YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT	**1**
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	**3**
CONSOLIDATED STATEMENTS OF ACTIVITIES	**4**
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	**6**
CONSOLIDATED STATEMENTS OF CASH FLOWS	**8**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	**9**

INDEPENDENT AUDITORS' REPORT

Audit Committee
Young Men's Christian Association of the Greater Twin Cities
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of Young Men's Christian Association of the Greater Twin Cities (YMCA), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 YMCA'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.

Audit Committee
Young Men's Christian Association of the Greater Twin Cities

Opinion

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 25, 2017

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents	$ 13,461,043	$ 10,470,909
Accounts Receivable, Net	4,571,632	2,986,401
Contributions Receivable, Net	16,865,327	17,797,445
Receivable on Sale - Leaseback Transaction	3,000,000	3,000,000
Investments	91,714,050	80,321,646
Prepaid Expenses and Other Assets	1,649,729	1,544,018
Interest in Beneficiary Trusts	2,690,241	2,620,903
Funds Held in Escrow	4,377,567	15,773,139
Property Held For Sale	7,742,666	2,544,316
Land, Building, and Equipment, Net	176,309,755	160,667,018
Total Assets	$ 322,382,010	$ 297,725,795
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 7,563,326	$ 9,595,257
Accrued Expenses	5,910,537	5,524,165
Annuity Obligations	320,573	420,534
Bonds and Notes Payable	48,645,547	37,015,443
Capital Lease Payable	18,131,000	18,932,640
Deferred Swap Rate Liability	338,218	451,755
Deferred Gain on Sale - Leaseback Transaction	1,134,189	2,268,379
Deferred Revenue	10,498,270	10,074,793
Total Liabilities	92,541,660	84,282,966
NET ASSETS		
Unrestricted	171,642,826	151,075,315
Temporarily Restricted	29,739,832	34,453,653
Permanently Restricted	28,457,692	27,913,861
Total Net Assets	229,840,350	213,442,829
Total Liabilities and Net Assets	$ 322,382,010	$ 297,725,795

See accompanying Notes to Consolidated Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE				
Public Support:				
Contributions	$ 2,761,146	$ 8,191,758	$ 472,030	$ 11,424,934
United Way	-	1,412,630	-	1,412,630
Grants	-	2,266,979	-	2,266,979
Total Public Support	2,761,146	11,871,367	472,030	15,104,543
Revenue:				
Youth Development	56,127,175	-	-	56,127,175
Less: Specific Assistance to Individuals	(3,215,557)	-	-	(3,215,557)
Healthy Living	76,281,303	-	-	76,281,303
Less: Specific Assistance to Individuals	(5,815,757)	-	-	(5,815,757)
Social Responsibility	2,985,780	-	-	2,985,780
Sale of Supplies	1,609,325	-	-	1,609,325
Investment Income	842,592	1,292,722	-	2,135,314
Other	1,319,063	-	-	1,319,063
Total Revenue	130,133,924	1,292,722	-	131,426,646
Net Assets Released from Restrictions - Program	9,383,038	(9,383,038)	-	-
Total Operating Support and Revenue	142,278,108	3,781,051	472,030	146,531,189
OPERATING EXPENSES				
Program Services:				
Youth Development	56,181,548	-	-	56,181,548
Healthy Living	48,161,434	-	-	48,161,434
Social Responsibility	3,399,743	-	-	3,399,743
Total Program Services	107,742,725	-	-	107,742,725
Support Services:				
Management and General	27,249,896	-	-	27,249,896
Fundraising	6,206,357	-	-	6,206,357
Total Support Services	33,456,253	-	-	33,456,253
Total Operating Expenses	141,198,978	-	-	141,198,978
EXCESS OF OPERATING SUPPORT AND REVENUE OVER OPERATING EXPENSES	1,079,130	3,781,051	472,030	5,332,211
NONOPERATING REVENUES AND EXPENDITURES				
Investment Income	1,890,074	1,097,220	9,445	2,996,739
Change in Value of Beneficiary Agreements	-	(59,791)	62,356	2,565
Change in Value of Deferred Swap Rate Liability	113,537	-	-	113,537
Gain on Asset Disposition	6,996,155	-	-	6,996,155
Net Proceeds from Settlement	813,185	-	-	813,185
Rental and Rebate Income	282,221	-	-	282,221
Gain on Forgiveness of Long-Term Debt	-	-	-	-
Capital Expenditures	(139,092)	-	-	(139,092)
Net Assets Released from Restrictions - Capital	9,532,301	(9,532,301)	-	-
CHANGE IN NET ASSETS	20,567,511	(4,713,821)	543,831	16,397,521
Net Assets - Beginning of Year	151,075,315	34,453,653	27,913,861	213,442,829
NET ASSETS - END OF YEAR	$ 171,642,826	$ 29,739,832	$ 28,457,692	$ 229,840,350

