THE YOUNG MEN'S CHRISTIAN ASSOCIATION (YMCA) OF GREATER GRAND RAPIDS

FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

BeeneGarter LLP

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors
The Young Men's Christian Association (YMCA)
of Greater Grand Rapids
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of The YMCA of Greater Grand Rapids (YMCA), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditor's 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the YMCA as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2017, on our consideration of the YMCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the YMCA's internal control over financial reporting and compliance.

Beene Garter LLP

March 24, 2017
Grand Rapids, Michigan

FINANCIAL STATEMENTS

THE YMCA OF GREATER GRAND RAPIDS

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	**$ 6,606,469**	$ 5,382,469
Cash restricted for bond payments	**386,635**	881,498
Investments	**3,543,456**	2,430,654
Accounts and grants receivable, net of allowance for doubtful accounts of $36,832 and $59,577, respectively	**760,651**	914,641
Pledges receivable, net of allowance	**3,117,203**	7,955,366
Other assets	**568,138**	554,612
Property and equipment	**78,304,210**	79,751,960
Beneficial interest in perpetual trusts	**706,140**	703,526
TOTAL ASSETS	**$ 93,992,902**	$ 98,574,726
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	**$ 1,383,928**	$ 7,275,396
Deferred program and membership income	**848,763**	667,907
Notes payable		16,401,471
Obligation under interest rate swap	**154,452**	
Bonds payable, net of unamortized financing fees of $697,317 and $309,613, respectively	**45,952,683**	27,405,387
Deferred rent	**250,420**	387,012
TOTAL LIABILITIES	**48,590,246**	52,137,173
Net Assets		
Unrestricted	**42,403,961**	41,423,915
Temporarily restricted	**1,857,175**	3,878,168
Permanently restricted	**1,141,520**	1,135,470
TOTAL NET ASSETS	**45,402,656**	46,437,553
TOTAL LIABILITIES AND NET ASSETS	**$ 93,992,902**	$ 98,574,726

See accompanying notes

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support								
Contributions and grants	$ 5,191,956	$ 760,939	$ 3,436	$ 5,956,331	$ 4,781,175	$ 8,015,138	$ 1,398	$ 12,797,711
Membership fees	17,576,642			17,576,642	14,862,899			14,862,899
Program fees	8,475,389			8,475,389	7,787,294			7,787,294
Miscellaneous income	159,173			159,173	225,045			225,045
Gain on sale of property and equipment	1,120,981			1,120,981				
Investment income	144,558	65,166	2,614	212,338	10,766	(6,621)	(55,743)	(51,598)
Interest rate swap adjustment	(154,452)			(154,452)				
Loss on extinguishment of debt	(285,134)			(285,134)				
Net assets released from restrictions:								
Capitalized as property and equipment	49,372	(49,372)			12,017,901	(12,017,901)		
Other	2,797,726	(2,797,726)			2,597,414	(2,597,414)		
Total Revenues, Gains, and Other Support	35,076,211	(2,020,993)	6,050	33,061,268	42,282,494	(6,606,798)	(54,345)	35,621,351
Expenses								
Program services:								
Aquatic program	2,523,520			2,523,520	2,225,253			2,225,253
Camping program	1,445,789			1,445,789	1,404,499			1,404,499
Child care	8,339,460			8,339,460	7,273,035			7,273,035
Physical fitness and wellness	11,802,584			11,802,584	9,579,104			9,579,104
Healthy living	5,216,296			5,216,296	5,337,771			5,337,771
Total Program Services	29,327,649	-	-	29,327,649	25,819,662	-	-	25,819,662
Supporting services:								
Management and general	4,050,396			4,050,396	3,848,000			3,848,000
Fundraising	718,120			718,120	772,959			772,959
Total Supporting Services	4,768,516	-	-	4,768,516	4,620,959	-	-	4,620,959
Total Expenses	34,096,165	-	-	34,096,165	30,440,621	-	-	30,440,621
INCREASE (DECREASE) IN NET ASSETS	$ 980,046	$ (2,020,993)	$ 6,050	$ (1,034,897)	$ 11,841,873	$ (6,606,798)	$ (54,345)	$ 5,180,730
NET ASSETS AT BEGINNING OF YEAR	41,423,915	3,878,168	1,135,470	46,437,553	29,582,042	10,484,966	1,189,815	41,256,823
NET ASSETS AT END OF YEAR	$ 42,403,961	$ 1,857,175	$ 1,141,520	$ 45,402,656	$ 41,423,915	$ 3,878,168	$ 1,135,470	$ 46,437,553

