017, the Y is not aware of any uncertain tax positions requiring accrual.

Fair value of financial instruments – Financial instruments reported at fair value on a recurring basis include investments, assets held under split-interest agreements, and interest rate swap agreements. Financial instruments not reported at fair value on a recurring basis include receivables, payables, deferred revenues, and bonds payable. The carrying amounts of these financial instruments approximate fair value.

Investments – All investments are initially recorded at acquisition cost if purchased or fair value if they were received as contributions. Investments in equity securities with readily determinable fair values and investments in debt securities are reported at fair value based on quoted market prices. All other investments, for which quoted market prices are not available, are also reported at estimated fair value based on valuations provided by the external investment managers and the management of the investees. The Y reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

The Y invests its excess cash and its endowment funds in debt instruments and securities with financial institutions and has established guidelines relative to diversification and maturities. Such amounts may be in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insurance amounts.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 1 – Background and Summary of Significant Accounting Policies (continued)

Capitalization and depreciation – Purchased land, buildings, and equipment are recorded at cost, and those received by donations are capitalized at their estimated fair values on the date received. Depreciation is accounted for on a straight-line method based upon the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings - new	40
Buildings and improvements	10-20
Leasehold asset	40
Leasehold improvements - lesser of lease term or useful life	Generally, 20
Furniture	7
Equipment	5
Vehicles	5-7
Leased equipment	4

Revenue recognition – Revenue from public support is recognized at the time an unconditional promise to give or transfer of assets is made. Cost reimbursement government grants are recognized as revenue in the period the qualifying allowable expenditures are incurred. Program revenue is recognized at the start of the program or when goods or services are provided by the Y. Membership revenue is recognized over the membership service period. For the year ended December 31, 2018, program and membership revenues were reported on the consolidated statement of activities net of financial aid and discounts, which were \$13,369,889 and \$3,824,232, respectively. For the year ended December 31, 2017, program and membership revenues were reported on the consolidated statement of activities net of financial aid and discounts, which were \$10,710,510 and \$3,828,029, respectively.

Pledges and accounts receivable – Receivable balances consist primarily of receivables from government agencies and pledged contributions from individuals, foundations, and major corporations. The Y considers all endowment and temporarily restricted capital pledges as long-term, regardless of due dates. Pledges and accounts receivable are stated at the amount the Y expects to collect from outstanding balances. The Y provides for probable uncollectible amounts through a charge to the statement of activities and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges or accounts receivable. Management has evaluated the balances in pledges and accounts receivable. A reserve has been provided for doubtful accounts sufficient to cover expected losses for uncollectible pledges (see Note 5) and accounts receivable. The reserve for uncollectible receivables was \$241,642 and \$166,576 as of December 31, 2018 and 2017, respectively.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 1 – Background and Summary of Significant Accounting Policies (continued)

Donated goods and services (unaudited) – Many volunteers and corporations have donated significant amounts of time and services to the Y's fund-raising campaigns, policy-making boards, and program operations. However, such contributed services do not meet the criteria for recognition of contributed services contained in accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, are not reflected in the accompanying consolidated financial statements. While the consolidated financial statements reflect a de minimus value for donated professional services, the Y estimates that 15,820 program and policy volunteers gave over 222,823 hours of policy, program, administrative and facility support services in 2018. If valued at an average of \$30.46 per hour (this hourly amount is suggested by the Independent Sector in Washington D.C., a not-for-profit that promotes volunteerism and philanthropy), this would result in a total value of contributed services of \$6,787,189.

Estimates – The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Actual results may differ from such estimates.

Allocation of functional expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on the benefits derived.

Vulnerability from certain concentrations – The Y may be vulnerable to loss of funding from various governmental agencies. Government funding accounted for 15.4% and 16.2% of earned revenue in 2018 and 2017, respectively. One contract/program through King County provided approximately \$3 million in revenue in 2018 and 2017, and represented 23% and 24% of government revenue, respectively. The receipt of governmental funding is subject to audit by various governmental agencies, the outcome of which is not known until the audits are completed. Management is aware of these risks and has contingency plans available.