See accompanying Notes to Consolidated Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE				
Public Support:				
Contributions	$ 3,112,719	$ 6,657,361	$ 935,184	$ 10,705,264
United Way	-	1,539,435	-	1,539,435
Grants	-	1,693,237	-	1,693,237
Total Public Support	3,112,719	9,890,033	935,184	13,937,936
Revenue:				
Youth Development	52,870,032	-	-	52,870,032
Less: Specific Assistance to Individuals	(3,005,165)	-	-	(3,005,165)
Healthy Living	72,012,144	-	-	72,012,144
Less: Specific Assistance to Individuals	(5,202,484)	-	-	(5,202,484)
Social Responsibility	2,525,364	-	-	2,525,364
Sale of Supplies	1,331,093	-	-	1,331,093
Investment Income	763,357	1,218,414	-	1,981,771
Other	1,546,993	-	-	1,546,993
Total Revenue	122,841,334	1,218,414	-	124,059,748
Net Assets Released from Restrictions - Program	8,427,237	(8,427,237)	-	-
Total Operating Support and Revenue	134,381,290	2,681,210	935,184	137,997,684
OPERATING EXPENSES				
Program Services:				
Youth Development	51,885,894	-	-	51,885,894
Healthy Living	43,764,358	-	-	43,764,358
Social Responsibility	2,946,975	-	-	2,946,975
Total Program Services	98,597,227	-	-	98,597,227
Support Services:				
Management and General	26,721,731	-	-	26,721,731
Fundraising	6,077,773	-	-	6,077,773
Total Support Services	32,799,504	-	-	32,799,504
Total Operating Expenses	131,396,731	-	-	131,396,731
EXCESS OF OPERATING SUPPORT AND REVENUE OVER OPERATING EXPENSES	2,984,559	2,681,210	935,184	6,600,953
NONOPERATING REVENUES AND EXPENDITURES				
Investment Income	(1,045,213)	(1,415,054)	(4,999)	(2,465,266)
Change in Value of Beneficiary Agreements	-	(77,841)	(175,842)	(253,683)
Change in Value of Deferred Swap Rate Liability	118,307	-	-	118,307
Gain on Asset Disposition	3,470,937	-	-	3,470,937
Net Proceeds from Settlement	-	-	-	-
Rental and Rebate Income	249,872	-	-	249,872
Gain on Forgiveness of Long-Term Debt	2,712,036	-	-	2,712,036
Capital Expenditures	(716,096)	-	-	(716,096)
Net Assets Released from Restrictions - Capital	4,039,805	(4,039,805)	-	-
CHANGE IN NET ASSETS	11,814,207	(2,851,490)	754,343	9,717,060
Net Assets - Beginning of Year	139,261,108	37,305,143	27,159,518	203,725,769
NET ASSETS - END OF YEAR	$ 151,075,315	$ 34,453,653	$ 27,913,861	$ 213,442,829

See accompanying Notes to Consolidated Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services				Support Services			
	Youth Development	Healthy Living	Social Responsibility	Total Program Services	Management and General	Fundraising	Total Support Services	Total
OPERATING EXPENSES								
Salaries and Wages	$ 29,541,571	$ 21,010,599	$ 1,731,842	$ 52,284,012	$ 13,982,995	$ 3,163,428	$ 17,146,423	$ 69,430,435
Employee Benefits	2,212,877	2,535,801	244,058	4,992,736	2,197,423	630,906	2,828,329	7,821,065
Payroll Taxes	2,732,443	1,831,212	155,706	4,719,361	1,298,013	252,180	1,550,193	6,269,554
Total Salaries and Related Benefits	34,486,891	25,377,612	2,131,606	61,996,109	17,478,431	4,046,514	21,524,945	83,521,054
Professional Fees and Contract Services	1,706,885	1,811,142	274,529	3,792,556	5,539,522	534,212	6,073,734	9,866,290
Supplies	7,422,136	1,401,370	174,033	8,997,539	588,704	83,092	671,796	9,669,335
Telephone and Data	146,365	98,625	45,609	290,599	938,959	7,820	946,779	1,237,378
Postage and Shipping	155,218	149,377	8,676	313,271	17,353	26,030	43,383	356,654
Occupancy	4,803,302	6,350,457	497	11,154,256	175,633	30,494	206,127	11,360,383
Expendable Equipment	758,641	3,224,652	6,303	3,989,596	96,062	355,168	451,230	4,440,826
Printing, Publications, and Promotions	393,631	908,900	14,805	1,317,336	978,068	674,592	1,652,660	2,969,996
Travel and Employee Expense	264,999	318,803	168,689	752,491	751,407	70,720	822,127	1,574,618
Conferences and Meetings	4,210	479	15,068	19,757	65,668	113,187	178,855	198,612
Membership Dues	242,372	239,411	15,455	497,238	127,964	52,262	180,226	677,464
Awards and Grants	705,582	9,175	517,559	1,232,316	72,296	68,493	140,789	1,373,105
Financing	571,859	1,334,337	-	1,906,196	-	1,265	1,265	1,907,461
Other	157,822	213,508	26,914	398,244	58,522	139,770	198,292	596,536
Depreciation	4,361,635	6,723,586	-	11,085,221	361,307	2,738	364,045	11,449,266
Total Operating Expenses	$ 56,181,548	$ 48,161,434	$ 3,399,743	$ 107,742,725	$ 27,249,896	$ 6,206,357	$ 33,456,253	$ 141,198,978