See accompanying notes

THE YMCA OF GREATER GRAND RAPIDS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	PROGRAM SERVICES						SUPPORTING SERVICES		
	AQUATIC PROGRAMS	CAMPING PROGRAMS	CHILD CARE	PHYSICAL FITNESS & WELLNESS	HEALTHY LIVING	TOTAL	MANAGEMENT & GENERAL	FUND RAISING	TOTAL EXPENSES
SALARIES	$ 1,283,718	$ 615,822	$ 3,788,382	$ 5,457,624	$ 2,031,713	**$ 13,177,260**	$ 2,155,290	$ 540,264	**$ 15,872,813**
BENEFITS AND RELATED EXPENSES	204,847	137,072	728,697	820,127	399,214	**2,289,956**	471,321	65,109	**2,826,386**
PROFESSIONAL FEES	2,388	9,552	4,417	9,593	5,522	**31,472**	142,085	28,490	**202,048**
CONTRACTED SERVICES	108,653	34,800	308,315	428,780	139,647	**1,020,195**	227,976	120	**1,248,291**
SUPPLIES	80,309	116,099	372,081	673,784	150,217	**1,392,490**	42,369	8,176	**1,443,035**
FOOD		125,382	362,265	30,085	187,067	**704,799**	54		**704,854**
TELEPHONE, POSTAGE, SHIPPING	15,939	23,412	51,296	80,353	25,341	**196,341**	58,470	6,526	**261,337**
BANK SERVICE CHARGES	1,663	10,395	65,969	341,826	2,028	**421,881**	41,622		**463,503**
OCCUPANCY EXPENSES	192,692	64,453	512,260	768,370	117,285	**1,655,060**	19,278	1,568	**1,675,905**
DEPRECIATION	342,056	172,563	1,021,339	1,700,135	95,810	**3,331,904**	23,657	4,039	**3,359,600**
EQUIPMENT	8,040	4,614	36,304	36,195	5,509	**90,662**	10,749	82	**101,493**
OUTSIDE FACILITY RENTAL			136,960	65,265	11,580	**213,805**	11,855	463	**226,123**
REPAIR AND MAINT OF EQUIP AND BLD	64,719	41,741	214,682	307,677	38,802	**667,621**	171,420	1,104	**840,144**
ADVERTISING, PRINTING AND PUBLIC RELATIONS	773	2,472	1,330	13,198	15,184	**32,957**	453,985	4,809	**491,751**
INSURANCE	19,423	11,187	64,384	90,939	2,152	**188,085**	32,523	13,767	**234,375**
MEALS AND TRAVEL EXPENSES	3,997	9,343	18,041	25,745	51,811	**108,937**	24,846	3,015	**136,798**
MEETING AND CONFERENCE EXPENSES	10,825	11,164	36,841	28,416	32,165	**119,410**	103,894	17,489	**240,792**
PAYMENTS TO AFFILIATED ORGANIZATIONS	33,386	19,229	110,668	156,313	605	**320,199**	55,903	9,545	**385,648**
VEHICLE EXPENSES	2,595	34,628	57,711	6,135	3,359	**104,429**	2,896		**107,325**
BAD DEBT EXPENSE	(759)	1,864	(4,869)	(1,669)	420	**(5,013)**		13,518	**8,505**
INTEREST & RELATED EXPENSES	148,256		452,387	763,693	16,825	**1,381,161**			**1,381,161**
GRANTS TO OTHERS					1,884,038	**1,884,038**	203	35	**1,884,275**
TOTAL EXPENSE	**$ 2,523,520**	**$ 1,445,789**	**$ 8,339,460**	**$ 11,802,584**	**$ 5,216,296**	**$ 29,327,649**	**$ 4,050,396**	**$ 718,120**	**$ 34,096,165**