Summarized information for prior year – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Y's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are issued. The Y recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Y's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued.

The Y has evaluated subsequent events through May 21, 2019, which is the date the consolidated financial statements were available for issuance and concluded that there were no events or transactions that need to be disclosed.

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 2 – Correction of Net Assets

The Y has restated its net assets as of January 1, 2017, to adjust the balances of both net assets with donor restrictions and net assets without donor restrictions for amounts that were incorrectly recorded as releases from net assets with donor restrictions related to two construction projects that occurred in fiscal year 2016. There was no impact to the total change in net assets for the year ended December 31, 2017. Additionally, information about the detail of net assets with donor restrictions in Note 14 has been restated to reflect these corrections. The adjustments to net assets are as follows:

	<u>As presented January 1, 2017</u>	<u>Correction</u>	<u>As Restated January 1, 2017</u>
Net assets without donor restrictions	\$ 121,553,058	\$ (11,868,811)	\$ 109,684,247
Net asset with donor restrictions	<u>48,280,038</u>	<u>11,868,811</u>	<u>60,148,849</u>
Total net assets	<u>\$ 169,833,096</u>	<u>\$ -</u>	<u>\$ 169,833,096</u>

Note 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the consolidated statement of financial position, are comprised of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,805,185	\$ 5,783,000
Accounts receivable, net	2,456,065	1,658,898
Pledges receivable, net	1,300,278	1,174,982
Investments (or Endowment), net of donor restrictions	<u>18,599,281</u>	<u>20,857,750</u>
	<u>\$ 26,160,809</u>	<u>\$ 29,474,630</u>

Investment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor restricted funds is restricted for specific purposes. Donor restricted funds are not available for general expenditure.

The board designated endowment of \$18,599,281 is subject to an annual spending rate of 5% as described in Note 15. Although we do not intend to spend from the board designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be available made available if necessary.

As part of the Y's liquidity management plan they invest cash in excess of daily requirements in short term investments, certificate of deposits, and money market funds. The Y also has access to a \$12,000,000 line of credit to deal with short term liquidity needs.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 4 – Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation techniques – Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices in active markets for identical assets or liabilities. Financial assets and liabilities valued using Level 2 inputs are based primarily on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities using Level 3 inputs were primarily valued using unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Valuation techniques utilized to determine fair value are consistently applied.

The 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, 2018 and 2017.

Money market – Money market funds are valued at cost plus accrued interest which approximates fair value.

Mutual funds – Mutual funds are valued at quoted market prices in active markets.

Split-interest agreements and beneficial interest held in trust – The assets held in split-interest agreements are valued based on market prices in active markets if the Y is the trustee, or based on estimates provided by third-party trustees.

Interest rate swap agreements – Interest rate swap agreements' values are derived from proprietary or other pricing models based on assumptions regarding past, present, and future market conditions.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certain investments that are measured at fair value using the net asset value per share (or the equivalent) have not been classified in the fair value hierarchy leveling. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 4 – Fair Value Measurements (continued)

Fair values measured on a recurring basis – Fair values of assets and liabilities measured on a recurring basis at December 31, 2018 were as follows:

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Money market	\$ 134,465	\$ -	\$ -	\$ 134,465
Mutual funds				
Fixed income	18,104,878	-	-	18,104,878
Large cap	17,212,979	-	-	17,212,979
Small cap	2,777,119	-	-	2,777,119
International	7,461,722	-	-	7,461,722
Exchange traded	1,004	-	-	1,004
Real estate	1,643,480	-	-	1,643,480
Global equity measured at net asset value	-	-	-	5,512,138
Split-interest agreements				
Money market	12,172	-	-	12,172
Equity mutual funds	316,132	-	-	316,132
Fixed income mutual funds	78,710	-	-	78,710
Other mutual funds	112,472	-	-	112,472
Beneficial interest held in trust	-	-	439,637	439,637
Total 2018 financial assets	<u>\$ 47,855,133</u>	<u>\$ -</u>	<u>\$ 439,637</u>	<u>\$ 53,806,908</u>
2018 financial liabilities				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,751</u>	<u>\$ 10,751</u>