See accompanying Notes to Consolidated Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services				Support Services			
	Youth Development	Healthy Living	Social Responsibility	Total Program Services	Management and General	Fundraising	Total Support Services	Total
OPERATING EXPENSES								
Salaries and Wages	$ 26,540,123	$ 19,290,011	$ 1,628,797	$ 47,458,931	$ 13,556,593	$ 3,209,011	$ 16,765,604	$ 64,224,535
Employee Benefits	1,972,748	2,275,472	247,800	4,496,020	2,197,846	630,397	2,828,243	7,324,263
Payroll Taxes	2,525,833	1,713,103	147,427	4,386,363	1,355,484	257,576	1,613,060	5,999,423
Total Salaries and Related Benefits	31,038,704	23,278,586	2,024,024	56,341,314	17,109,923	4,096,984	21,206,907	77,548,221
Professional Fees and Contract Services	1,776,127	1,186,988	223,909	3,187,024	5,097,285	311,710	5,408,995	8,596,019
Supplies	7,189,466	948,573	185,682	8,323,721	626,118	65,697	691,815	9,015,536
Telephone and Data	136,666	88,456	40,936	266,058	1,005,875	8,339	1,014,214	1,280,272
Postage and Shipping	153,073	147,239	8,564	308,876	17,079	43,047	60,126	369,002
Occupancy	4,749,629	6,193,980	15,193	10,958,802	187,883	155	188,038	11,146,840
Expendable Equipment	728,757	3,026,634	6,071	3,761,462	94,714	22,558	117,272	3,878,734
Printing, Publications, and Promotions	329,584	881,446	16,380	1,227,410	989,445	701,599	1,691,044	2,918,454
Travel and Employee Expense	256,817	312,191	143,812	712,820	905,709	61,276	966,985	1,679,805
Conferences and Meetings	6,734	695	11,001	18,430	90,583	119,555	210,138	228,568
Membership Dues	143,978	141,956	7,747	293,681	220,896	31,261	252,157	545,838
Awards and Grants	705,100	3,703	231,452	940,255	54,787	398,460	453,247	1,393,502
Financing	504,037	1,176,085	-	1,680,122	-	-	-	1,680,122
Other	110,376	153,006	32,204	295,586	8,151	217,132	225,283	520,869
Depreciation	4,056,846	6,224,820	-	10,281,666	313,283	-	313,283	10,594,949
Total Operating Expenses	$ 51,885,894	$ 43,764,358	$ 2,946,975	$ 98,597,227	$ 26,721,731	$ 6,077,773	$ 32,799,504	$ 131,396,731