See accompanying notes

BeeneGarter LLP

THE YMCA OF GREATER GRAND RAPIDS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	PROGRAM SERVICES						SUPPORTING SERVICES		
	AQUATIC PROGRAMS	CAMPING PROGRAMS	CHILD CARE	PHYSICAL FITNESS & WELLNESS	HEALTHY LIVING	TOTAL	MANAGEMENT & GENERAL	FUND RAISING	TOTAL EXPENSES
SALARIES	$ 1,215,317	$ 587,206	$ 3,242,830	$ 4,349,949	$ 2,037,685	**$ 11,432,987**	$ 2,039,912	$ 649,346	**$ 14,122,245**
BENEFITS AND RELATED EXPENSES	203,816	134,288	696,509	749,735	387,395	**2,171,744**	530,785	41,582	**2,744,110**
PROFESSIONAL FEES	1,645	23,837	4,933	8,100	15,963	**54,479**	91,372	6,743	**152,594**
CONTRACTED SERVICES	52,547	26,401	206,407	303,189	176,532	**765,076**	202,971		**968,047**
SUPPLIES	87,178	103,899	345,249	629,901	266,193	**1,432,421**	46,814	6,930	**1,486,165**
FOOD	3	134,358	325,948	4,476	258,954	**723,738**			**723,738**
TELEPHONE, POSTAGE, SHIPPING	13,950	23,262	47,088	70,459	28,351	**183,109**	63,236	4,197	**250,542**
BANK SERVICE CHARGES	1,551	11,533	53,873	268,600	21,605	**357,162**	42,464		**399,626**
OCCUPANCY EXPENSES	164,539	68,553	525,474	726,821	39,329	**1,524,716**	17,968	2,130	**1,544,813**
DEPRECIATION	259,296	159,802	839,962	1,272,957	123,880	**2,655,897**	23,335	4,687	**2,683,920**
EQUIPMENT	12,234	4,798	65,242	69,456	18,199	**169,928**	5,405	313	**175,646**
OUTSIDE FACILITY RENTAL		1,047	119,729	81,781	16,469	**219,026**	2,882	579	**222,488**
REPAIR AND MAINT OF EQUIP AND BLD	65,561	33,897	242,840	337,780	30,176	**710,254**	172,642		**882,896**
ADVERTISING, PRINTING AND PUBLIC RELATIONS	10,791	927	29,202	72,737	51,589	**165,246**	449,014	9,257	**623,517**
INSURANCE	13,032	8,270	42,868	56,362	36,156	**156,689**	22,777	12,197	**191,662**
MEALS AND TRAVEL EXPENSES	4,244	6,889	18,877	25,306	43,939	**99,256**	23,981	3,301	**126,538**
MEETING AND CONFERENCE EXPENSES	11,846	14,438	46,049	23,446	67,794	**163,573**	69,758	17,594	**250,925**
PAYMENTS TO AFFILIATED ORGANIZATIONS	23,380	14,838	76,907	101,117	61,479	**277,721**	40,863	8,208	**326,793**
VEHICLE EXPENSES	6,178	42,740	51,806	13,703	13,589	**128,016**	1,489		**129,505**
BAD DEBT EXPENSE	5,747	3,517	16,296	24,480	4,295	**54,336**		5,895	**60,231**
INTEREST & RELATED EXPENSES	72,359		274,779	388,719	17,797	**753,654**			**753,654**
GRANTS TO OTHERS					1,593,752	**1,593,752**			**1,593,752**
OTHER	39		166	29	26,649	**26,883**	331		**27,214**
TOTAL EXPENSE	**$ 2,225,253**	**$ 1,404,499**	**$ 7,273,035**	**$ 9,579,104**	**$ 5,337,771**	**$ 25,819,662**	**$ 3,848,000**	**$ 772,959**	**$ 30,440,621**

See accompanying notes

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Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (1,034,897)	$ 5,180,730
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization	3,359,600	2,683,920
Amortization of financing fees included in interest expense	24,478	29,069
Interest rate swap adjustment	154,452	
Donated property and equipment	(119,797)	(72,087)
Deferred rent amortization	(136,592)	(136,593)
Contributions restricted for capital purposes	(555,616)	(4,371,100)
Change in discount on pledges		(25,132)
Provision for doubtful accounts and pledges receivable	8,505	60,231
(Gain) loss on sale of property and equipment	(1,120,981)	5,994
Loss on extinguishment of debt	285,134	
Net realized and unrealized loss (gain) on investments	(170,582)	68,850
Unrealized (gain) loss from beneficial interest in perpetual trust	(2,614)	55,743
Change in operating assets and liabilities		
Accounts receivable	85,366	(313,318)
Pledges receivable	1,847,282	(610,302)
Other assets	(13,526)	86,794
Accounts payable and accrued expenses	30,903	375,033
Deferred program and membership income	180,856	49,207
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,821,971	3,067,039
Cash Flows from Investing Activities		
Proceeds from sale of investments	322,421	700,359
Purchase of investments	(1,264,641)	(599,494)
Additions to property and equipment	(8,697,613)	(18,342,877)
Financing fees paid		(151,618)
Proceeds from sale of property and equipment	2,104,171	8,952
NET CASH USED IN INVESTING ACTIVITIES	(7,535,662)	(18,384,678)