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) is as follows:

	Split-Interest Agreements	Interest Rate Swap Agreements	Total (Level 3)
Balance at December 31, 2017	\$ 509,816	\$ (192,675)	\$ 317,141
Total gains (loss) realized/ unrealized included in change in net assets	<u>(70,179)</u>	<u>181,924</u>	<u>111,745</u>
Balance at December 31, 2018	<u>\$ 439,637</u>	<u>\$ (10,751)</u>	<u>\$ 428,886</u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 4 – Fair Value Measurements (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2017, were as follows:

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Money market	\$ 70,682	\$ -	\$ -	\$ 70,682
Mutual funds				
Fixed income	17,199,973	-	-	17,199,973
Large cap	18,384,046	-	-	18,384,046
Small cap	3,219,436	-	-	3,219,436
International	7,521,874	-	-	7,521,874
Exchange traded	66,481	-	-	66,481
Real estate	3,854,110	-	-	3,854,110
Global equity measured at net asset value	-	-	-	5,729,111
Split-interest agreements				
Money market	5,394	-	-	5,394
Equity mutual funds	384,889	-	-	384,889
Fixed income mutual funds	128,912	-	-	128,912
Other mutual funds	101,866	-	-	101,866
Beneficial interest held in trust	-	-	509,816	509,816
Total 2017 financial assets	<u>\$ 50,937,663</u>	<u>\$ -</u>	<u>\$ 509,816</u>	<u>\$ 57,176,590</u>
2017 financial liabilities				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,675</u>	<u>\$ 192,675</u>

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) is as follows:

	Split-Interest Agreements	Interest Rate Swap Agreements	Total (Level 3)
Balance at December 31, 2016	\$ 457,666	\$ (390,607)	\$ 67,059
Total gains (loss) realized/ unrealized included in change in net assets	<u>52,150</u>	<u>197,932</u>	<u>250,082</u>
Balance at December 31, 2017	<u>\$ 509,816</u>	<u>\$ (192,675)</u>	<u>\$ 317,141</u>

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 5 – Pledges Receivable

Pledges receivable were as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Pledges receivable expected to be collected in:		
Less than one year	\$ 8,243,418	\$ 7,658,820
One to five years	<u>3,546,993</u>	<u>8,686,632</u>
	11,790,411	16,345,452
Less allowance for uncollectible	(1,359,606)	(929,856)
Less unamortized discount	<u>(451,013)</u>	<u>(603,404)</u>
	9,979,792	14,812,192
Less current pledges receivable	<u>(1,300,278)</u>	<u>(1,174,982)</u>
	8,679,514	13,637,210
Total long-term pledges receivable	<u>\$ 8,679,514</u>	<u>\$ 13,637,210</u>

Long-term pledges include those pledges expected to be collected more than one year in the future, as well as those pledges restricted for long-term purposes such as endowments or fixed assets whose restrictions have not been met.

Pledges receivable are recorded as contributions based upon the net present value of the amounts expected to be collected. The five-year U.S. Treasury note rate was used to determine the present value for the long-term pledges receivable.

Note 6 – Long-Term Investments

Long-term investments were as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Money market	\$ 134,465	\$ 70,682
Mutual funds - equity	32,964,962	34,920,948
Mutual funds - fixed income	18,104,878	17,199,973
Mutual funds - other	<u>1,643,480</u>	<u>3,854,110</u>
	52,847,785	56,045,713
Total long-term investments	<u>\$ 52,847,785</u>	<u>\$ 56,045,713</u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 6 – Long-Term Investments (continued)

Investment income was as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 1,931,377	\$ 1,414,127
Realized and unrealized gains (losses)	(5,126,817)	5,980,002
Investment fees	<u>(216,606)</u>	<u>(202,938)</u>
Total investment return (loss), net	<u>\$ (3,412,046)</u>	<u>\$ 7,191,191</u>

Note 7 – Split-Interest Agreements

Perpetual trust – The Y is a one-third beneficiary of one trust held in perpetuity. The trust is administered by a financial institution. The trust provides for annual earnings distributions to the Y. The Y's interest in gains and losses in the value of the trust is recognized in the consolidated statement of activities as with donor restricted activities. The fair value of the Y's beneficial interest in the trust was \$416,524 and \$480,146 at December 31, 2018 and 2017, respectively.