See accompanying Notes to Consolidated Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE GREATER TWIN CITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 16,397,521	$ 9,717,060
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	11,449,266	10,594,949
Amortization of Bond Issuance Costs	119,675	140,597
Amortization of Bond Premium	(10,924)	-
Bad Debt Expense	551,508	478,372
Permanently Restricted Contributions	(472,030)	(935,184)
Gain on Asset Disposition	(6,996,155)	(3,470,937)
Gain on Forgiveness of Long-Term Debt	-	(2,712,036)
Gain on Land Held for Sale	-	(191,316)
Net Realized and Unrealized (Gains) Losses on Investments	(3,269,749)	2,085,034
Change in Cash Surrender Value of Life Insurance Policies	(789)	3,389
Contributed Land, Building, and Equipment	(1,537,299)	(1,174,005)
Change in Value of Beneficiary Agreements	(2,565)	253,683
Change in Value of Deferred Swap Rate Liability	(113,537)	(118,307)
(Increase) Decrease in Current Assets:		
Accounts Receivable	(2,136,739)	(819,376)
Contributions Receivable	(1,111,988)	(3,949,533)
Prepaid Expenses and Other Assets	(104,922)	(674,106)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	2,202,537	409,173
Accrued Expenses	386,372	397,827
Deferred Revenue	423,477	(387,948)
Net Cash Provided by Operating Activities	15,773,659	9,647,336
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(38,936,306)	(19,842,643)
(Increase) Decrease in Funds Held in Escrow	11,395,572	(6,752,366)
Proceeds from Sale of Investments	50,298,656	33,855,652
Purchases of Investments	(58,421,311)	(33,356,575)
Proceeds from Sale of Land, Building, and Equipment	8,273,450	2,513,398
Net Cash Used by Investing Activities	(27,389,939)	(23,582,534)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Long-Term Purposes	3,340,065	4,684,177
Proceeds from Permanently Restricted Contributions	617,439	1,240,438
Payments of Annuity Obligations	(70,803)	(52,213)
Payments on Capital Lease	(801,640)	(715,609)
Payment of Bond Issuance Costs	(192,133)	(598,985)
Proceeds from Bonds and Notes Payable	14,530,346	14,080,974
Payments on Bonds and Notes Payable	(2,816,860)	(4,086,084)
Net Cash Provided by Financing Activities	14,606,414	14,552,698
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,990,134	617,500
Cash and Cash Equivalent - Beginning of Year	10,470,909	9,853,409
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,461,043	$ 10,470,909
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	$ 1,911,150	$ 1,706,041
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Refinancing of Debt Noncash Payoff	$ -	$ 11,108,436
Contributions of Property	$ 1,537,299	$ 1,174,005
Construction-in-Progress Non-Cash Additions	$ 1,842,411	$ 6,076,879

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Young Men's Christian Association of the Greater Twin Cities (YMCA) is a leading nonprofit dedicated to strengthening communities through youth development, healthy living and social responsibility. Established in 1856 in St. Paul, 161 years ago, and a decade later in Minneapolis, the YMCA provides life-strengthening services across 12 counties of the greater Twin Cities metro region and western Wisconsin communities. The 28 YMCA locations and program sites, 7 overnight camps, 10 day camps, and more than 90 child care sites engage more than 350,000 men, women, and children of all ages, incomes, and backgrounds. To learn more about the Y's mission and work, visit ymcamn.org.

The consolidated financial statements include the activities of the YMCA, Twin Cities YMCA Partners, LLC, and Urban YMCA, LLC. All significant intercompany transactions have been eliminated.

Financial Statement Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the YMCA and changes therein are classified and reported as follows:

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

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

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

Measure of Operations

In its consolidated statement of activities, the YMCA includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Nonoperating activity consists primarily of investment returns above the amounts designated for operation, change in value of beneficiary agreements, change in deferred swap rate liability, gains and losses from asset dispositions and debt forgiveness, net proceeds from settlement, rental and rebate income, capital expenditures, and capital releases from restrictions.

Cash and Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less with the exception of cash designated for investment purposes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The YMCA provides an allowance for bad debts using the allowance method. Services are sold on an unsecured basis. Accounts past due more than 60 days are analyzed for collectability. Accounts are written off after collection activities are exhausted. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. At December 31, 2016 and 2015, the allowance was $279,613 and $144,210, respectively.

Contributions Receivable

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Investments

Investments, including alternative investments, are stated at fair value based either on quoted market prices, or for certain investments with no readily available quoted market prices, on fair values as determined by management based on review of inputs provided by the investment manager and evaluated by an independent reporting service on a monthly basis. The alternative investment may include derivative instruments embedded in the fund that could expose the YMCA to potential investment risk.

The YMCA invests in a variety of investment vehicles, including U.S. government securities, corporate bonds, common and preferred stocks, commodity index funds, real estate funds, hedge fund of funds, and private equity.

Realized and unrealized gains and losses are recorded in the period in which they occur. A majority of the restricted and unrestricted investments are invested in a combined investment pool. Interest income and realized and unrealized gains and losses are allocated using the market value method.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is 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 future consolidated statement of activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in Beneficiary Trusts

Interest in beneficiary trusts consist of assets held in charitable remainder trusts, charitable gift annuities, and perpetual trusts.