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Financing Activities		
Repayments on notes payable	$ (21,468,569)	$ (429,000)
Repayments on line of credit		(3,000,000)
Proceeds from construction loan payable	5,067,098	15,900,971
Principal payments on bonds payable	(27,715,000)	(1,115,000)
Proceeds from bonds payable	46,650,000	
Financing fees paid	(697,317)	
Proceeds from contributions restricted for capital purposes	3,606,616	5,196,192
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,442,828	16,553,163
NET INCREASE IN CASH AND CASH EQUIVALENTS	729,137	1,235,524
Cash and Cash Equivalents at Beginning of Year	6,263,967	5,028,443
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,993,104	$ 6,263,967
Supplemental Information		
Cash paid for interest expense (including capitalized interest of $161,210 in 2015)	$ 791,539	$ 218,194
Non-Cash Transactions		
Property and equipment included in accounts payable	$ 140,138	$ 6,062,509

See accompanying notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The YMCA of Greater Grand Rapids (Y) strives to be West Michigan's leading nonprofit strengthening communities through youth development, healthy living, and social responsibility. Through our seven branch locations, YMCA Camp Manitou-Lin, Child Development Centers and child care programs, and over 100 community program sites, the Y is committed to improving the health and well-being of children, individuals, and families throughout our community.

With a mission to put Christian principles into practice through programs that build a healthy spirit, mind, and body for all, our impact is felt when an individual makes a healthy choice, when a mentor inspires a child and when a community comes together for the common good.

Financial Statement Presentation

The Y reports information regarding its financial position and activities as unrestricted, temporarily restricted, or permanently restricted depending on the nature of any donor imposed restrictions on contributions received.

Descriptions of the asset classes are as follows:

- Unrestricted – Represent contributions that have not been restricted by donors or any donor-imposed restrictions have expired.
- Temporarily restricted – Represent contributions that contain donor-imposed restrictions that require the Y to use or expend the assets as specified. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions when the restrictions are satisfied either by the passage of time or by actions of the Y. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Y reports the support as unrestricted.
- Permanently restricted – Represent contributions that contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Y to use or expend part or all of the income derived from the donated assets for specified purposes. Investment earnings distributed are recorded in unrestricted net assets.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and on deposit as well as highly liquid investments purchased with a maturity of three months or less.

The Y places its cash with federally insured financial institutions. The Y had cash balances that exceeded the federally insured limits at December 31, 2016 and 2015 and throughout the year.

Cash restricted for long-term purposes was $2,369,772 and $1,849,656 at December 31, 2016 and 2015, respectively.

Investments

Investments are reported at fair value, as disclosed in Note 2. Realized and unrealized gains and losses are presented in the statement of activities as a change in unrestricted net assets unless designated as temporarily restricted by the donor. Investments received as donations are recorded initially at fair value on the date of receipt.

Fair Value Measurements and Disclosures

U.S. generally accepted accounting principles establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Y utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Accounts and Grants Receivable

Trade accounts receivable and fee for service grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings 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 accounts receivable.

Fee for service grant revenue is recognized under the terms of each grant, typically when expenditures are made or service is provided.

Pledges Receivable

Unconditional pledges receivable are recognized as revenue in the period the pledge is made and as assets, decreases of liabilities or expenses depending on the form of the benefits to be received. Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings 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 promises to give. Bad debt expense of $8,505 and $60,231 is included on the statement of activities for the years ended December 31, 2016 and 2015, respectively.