Charitable remainder trust and charitable lead trust – During 2018 and 2017, the Y held a 100% beneficial interest in one charitable remainder unitrust. The unitrust provides a percentage of the net fair value of the trust, valued on the first day of each year, to be paid in a gift annuity. The annuity provides the donors a percentage of the original gift amount for the life of the donors. Upon the donors' deaths, the remainder goes to the Y. The trust provides for semi-annual payments, calculated as 8% of the net fair market value of the trust assets, valued as of the first day of each taxable year of the trust. The assets for this trust are reported at fair value of \$519,486 and \$621,061 at December 31, 2018 and 2017, respectively.

The liability to the donor is recorded at the present value of the estimated future payments expected to be distributed, discounted at a rate of 6%, which was \$242,158 and \$381,294 at December 31, 2018 and 2017, respectively.

The Y is also the beneficiary in an additional charitable remainder unitrust and charitable lead trust, both administered by investment brokerages. The fair value of the Y's beneficial interest in these trusts was \$23,114 and \$29,670 at December 31, 2018 and 2017, respectively.

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 8 – Land, Buildings, and Equipment

Land, buildings, and equipment were as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 15,142,875	\$ 14,669,749
Buildings and leasehold improvements	129,844,052	127,337,694
Leasehold asset	32,597,241	32,597,241
Furniture and equipment	20,479,699	18,784,042
Vehicles	3,106,575	2,713,146
Construction in progress	<u>13,208,329</u>	<u>2,091,343</u>
Total land, buildings and equipment without donor restriction	214,378,771	198,193,215
Less accumulated depreciation	<u>(62,365,019)</u>	<u>(55,607,732)</u>
Land, buildings and equipment without donor restriction, net	<u>152,013,752</u>	<u>142,585,483</u>
Donor-restricted furniture and equipment	206,058	206,058
Donor-restricted real estate - building	1,984,135	1,984,135
Donor-restricted real estate - land	<u>1,348,830</u>	<u>698,830</u>
Total donor restricted land, building and equipment	3,539,023	2,889,023
Less accumulated depreciation	<u>(2,421,410)</u>	<u>(1,501,995)</u>
Restricted land, buildings and equipment, net	<u>1,117,613</u>	<u>1,387,028</u>
Total land, buildings and equipment, net	<u>\$ 153,131,365</u>	<u>\$ 143,972,511</u>

The Y is the beneficiary of a large charitable contribution for the purpose of purchasing and operating group residential homes for former foster care youth. The donor has requested that the real estate purchased be restricted for use with the youth program and kept in perpetuity. Between 2001 and 2005, the Y purchased six homes, selling one in 2006, the proceeds of which were used to fund the same youth program. The homes are classified as with donor restricted real estate and are being depreciated. The land associated with these homes has been classified with donor restriction.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 8 – Land, Buildings, and Equipment (continued)

On April 29, 2013, the Y entered into an agreement with the City of Sammamish, whereby it would contribute approximately \$5 million toward the cost of construction on a new facility. In exchange, the Y would lease the facility, once complete, from the City at a rate of \$1 per year under an original 25-year lease. The lease also contains a provision allowing the Y to renew the lease for an additional 25-year period. At the inception date of the lease, the fair value of the building was estimated to be \$32,597,241. This amount, less the \$5,404,489, contributed by the Y was recognized in 2016 as a contribution and a leasehold asset. The contribution of the leasehold asset is reflected in the accompanying consolidated statements of financial position as a net asset with donor restrictions and is being released into net assets without donor restrictions over the estimated useful life of the building at 40 years. As of December 31, 2018 and 2017, the contribution that remains in net asset with donor restriction is \$25,379,902 and \$26,059,721, respectively. Amortization expense for the years ended December 31, 2018 and 2017 was \$814,931 and \$814,931, respectively. The agreement also includes the lease of 7 acres of land, owned by the Y to the City for \$1 per year, for 25 years with the option to renew for an additional 25 years.