Beneficial Interests in Charitable Remainder Trusts – Donors established and funded trusts under which specified distributions are made to a designated beneficiary or beneficiaries over the trusts' terms. Upon termination of the trusts, the YMCA receives the assets remaining in the trusts. Beneficial interests in charitable remainder trusts are recorded at the fair value of the trusts' assets net of the present value of the estimated future payments to be made under the specific terms of the trusts. Changes in net assets of the trusts are recorded as gains or losses (change in value of beneficiary agreements) in the consolidated statements of activities.

Beneficial Interests in Charitable Gift Annuities – The annuity agreements specify that an annuity is to be paid to a donor-identified annuitant until such annuitant's death. The annuity obligation is measured at the present value of the expected future payments to be made to the beneficiary. The investments held in the annuities are carried at market value. The changes in the market values of the investments and the annuity obligation are reflected in the consolidated statements of activities as a change in value of beneficiary agreements. The trusts and annuity obligation are classified based upon the donor's stipulation as to the use of the funds after the death of the donor/annuitant.

Beneficial Interest in Perpetual Trusts – The YMCA is the beneficiary of perpetual trusts held by a third party. Under the terms of the trusts, the YMCA has the irrevocable right to receive the income generated by the trust in perpetuity. The beneficial interest in the perpetual trusts is recorded at the fair value. Changes in net assets of the trusts are recorded as gain or losses (change in value of beneficiary agreements) on the consolidated statements of activities. Net assets and changes in the net assets are recorded as permanently restricted. Distributions received from these trusts are recorded as unrestricted investment income.

Funds Held in Escrow

Funds held in escrow represent cash held by others to guarantee the timely completion of capital improvements, debt repayment and for future capital projects. Funds held in escrow consist of cash and cash equivalents valued using Level 1 inputs.

Property Held for Sale

The YMCA records property held for sale at fair value when received and is measured at the lower of its carrying amount or fair value less costs to sell.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Building, and Equipment

Land, building, and equipment acquisitions of $2,500 or greater are recorded at cost. Donated items are recorded at fair value on the date of the contribution. Depreciation is computed using the straight-line method based upon the following estimated useful lives:

Buildings	30 Years
Building and Land Improvements	15 – 20 Years
Equipment	5 Years
Vehicles	5 Years
Technology	3 Years

Impairment of Long-Lived Assets

The YMCA reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. There was an impairment loss of $-0- and $165,160 recorded for the years ended December 31, 2016 and 2015, respectively.

Deferred Revenue

Membership dues and program fees that are designated for or related to future years' activities are deferred and recognized as revenue in the period in which the revenue is earned.

During 2008, the YMCA, sold approximately 86 acres of land and simultaneously entered into a ground lease on the same property to continue to provide services to youth. The lease term is a minimum of 10 years and a maximum of 25 years at a rate of one dollar per year. The YMCA incurred a gain on sale of $11,341,893, which is being amortized over the minimum lease term. $3 million of the $11,341,893 gain is contingent upon the YMCA leaving the premises after the minimum lease term of 10 years. At December 31, 2016 and 2015, the unamortized portion of the gain was $1,134,189 and $2,268,379, respectively.

An agreement with the city of White Bear Lake was signed on December 2, 2009 in which the city agrees to provide $2,725,000 to renovate the facility in exchange for services to be provided to its residents over the five years beginning the day of the grand reopening of the White Bear Area YMCA. The revenue relating to this agreement will be treated as deferred revenue and recognized as services are provided. As of December 31, 2016, $2,725,000 of revenue has been recognized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue (Continued)

An agreement with the city of Forest Lake was signed on October 20, 2014 in which the city agrees to provide land and $9,000,000 to build a facility. The YMCA is required to begin construction by July 31, 2015, with opening of the facility by July 31, 2016. The YMCA has agreed to utilize the facility as a full service YMCA for 30 years after completion. The YMCA has also agreed to provide various benefits to all residents of the city of Forest Lake for 30 years. The revenue relating to this agreement will be treated as deferred revenue for the estimated value of the benefits that the YMCA will provide to all residents of the city and recognized over the 30 years. This was estimated to be $5,712,000. The remaining $3,288,000 was recognized as contributed revenue in 2014. As of December 31, 2016 and 2015, $5,616,800 and $5,712,000 was included in deferred revenue.

Advertising Expenses

Advertising costs are expensed when incurred. Advertising costs were $2,117,236 and $2,133,332 for the years ended December 31, 2016 and 2015, respectively.