Unconditional pledges expected to be collected in periods in excess of one year are recognized at the discounted net present value of the estimated future cash flows at the time the pledge is received using discount rates that approximate U.S. Treasury rates in effect at the time the pledge revenues are recognized. The change in the present value due to the passage of time is recognized as contribution revenue. Management annually reviews these assets to determine the net realizable value of the pledge (see Note 3).

Property and Equipment and Depreciation

Property and equipment are recorded at cost or, if donated, at the fair market value on the date of the gift. Donations of property and equipment are recorded as support at estimated fair value at the time received. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Y reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews assets to determine whether carrying values have been impaired. The Y capitalizes, at cost, all expenditures for fixed assets in excess of $1,500, including bulk purchases. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range generally from 3 to 40 years, except for equipment acquired by federal grant funds, which are depreciated over the term of the grant.

Capitalized Interest

Interest costs related to borrowings necessary for the completion of new facilities are capitalized during the construction period, and are subsequently depreciated over the estimated useful life of the facility.

Deferred Income

The Y records unearned revenues from membership and programs as deferred income. These revenues are recognized on a straight-line basis over the life of the membership or program. The Y also records unearned revenues for funds received from reimbursable grant agreements prior to the expenditure of grant funds. Revenue is recognized as funds are expended.

Derivative Instruments

The Y uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. Material gain or loss on the effective portion of the hedge is included in the statement of activities. The Y documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Y's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-risk debt to a fixed rate. The Y does not use derivative instruments for speculative purposes.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor restricted contributions are reported as restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions. If the restriction will be met in the same reporting period, the support will be recorded as unrestricted. Contributions are reported as revenue at the time the contribution is promised. Special events revenue of $508,145 and $376,839 net of direct expenses of $128,585 and $98,331 has been included in contributions and grants on the statement of activities for the years ended December 31, 2016 and 2015, respectively.

Donated Services

Each year numerous volunteers donate a significant amount of time supporting the Y's programs and activities. Management estimates that volunteers contributed approximately 48,000 hours of service for the years ended December 31, 2016 and 2015. These contributions, although clearly substantial, are not recognized as contributions in the financial statements since the recognition criteria were not met.

Functional Allocation of Expenses

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

Income Taxes

The Internal Revenue Service has determined the Y is exempt from income taxes under provisions of Code Section 501(c)(3). In addition, the Y qualifies for charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Tax positions taken are assessed for uncertainty and a provision may be recorded if a tax position is not likely to be sustained upon examination.

Advertising

The Y expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2016 and 2015 were $491,751 and $623,517, respectively.

Subsequent Events

Management has evaluated significant events or transactions occurring subsequent to December 31, 2016 for potential recognition or disclosure in these financial statements. The evaluation was performed through March 24, 2017, the date the financial statements were available for issuance. A subsequent event is disclosed in Note 5.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. It is at least reasonably possible that the estimates used in calculating the accounts receivable and pledge receivable allowances could change over the course of the next year.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The main provisions of this pronouncement include:

Two categories of net assets: net assets with donor restrictions and net assets without donor restrictions (versus the previous three categories)

Provide enhanced disclosures on board designated funds

Changes in accounting for underwater endowment funds

Requirement for all types of nonprofit organizations to report expenses by both their natural classification and their functional classification (previously only voluntary health and welfare organizations had this requirement)

New requirement to present both qualitative information on how the organization manages liquid resources and quantitative information that identifies assets available to meet cash needs for general operating expenditures within one year of the statement of financial position date

The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact on its financial statements.

In May 2014 and in subsequent amendments, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09 which amended the Revenue from Contracts with Customers (Topic 606) of the Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Organization for annual periods beginning after December 15, 2018. The Organization is currently evaluating the impact on its financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires organizations to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective for annual periods beginning after December 15, 2019. The Organization is currently evaluating the impact this guidance will have on the Organization's financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis are as follows at December 31:

	2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents	$ 1,105,927	$ 1,105,927	$ -	$ -
Equities				
Financial	33,400	33,400		
Mutual Funds				
Large Blend	1,191,775	1,191,775		
Small Blend	92,276	92,276		
Small Growth	91,200	91,200		
Foreign Large Blend	63,982	63,982		
Foreign Small/Mid Growth	41,012	41,012		
Short-Term Bond	316,041	316,041		
Intermediate-Term Bond	202,357	202,357		
Mid-Cap Growth	164,012	164,012		
Diversified Emerging Mkts	35,421	35,421		
Bonds				
Corporate Bonds	206,053	206,053		
Total investments	3,543,456	3,543,456	-	-
Pledges receivable, net of allowance	3,117,203		3,117,203	
Beneficial Interest in Perpetual Trust	706,140			706,140
	$ 7,366,799	$ 3,543,456	$ 3,117,203	$ 706,140