On June 29, 2018 the Y entered into an agreement with the City of Kent, to fully fund construction of a new \$26 million YMCA facility, located on City park land (Morrill Meadows Park). The City donated one park parcel to the Y, appraised at \$650,000, subject to a reversionary interest in favor of the City should the Y ever stop operating the facility (once constructed) as a YMCA. This agreement will remain in effect for fifty years from its effective date and will automatically extend for additional five-year periods until the YMCA stops operating the Kent YMCA as a community center.

The Y also entered into an agreement with the City of Kent to construct certain improvements in the park surrounding the new Kent YMCA. The City entered into a 20 year agreement with the Y to allow the improvements to be used by the City of Kent. As of December 31 2018, a \$4,238,000 note receivable was recorded for the City of Kent, this is reflected in the accompanying consolidated statements of financial position.

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 9 – Deferred Program Revenue

Deferred program revenue was as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Current portion deferred revenue		
City of Auburn	\$ 107,460	\$ 107,460
City of Newcastle	22,255	22,255
City of SeaTac	51,552	51,552
King County	75,000	75,000
Membership and Program deferred revenue	3,279,274	2,476,503
Other deferred program revenue	<u>460,603</u>	<u>665,631</u>
	<u>3,996,144</u>	<u>3,398,401</u>
Long-term deferred revenue		
City of Auburn	371,962	486,840
City of Newcastle	-	14,838
City of SeaTac	502,687	554,239
King County	<u>231,279</u>	<u>306,279</u>
	<u>1,105,928</u>	<u>1,362,196</u>
	<u>\$ 5,102,072</u>	<u>\$ 4,760,597</u>

In 2003 and 2004, the Y entered into a series of agreements with the City of Auburn to provide specific services and access to its facilities over a 20-year period. The City of Auburn paid \$1,429,200 in 2003 and \$720,000 in 2004 as part of these agreements. These amounts are considered deferred revenue and will be recognized ratably over the 20-year periods ending in 2023 and 2024.

In 2004, the Y entered into an agreement with the City of Newcastle to provide specific services and access after the construction of a new facility in Newcastle. The City of Newcastle paid \$222,551 as part of this agreement. This amount is considered deferred revenue and will be recognized ratably over a 10-year period ending in 2019.

In 2006, the Y entered into an agreement with the City of SeaTac to provide specific services and access after the construction of a new facility in SeaTac. Upon completion of the facility in 2009, the City of SeaTac paid \$1,031,105 as part of this agreement. This amount is considered deferred revenue and will be recognized ratably over a 20-year period ending in 2029.

In 2007, the Y entered into an agreement with King County to provide specific services after the construction of a new facility in SeaTac. Upon completion of the facility in 2009, King County paid \$1,000,000 for Youth and program activities for the community in and around SeaTac. The \$250,000 and \$750,000 portions of this amount are considered deferred revenue and will be recognized ratably over a 10-year and 15-year period, respectively, ending in 2019 and 2024, respectively.

Other deferred program revenue consisted of funds received for childcare, membership, and other programs by the Y for services to be provided after December 31.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 10 – Line of Credit

The Y entered into a line of credit agreement with a financial institution in September 2015 for borrowings up to \$6,000,000. In September 2016, the Y modified the agreement, which increased the amount of the line to \$12,000,000. The line of credit is unsecured and matures on September 30, 2021. Interest expense for the line of credit was \$45,151 in 2018. The agreement also requires the Y to meet certain financial covenants, which the Y was in compliance with as of December 31, 2018 and 2017. At December 31, 2018 and 2017, the balance outstanding under the agreement was \$12,000,000 and \$4,875,000 respectively.

The Y entered into a non-revolving line of credit with a financial institution in October 2018 for borrowings up to \$8,500,000. This is primarily to fund construction of the new Kent YMCA scheduled to open September 2019. No interest was incurred in 2018 as no borrowings took place until 2019.