Functional Expenses

The costs of providing the various programs and other activities of the YMCA have been summarized on a functional basis in the consolidated statements of functional expenses. Building maintenance and depreciation expenses are allocated among the programs and supporting services benefited.

Tax Status

The YMCA is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota Statutes. The YMCA is not considered a private foundation and contributions are considered tax deductible. Twin Cities YMCA Partners, LLC and Urban YMCA, LLC are wholly owned limited liability corporations of the YMCA and all activities are included in the filings of the YMCA. During 2015, Urban YMCA, LLC was dissolved.

The YMCA follows a policy that clarified the accounting for uncertainty in income taxes recognized in an organization’s consolidated financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The application of this policy has no impact on the YMCA’s consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Concentration of Credit Risk

The vast majority of contributions and receivables are located in the greater Twin Cities area and its surrounding suburbs as well as those in which the YMCA has a camp presence.

The YMCA holds cash at several institutions. The amounts on hand may at times exceed federally insured limits.

Fair Value Measurements

The YMCA measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The YMCA may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

Financial assets recorded on the consolidated statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the YMCA has the ability to access (examples include active exchange-traded equity securities, listed derivatives, and most U.S. government and agency securities).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in nonactive markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities, and derivatives).

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (example includes interests in beneficial trusts).

Derivatives and Hedging Activities

The YMCA uses derivative instruments principally to minimize the risks associated with outstanding bonds payable due to market rate fluctuations. The following is a summary of the YMCA's risk management strategy and the effect on the consolidated financial statements.

The YMCA accounts for its derivative and hedging activities by requiring that every derivative instrument, including those embedded in other contracts, be recorded in the consolidated statement of financial position as either an asset or liability measured at its fair value. Changes in the derivative instrument's fair value are recognized currently in the consolidated statement of activities unless specific hedge accounting criteria are met. The interest rate swap agreement does not qualify as a cash flow hedge.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. The reclassifications had no effects on the change in net assets or total net assets as previously reported.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the YMCA has evaluated events and transactions for potential recognition or disclosure in these consolidated financial statements through April 25, 2017, the date the consolidated financial statements were available to be issued.

NOTE 2 CONTRIBUTIONS RECEIVABLE

The YMCA's pledges represent contributions for facilities and equipment and to support the ongoing operations of the YMCA. Outstanding pledge contributions from various corporations, foundations, and individuals were discounted at rates between 1% and 5% based on imputed interest rates applicable to the year in which the promise was received and were as follows at December 31:

	2016			
	Capital	Ongoing Operations	Endowment	Total
Pledges Due:				
In Less Than One Year	$ 1,257,924	$ 3,937,355	$ 178,459	$ 5,373,738
In One to Five Years	2,182,846	3,999,254	17,886	6,199,986
In More Than Five Years	5,070,044	1,005,878	-	6,075,922
Total	$ 8,510,814	$ 8,942,487	$ 196,345	17,649,646
Less: Allowance for Uncollectible Pledges				(715,854)
Less: Unamortized Discount				(68,465)
Total Pledges Receivable, Net				$ 16,865,327

	2015			
	Capital	Ongoing Operations	Endowment	Total
Pledges Due:				
In Less Than One Year	$ 1,337,817	$ 3,936,786	$ 207,921	$ 5,482,524
In One to Five Years	2,002,229	4,418,967	146,695	6,567,891
In More Than Five Years	5,431,021	1,045,213	-	6,476,234
Total	$ 8,771,067	$ 9,400,966	$ 354,616	18,526,649
Less: Allowance for Uncollectible Pledges				(646,677)
Less: Unamortized Discount				(82,527)
Total Pledges Receivable, Net				$ 17,797,445

Contributions receivable includes properties and technology that are to be received in future years in the amount of $12,236,755 and $11,950,962 as of December 31, 2016 and 2015, respectively. This amount is not discounted.

NOTE 3 INVESTMENTS

The following is a summary of the YMCA's investments at December 31:

	2016	2015
Cash and Cash Equivalents	$ 4,903,412	$ 4,983,757
Certificates of Deposit	18,993,734	13,676,000
U.S. Government Securities	2,344,662	3,044,413
U.S. Corporate Bonds	7,643,761	7,253,427
Non-U.S. Corporate Bonds	3,466,383	2,871,505
U.S. Common and Preferred Stocks	27,446,353	22,202,639
Non-U.S. Common and Preferred Stocks	14,718,258	13,236,831
Commodity Index Fund	3,941	1,708,849
Global Real Estate Fund	3,039,143	3,168,364
Multi-Strategy Hedge Fund of Funds	6,672,969	6,570,342
Private Equity	2,481,434	1,605,519
Total Investments	$ 91,714,050	$ 80,321,646