	2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities				
Financial	$ 28,650	$ 28,650	$ -	$ -
Mutual Funds				
Large Blend	1,210,782	1,210,782		
Small Blend	78,729	78,729		
Small Growth	80,802	80,802		
Foreign Large Blend	63,648	63,648		
Foreign Small/Mid Growth	47,641	47,641		
Short-Term Bond	284,417	284,417		
Intermediate-Term Bond	188,047	188,047		
Mid-Cap Growth	159,695	159,695		
Diversified Emerging Mkts	28,097	28,097		
Bonds				
Corporate Bonds	260,146	260,146		
Total investments	2,430,654	2,430,654	-	-
Pledges receivable, net of allowance	7,955,366		7,955,366	
Beneficial Interest in Perpetual Trust	703,526			703,526
	$ 11,089,546	$ 2,430,654	$ 7,955,366	$ 703,526

Fair values for investments and beneficial interest in perpetual trusts are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the pledges receivable, net of allowance, is determined by calculating the present value of the pledges using discount rates that approximate U.S. Treasury rates that coincide with the years that future pledges are expected to be received.

Following is a reconciliation of activity for assets measured at fair value based on significant unobservable (Level 3) information:

	2016	2015
Balance, beginning of year	**$ 703,526**	$ 759,269
Net unrealized gain (loss) from perpetual trusts	**2,614**	(55,743)
Balance, end of year	**$ 706,140**	$ 703,526

NOTE 3 - PLEDGES RECEIVABLE

Unconditional pledges receivable are summarized as follows at December 31:

	2016	2015
Receivable in less than one year	**$ 1,884,030**	$ 5,814,923
Receivable in one to five years	**1,450,090**	2,424,398
Less allowance for doubtful pledges	**(216,917)**	(283,955)
Net Unconditional Pledges Receivable	**$ 3,117,203**	$ 7,955,366

Pledges from the two largest donors comprise approximately 30% of gross pledges receivable at December 31, 2016, and two different donors comprise approximately 29% of gross pledges receivable at December 31, 2015.

The discount to present value for long-term pledges receivable is not material to record for the years ended December 31, 2016 and 2015.

NOTE 4 - PROPERTY AND EQUIPMENT

Major classes of property and equipment at December 31 consist of the following:

	2016	2015
Land	**$ 10,463,111**	$ 10,526,815
Land improvements	**402,704**	426,873
Buildings and leasehold improvements	**80,128,078**	80,467,282
Equipment	**12,064,507**	12,208,477
Construction in progress	**195,908**	85,632
Total Property and Equipment	**103,254,308**	103,715,079
Less accumulated depreciation	**(24,950,098)**	(23,963,119)
NET PROPERTY AND EQUIPMENT	**$ 78,304,210**	$ 79,751,960

NOTE 5 - NOTES PAYABLE

At December 31, 2015, the Y had $500,500 of borrowings outstanding on a $2,515,000 term loan with four participating banks, with interest at LIBOR plus 300 basis points (applicable interest rate of 3.43% at December 31, 2015). This loan was paid in full during 2016.

At December 31, 2015, the Y had $15,900,971 of borrowings outstanding on a $26,000,000 construction loan with four participating banks, with interest at LIBOR plus 250 basis points (applicable interest rate of 2.93% at December 31, 2015). This loan was paid in full during 2016.

Subsequent to December 31, 2016, the Y modified a $750,000 revolving credit note available to be drawn upon as needed for working capital, machinery and equipment and construction. The revised terms of the unsecured note include interest at LIBOR plus 300 basis points (applicable interest rate of 3.77% and 3.43% at December 31, 2016 and December 31, 2015 respectively). There were no borrowings outstanding on the revolving credit note at December 31, 2016 or 2015.