Note 11 – Bonds Payable

Bonds payable consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Variable Rate Demand Nonprofit Revenue Bonds, Series 2012, due August 1, 2037, interest payable monthly and principal payable annually in varying amounts, interest rate adjusted weekly but not to exceed a maximum rate of 10% per annum; interest rate averaged 2.12% and 1.65% in 2018 and 2017, respectively.	\$ 25,780,000	\$ 26,570,000
Fixed Rate Demand Nonprofit Revenue Bonds, Series 2013, due July 1, 2020, principal and interest payable monthly at \$26,276, interest rate of 2.42%.	<u>464,032</u>	<u>764,168</u>
Less bonds payable, current	<u>26,244,032</u> <u>(1,095,622)</u>	<u>27,334,168</u> <u>(1,051,226)</u>
Total bonds payable, noncurrent	<u>\$ 25,148,410</u>	<u>\$ 26,282,942</u>

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 11 – Bonds Payable (continued)

On September 1, 2007, the Washington State Housing Finance Commission issued Variable Rate Demand Nonprofit Revenue Bonds, Series 2007 of \$30,000,000 (the 2007 Bonds) and loaned the proceeds to the Y. The 2007 Bonds were issued with the purpose of providing funding to finance the construction, renovation, expansion, and equipping of program facilities. Effective August 1, 2012, the 2007 Bonds were refinanced with a private lender. As part of the refinance, the Washington State Housing Finance Commission issued Variable Rate Demand Nonprofit Revenue Bonds, Series 2012 (the 2012 Bonds) of \$30,000,000. The 2012 Bonds were then sold to a private lender. The 2012 Bonds are collateralized by a deed of trust on real property. The terms of the 2012 Bonds were not significantly changed from the 2007 Bonds. As such, this refinance was accounted for as a debt modification. Under the terms of the 2012 Bond agreement, the private lender has the right to call any remaining outstanding principal balance on September 1, 2017, 2022, 2027, and 2032. In April 2017, the Y amended its agreement with the private lender to change the private lender's call dates to May 1, 2024 and each May 1 thereafter. All other terms remained significantly the same.

On July 12, 2013, the Washington State Housing Finance Commission issued Fixed Rate Demand Nonprofit Revenue Bonds, Series 2013 of \$2,030,000 (the 2013 Bonds) and loaned the proceeds to the Y, which were used to pay back a \$2,000,000 line of credit with a bank. The 2013 Bonds were then sold to a private lender. The 2013 Bonds are collateralized by certain energy efficiency equipment that was purchased originally with the line of credit borrowings.

Principal maturities on the bonds are as follows for the year ending December 31:

2019	\$ 1,095,622
2020	1,076,070
2021	920,000
2022	970,000
2023	1,020,000
Thereafter	<u>21,162,340</u>
	<u>\$ 26,244,032</u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 12 – Interest Rate Swap Agreements

To minimize the effect of the change in the variable interest rate of outstanding bonds payable, the Y entered into four swap agreements, two in 2009 and two in 2017. Under the terms of the swap agreements, the Y pays the swap counterparties fixed amounts of interest over the term of the contracts and receives variable interest payments equal to 70% of LIBOR. Additional key terms of the agreements are as follows:

<u>Outstanding Notional</u>	<u>Trade Date</u>	<u>Effective Date</u>	<u>Swap Fixed Rate</u>	<u>Final Maturity Date</u>
\$ 5,000,000	6/17/2009	7/1/2009	3.045%	4/1/2019
\$ 5,000,000	8/1/2009	8/1/2009	2.780%	4/1/2019
\$ 25,780,000	4/28/2017	4/1/2019	2.120%	5/1/2024
\$ 15,780,000	4/28/2017	5/1/2017	1.495%	4/1/2019

As of December 31, 2018 and 2017, the net fair value of the swap agreements was a liability of \$10,751 and \$192,675, respectively, and the related unrealized gain/loss on the value of the swap agreement was included in the consolidated statement of activities.