The following schedule summarizes the investment return at December 31:

	2016	2015
Investment Income:		
Interest and Dividends	$ 1,916,303	$ 1,660,991
Realized Gains (Losses)	(809,756)	895,367
Unrealized Gains (Losses)	4,079,505	(2,980,401)
Investment Fees	(53,999)	(59,452)
Total Investment Income	$ 5,132,053	$ (483,495)
Investment Return Designated for Current Operations	$ 2,135,314	$ 1,981,771
Investment Return Less Amounts Designated for Current Operations	2,996,739	(2,465,266)
Total Investment Income	$ 5,132,053	$ (483,495)

NOTE 4 LAND, BUILDING, AND EQUIPMENT

A summary of land, building, and equipment at December 31 are as follows:

	2016	2015
Land and Land Improvements	$ 19,995,436	$ 19,110,557
Buildings and Building Improvements	250,710,468	231,497,452
Property Held for Future Use	454,000	454,000
Equipment	26,183,334	24,277,197
Vehicles	1,676,322	1,596,563
Technology	9,798,171	8,753,562
Construction-in-Progress	11,860,578	19,902,051
Total Land, Building, and Equipment	320,678,309	305,591,382
Less: Accumulated Depreciation	(144,368,554)	(144,924,364)
Net Total Land, Building, and Equipment	$ 176,309,755	$ 160,667,018
Depreciation Expense	$ 11,449,266	$ 10,594,949

Property held for future use consists of an intangible asset for airspace rights at a branch location, allowing the YMCA to expand the branch in the future if necessary.

Construction-in-progress consists of building construction, modifications, and improvements currently in progress, which are being financed through operations, debt financing, and capital contributions.

Property held for future use and construction-in-progress are not subject to depreciation.

NOTE 5 BONDS AND NOTES PAYABLE

A summary of bonds and notes payable at December 31 are as follows:

Description	2016	2015
City of Burnsville, Variable Rate Revenue Bond, interest at 0.02% at December 31, 2015, with principal payments due annually through August 1, 2016.	$ -	$ 775,000
Minnesota Agriculture and Development Board, Bank Qualified Debt, interest at 1.45% at December 31, 2016, with principal payments due annually starting December 1, 2014 through December 1, 2033.	16,200,000	16,800,000
City of Andover, non-interest bearing, principal balance due in 2034.	1,302,698	1,302,698
City of White Bear Lake, interest only payable quarterly through September 2011 with principal and interest due in monthly installments beginning December 2011 of $143,439 through 2019. Re-financed in September 2013 to fixed interest rate of 2.6%, principal and interest payable quarterly.	1,590,210	2,070,125
City of Woodbury, Minnesota Revenue Note, interest at 2.44%, payable monthly through January 1, 2021. Interest was reset on January 1, 2011 to 2.44% and reset on January 1, 2016 to 2.63%	944,583	1,322,165
Housing and Redevelopment Authority of City of St. Paul, Commercial Development Revenue Note, interest at 5.8%, due in monthly installments of $3,768 through September 2011. Note can be extended through June 21, 2021. Interest was reset at June 21, 2011 to 2.46% and reset on June 21, 2016 to 2.66%	172,734	206,158
City of Lino Lakes, Revenue Note, interest at 4.63%, interest only through June 2007 then monthly principal and interest through January 2021. Interest was reset on June 28, 2011 to 2.28% and reset on June 28, 2016 to 2.45%	1,280,840	1,552,298

NOTE 5 BONDS AND NOTES PAYABLE (CONTINUED)

Description	2016	2015
Housing and Redevelopment Authority City of Hastings, Commercial Development Revenue Note, interest at 4.575%, interest only through December 2007 then monthly principal and interest through December 2019. Interest was reset in December 2012 to 2.075%, and will be reset in December 2017 to .125% above 60% of the current prime rate.	$ 414,586	$ 546,918
Sunrise New Markets Fund VII, LLC, and Capital City New Markets Fund VII, LLC, Construction Loan, interest fixed at 2.93%, monthly interest payments, principal payments monthly starting May 1, 2022 through April 27, 2045	9,372,586	9,372,586
Sunrise Banks, National Association, Construction Loan, interest fixed at 4.07%, interest only through September 2016, principal payments starting October 1, 2016 through August 31, 2019.	862,374	-
City of Forest Lake, Recreational Facilities Revenue Note, interest at 2.37%, interest only payable quarterly through March 31, 2017 with principal and interest due quarterly beginning July 1, 2017 through April 1, 2032. Interest rate resets on July 1, 2022.	4,250,000	4,250,000
City of Minneapolis, Minnesota Revenue Bonds, interest at 2-4%, interest payable semiannually beginning December 1, 2016, with principal due annually beginning June 1, 2017. Payments continue through June 1, 2031.	13,509,899	-
Subtotal	49,900,510	38,197,948
Less: Debt Issuance Costs	(1,254,963)	(1,182,505)
Total	$ 48,645,547	$ 37,015,443