NOTE 6 - BONDS PAYABLE

During November 2016, the Y refinanced the 2004, 2005 and 2010 revenue bonds and construction loan. The new 2016 Bond Series were issued through the Michigan Strategic Fund administered through a Master Trustee and sold as multi-modal limited obligation revenue and revenue refunding bonds purchased by three sophisticated investors. The bonds bear interest at variable rates and are secured by their respective pro-rata interests in a Master Indenture, which is secured by a mortgage on a majority of real property, personal property, and capital campaign pledge receivables. Principal and interest is payable in monthly installments throughout the life of the bonds.

Bonds payable at December 31 consist of the following issues:

	2016	2015
$25,000,000 - 2016 multi-modal limited obligation revenue and revenue refunding bond issued with a variable interest rate of 65% of Libor + 1.24% (effective rate of 1.63% at December 31, 2016), due in monthly installments ranging from $43,500 to $110,500 through November 2031	**$ 25,000,000**	
$9,225,000 - 2016 multi-modal limited obligation revenue and revenue refunding bond issued with a variable interest rate of 67% of Libor + 1.41% (effective rate of 1.92% at December 31, 2016), due in monthly installments ranging from $19,500 to $37,500 through November 2026	**9,225,000**	
$9,225,000 - 2016 multi-modal limited obligation revenue and revenue refunding bond issued with a variable interest rate of 67% of Libor + 1.31% (effective rate of 1.73% at December 31, 2016), due in monthly installments ranging from $19,500 to $37,500 through November 2026	**9,225,000**	
$3,200,000 - 2016 multi-modal limited obligation revenue bond issued with a variable interest rate of 67% of Libor + 1.01% (effective rate of 1.52% at December 31, 2016), with monthly payments of interest only to the due date November 2019. The Y anticipates periodic principal payments based on collection of certain campaign pledges	**3,200,000**	
$16,000,000 - 2010 demand limited obligation revenue bond issued with a variable interest rate of .02% at December 31, 2015, due in varying annual installments. These bonds were redeemed in 2016		13,100,000
$15,500,000 - 2004 demand limited obligation revenue bond issued with a variable interest rate of .02% at December 31, 2015, due in varying annual installments. These bonds were redeemed in 2016		10,930,000
$5,000,000 - 2005 demand limited obligation revenue bond issued with a variable interest rate of .02% at December 31, 2015, due in varying annual installments. These bonds were redeemed in 2016		3,685,000
	46,650,000	27,715,000
Less: Unamortized financing fees	**(697,317)**	(309,613)
	$ 45,952,683	$ 27,405,387

Future maturities of bonds payable for years ending after December 31, 2016 are as follows:

Years ending December 31:

2017	$ 1,188,000
2018	1,327,000
2019	4,598,500
2020	1,475,000
2021	1,535,500
Thereafter	36,526,000
	$ 46,650,000

During November 2016, to minimize the effect of changes in the variable rate, the Y entered into two interest rate swap contracts with the bank in order to pay a synthetic fixed rate on 73% of the new bond financing. The notional amounts of the swaps for the Y are $24,942,000 and $9,204,000 as of December 31, 2016. The interest rate swap agreements terminate on November 1, 2031 and November 1, 2026, respectively. The Y is exposed to credit loss in the event of nonperformance by the bank to the interest rate swap agreement. However, the Y does not anticipate nonperformance.

The carrying amount of the interest rate swap contracts are measured at fair value on a recurring basis and are considered Level 2 in the fair value hierarchy. In determining the fair value of the obligation under the interest rate swap, the Entities used the present value of expected cash flows based on market observable interest rate yield curves commensurate with the term of the derivative instrument. Due to the changes in forecasted levels of prime, liabilities of $130,336 and $24,116 were booked at December 31, 2016, for the net payments forecasted. One of the swap contracts permit settlement prior to maturity only through termination by the Y. The settlement amounts are estimated as the present value of expected future cash flows discounted at the rate in the swap contract. The Y believes the settlement amounts are the best representation of the fair value of the swap and has adjusted the carrying amount to the settlement amounts at December 31, 2016.

The bond provisions contain covenants pertaining to the maintenance of liquidity, debt to fund balance (net asset) ratios, and cash flow coverage ratios. The Y was in compliance with the applicable covenants at December 31, 2016.

In 2016, the Y retroactively adopted the requirements in FASB ASC 835-30 to present financing fees as a reduction of the carrying amount of the debt rather than as an asset. Bonds payable at December 31, 2015 were previously reported on the statement of financial position as $27,715,000 with the associated $309,613 unamortized financing fees included in financing fees. Amortization of the fees is reported as interest expense on the statement of activities.