Note 13 – Leases

In 2015, the Y entered into a master agreement with a financial institution for a \$2,000,000 equipment line of credit facility. As of December 31, 2018, the Y had ten lease schedules for equipment and buses under the agreement. The leases mature between April 2020 and December 2025, bear interest at rates between 2.27% and 4.64%, and are secured by the underlying equipment and buses. As of December 31, 2018 and 2017, the Y had total capital lease payables of \$1,992,038 and \$1,902,704, respectively. Amounts due in the next year of the capital lease payable are recorded in other current liabilities in the consolidated statement of financial position.

The future lease payments under all capital leases at December 31, 2018, are as follows:

For the Year Ending December 31,

2019	\$ 761,246
2020	623,972
2021	365,976
2022	169,782
2023	150,667
Thereafter	<u>66,153</u>
	2,137,796
Less amounts for interest	<u>145,760</u>
	<u><u>\$ 1,992,036</u></u>

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 13 – Leases (continued)

Certain operations of the Y are conducted in leased space in the Seattle area. The Y also leases copiers and other electronic equipment with future minimum commitments. Future minimum lease payments under all significant noncancelable operating leases at December 31, 2018 are as follows:

For the Year Ending December 31,

2019	\$ 568,840
2020	410,285
2021	292,047
2022	180,119
2023	162,630
Thereafter	<u>1,433,225</u>
	<u><u>\$ 3,047,146</u></u>

The Y also leases several spaces on a month-to-month basis for its programs. Payments on those leases are not included in the future minimum lease payments schedule above.

Note 14 – Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31 are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u> Restated
Subject to expenditure for specified purpose:		
Program activities:		
Camp reserves	\$ 226,651	\$ 203,066
Transitional houses	574,132	682,936
Transitions program support, charitable lead trust	13,845	18,687
Contribution of long-term asset	25,379,902	26,059,721
Buildings	<u>14,601,595</u>	<u>22,125,105</u>
	<u>40,796,125</u>	<u>49,089,515</u>
Subject to the passage of time:		
For periods after December 31, 2018	<u>2,098,938</u>	<u>2,126,458</u>
Subject to spending policy and appropriation:		
Endowment earnings for use in Y programming	<u>2,082,933</u>	<u>3,008,723</u>
Not subject to appropriation or expenditure:		
Land required for Transitional houses	698,830	698,830
Land contribution for Kent YMCA	650,000	-
Endowment donor restricted funds	<u>9,120,870</u>	<u>8,921,963</u>
	<u>10,469,700</u>	<u>9,620,793</u>
Total net assets with donor restrictions	<u><u>\$ 55,447,696</u></u>	<u><u>\$ 63,845,489</u></u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 14 – Net Assets with Donor Restrictions (continued)

Net assets with donor restrictions where restrictions were met by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished:		
Accelerator Program Expenses	\$ 531,709	\$ 676,227
Use of contributed long-term asset	679,819	589,744
Acquisition of buildings	8,855,332	4,719,496
	<u>10,066,860</u>	<u>5,985,467</u>
Time restrictions accomplished		
Passage of specified time	<u>899,010</u>	<u>1,188,267</u>
Release of appropriated endowment amounts with purpose restrictions		
	<u>464,440</u>	<u>446,529</u>
Total restrictions released	<u>\$ 11,430,310</u>	<u>\$ 7,620,263</u>

Note 15 – Endowments

The Y's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi endowment). As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Y's Board of Directors has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Y classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

As of December 31, 2018, endowment net assets consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 18,807,755	\$ -	\$ 18,807,755
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	(208,474)	8,045,137	7,836,663
Accumulated investment gains	<u>-</u>	<u>2,264,272</u>	<u>2,264,272</u>
Total Funds	<u>\$ 18,599,281</u>	<u>\$10,309,409</u>	<u>\$ 28,908,690</u>

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 15 – Endowments (continued)

As of December 31, 2017, endowment net assets consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 20,918,940	\$ -	\$ 20,918,940
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	(61,190)	8,045,137	7,983,947
Accumulated investment gains	<u>-</u>	<u>2,906,705</u>	<u>2,906,705</u>
Total Funds	<u>\$ 20,857,750</u>	<u>\$10,951,842</u>	<u>\$ 31,809,592</u>

Changes to endowment net assets for the year ended December 31, 2018, are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2017	\$ 20,857,750	\$ 10,951,842	\$ 31,809,592
Investment return (loss), net	(1,305,238)	(634,634)	(1,939,872)
Contributions and recollection of pledges	3,000	283,357	286,357
Recovery of underwater endowment	-	147,284	147,284
Appropriation of endowment for expenditure	<u>(956,231)</u>	<u>(438,440)</u>	<u>(1,394,671)</u>
Endowment net assets, December 31, 2018	<u>\$ 18,599,281</u>	<u>\$ 10,309,409</u>	<u>\$ 28,908,690</u>

Changes to endowment net assets for the year ended December 31, 2017, are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2016	\$ 18,824,183	\$ 9,817,627	\$ 28,641,810
Investment return, net	2,756,293	1,437,390	4,193,683
Contributions and recollection of pledges	140,000	189,033	329,033
Recovery of underwater endowment	66,679	(66,679)	-
Appropriation of endowment for expenditure	<u>(929,405)</u>	<u>(425,529)</u>	<u>(1,354,934)</u>
Endowment net assets, December 31, 2017	<u>\$ 20,857,750</u>	<u>\$ 10,951,842</u>	<u>\$ 31,809,592</u>

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Y to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in net assets without donor restrictions were \$(208,474) and (\$61,190) as of December 31, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations.

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Note 15 – Endowments (continued)

Return objectives and risk parameters – The Y has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Y must hold in perpetuity or for donor-specified periods as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a custom Policy Index made up of various indices. Actual returns in any given year may be positive or negative.

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

Spending policy and how the investment objectives relate to the spending policy – The Y has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 36 months through May of the calendar year preceding the year of distribution. In establishing this policy, the Y considered the long-term expected return on its endowment. Accordingly, over the long-term, the Y expects the current spending policy and expected rate of return to allow the endowment to maintain its inflation adjusted value. This is consistent with the Y's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 16 – Retirement Plans

The Y participates in YMCA Retirement Fund Retirement Plan (the Retirement Plan) which is a defined contribution, money purchase, church plan that is intended to satisfy the qualification requirements of Section 401(a) of the Internal Revenue Code, and YMCA Retirement Fund Tax-Deferred Savings Plan (the Savings Plan) which is a retirement income account plan as defined in section 403(b)(9) of the Internal Revenue Code. Both plans are sponsored by The Young Men's Christian Association Retirement Fund (Fund). The Fund is a not-for-profit, tax-exempt pension fund incorporated in the State of New York, organized and operated for the purpose of providing retirement and other benefits for employees of YMCAs throughout the United States.

The plans are operated as church pension plans. Participation is available to all duly organized and reorganized YMCAs and their eligible employees. Employees are eligible to participate in the Retirement Plan, upon attaining the age of 21, and upon completion of 1,000 hours of service during each of any two 12-month periods, beginning with their date of hire. Employees are eligible to participate in the Savings Plan upon their date of hire.

In accordance with the agreement with the Fund, the Y contributions are 12% of the participating employees' eligible salaries, and are remitted to the Fund monthly. Total Y retirement contributions charged to employee benefit expenses were \$2,544,185 and \$2,504,969 in 2018 and 2017, respectively.

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Note 17 – Conditional Pledges

The Y periodically receives pledges with donor specified conditions that require further action or performance by the Y. The Y recognizes contributions revenue on the consolidated statement of activities in the year these conditions are met. During 2018, the Y recognized contribution revenue for the following pledge as all conditions of the pledge were satisfied: \$1,200,000 for a housing program used exclusively for young adults transitioning out of foster care.

As of December 31, 2018, the Y has received conditional pledges for which donor-specified conditions have not been met and of which, \$11,000,000 is to be used for capital purchases and \$198,700 is to be used for the Foster Care Funding Collaborative.