NOTE 7 - DEFERRED RENT

The Y partnered with a local hospital system to provide onsite health and wellness services at the Spartan Stores YMCA. Under this arrangement, the hospital receives 7.1 years of free rent. In exchange for the use of space, the hospital permanently deeded to the Y the land on which the new building is constructed. The value of the rent provided to the hospital over 7.1 years is $979,005 and is being amortized over the life of the lease. The remaining balance of deferred rent is $250,420 and $387,012 as of December 31, 2016 and 2015, respectively.

NOTE 8 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Capital expenditures for property and equipment	**$ 1,158,825**	$ 1,030,428
Support of specific program operations	**698,350**	2,847,740
	$ 1,857,175	$ 3,878,168

Permanently restricted net assets are restricted for the following purposes at December 31:

	2016	2015
Endowment funds required to be maintained permanently	**$ 435,380**	$ 431,944
Beneficial interest in perpetual trusts	**706,140**	703,526
	$ 1,141,520	$ 1,135,470

NOTE 9 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Y is the income beneficiary of several third party perpetual trusts administered by a bank. The aggregate market values of the trusts were $1,872,990 and $1,853,951 at December 31, 2016 and 2015, respectively. The Y's participation in the income of each trust ranges from 20% to 50%. The trusts are being maintained in perpetuity, so the assets will not be distributed to the Y. The Y will receive a perpetual cash flow of income from these trusts. The value of the beneficial interest in perpetual trusts is measured as the Y's share of the fair value of underlying assets. Distributions received from trusts are recorded as unrestricted investment income. Adjustments in the value of the beneficial interest are recorded as changes in permanently restricted net assets in the statement of activities.

NOTE 10 - INVESTMENT INCOME

Investment income is summarized as follows for the years ended December 31:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 28,584	$ 10,558	$ -	$ 39,142
Net realized and unrealized gain (loss) on investments	115,974	54,608		170,582
Net unrealized gain from perpetual trusts			2,614	2,614
	$ 144,558	$ 65,166	$ 2,614	$ 212,338

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 58,495	$ 14,500	$ -	$ 72,995
Net realized and unrealized gain on investments	(47,729)	(21,121)		(68,850)
Net unrealized loss from perpetual trusts			(55,743)	(55,743)
	$ 10,766	$ (6,621)	$ (55,743)	$ (51,598)

December 31, 2016 and 2015

NOTE 11 - RETIREMENT PLAN

The Y participates in The YMCA Retirement Fund Retirement Plan (Plan), a defined contribution, money purchase retirement plan administered by the Y Retirement Fund (Fund). The Fund is a multi-employer plan that provides retirement benefits under Section 401(a) of the Internal Revenue Code (Code) to employees of Ys throughout the United States. The Plan covers substantially all full-time employees who attain age 21 and have two years of service with the Y. Contributions to the Plan by the Y are equal to 8% of employee compensation for the years ended December 31, 2016 and 2015. Participants are fully vested in all Y contributions.

Retirement contributions totaled approximately $566,500 and $579,700 for the years ended December 31, 2016 and 2015, respectively. Additionally, the Y participates in The YMCA Retirement Fund Tax-Deferred Savings Plan which allows plan participants to make voluntary contributions on an after-tax or tax deferred basis under Section 403(b)(9) of the Code, subject to applicable Internal Revenue Service regulations.

NOTE 12 - RISKS AND UNCERTAINTIES

The Y holds investment securities and beneficial interests in certain trusts. Such investments are exposed to various risks such as fluctuation in interest rate, the securities market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

NOTE 13 - CONTINGENCIES

The Y participates in federally funded programs. The programs are subject to the single audit requirements of the Uniform Guidance. The single audit of the federal programs for December 31, 2016 has been conducted and the required reports have been issued. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the Y expects such amounts, if any, to be immaterial. Accordingly, no provision has been made for any liabilities that may arise from these circumstances.

NOTE 14 - COMMITMENTS

The Y is constructing a new nature center at Camp Manitou-Lin. As of December 31, 2016, the remaining obligations on the construction contract were approximately $314,000, none of which was recorded in accounts payable at December 31, 2016.

NOTE 15 - RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.