At December 31, 2016, bonds and notes payable in the table above includes a bond premium on the City of Minneapolis, Minnesota revenue bonds in the amount of $829,899, which reduced the average stated rate of 3.6% to an effective interest rate of 2.7%

The summary of annual future maturities of principal on bonds and notes payable as of December 31, 2016 are as follows:

Year Ending December 31,	Scheduled Payment Amount
2017	$ 3,344,299
2018	3,563,290
2019	2,959,909
2020	2,230,200
2021	2,069,013
Thereafter	35,733,799
Total	$ 49,900,510

NOTE 5 BONDS AND NOTES PAYABLE (CONTINUED)

New Market Tax Credit Financing (Continued)

In 2015, Sunrise New Markets Fund VII, LLC, a Minnesota limited liability company and Capital City New Markets Fund VII, LLC, a Minnesota limited liability company (collectively, the CDEs), made new market tax credit enhanced mortgage loans totaling $9,372,586 to the YMCA, to finance project costs of the St. Paul Midway branch (the NMTC Loan). The CDEs received allocations of new market tax credit (NMTC) pursuant to Section 45D of the Code in order to assist eligible businesses in making new investments in certain communities. The availability of the NMTC allowed PNC New Markets Investment Partners, LLC, a Delaware limited liability company, to make a net investment of $3,116,631 in Midway Investment Fund, LLC (the Investment Fund), a Delaware limited liability company. Sunrise Banks, National Association made a loan of $6,749,249 to the Investment Fund (the Leverage Loan). Sunrise Banks, National Association also made a $1,250,751 loan directly to YMCA (Direct Loan). This loan was funded in 2016 and has a balance of $862,374 as of December 31, 2016. The St. Paul Midway branch is security for both the Direct Loan and the NMTC Loan. YMCA also invested $5,690,378 in project equity.

The Investment Fund contributed the combined $9,865,880 to the CDEs as capital contributions, which in turn made the NMTC Loan to YMCA. The structure of this NMTC transaction is standard for the NMTC industry. The completion of this transaction provided a significant cash benefit to the YMCA.

Future Transactions – After the seven-year NMTC period expires, it is anticipated the CDEs will liquidate and distribute their assets to the Investment Fund. It is also anticipated that Twin Cities YMCA Partners, LLC will acquire the interests in the Investment Fund for a predetermined amount, and that the Investment Fund will be liquidated. After the “exit” transactions are completed, Twin Cities YMCA Partners, LLC will be the holder of a portion of the NMTC Loan, and such loan will be eliminated for reporting purposes because such loan will be owed by the YMCA to its subsidiary. It is anticipated that the remainder of the NMTC Loan will be refinanced once it matures.

Loan Terms – The NMTC Loan, dated April 27, 2015, stipulates the YMCA pay interest at an annual rate of 2.93% per month payable in arrears beginning in May 2015 until April 22, 2022 for a portion of the NMTC Loan and April 27, 2045 with respect to the other portion of the NMTC Loan. Interest costs associated with the NMTC Loan amounted to $274,720 and $186,197 for the years ended December 31, 2016 and 2015, respectively. The NMTC Loan is not eligible for prepayment until April 27, 2022.

NOTE 5 BONDS AND NOTES PAYABLE (CONTINUED)

Interest Rate Swap Agreement

The YMCA follows the *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which establishes accounting and reporting standards for derivative instruments and for hedging activities. These standards require that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair market value.

The YMCA entered into an interest rate swap agreement with the objective to minimize the risks associated with market rate fluctuations. The agreement is a 10-year term at $6 million that expires on January 1, 2021. Pursuant to the terms of the swap agreement, the YMCA pays the swap provider interest at a fixed rate of 2.53%. The swap provider will pay the YMCA interest at a variable rate equal to the product of the BQ Multiplier (67.01%) and the monthly LIBOR Rate. The fair value of the swap agreement liability was $338,218 and $451,775 at December 31, 2016 and 2015, respectively.

NOTE 6 NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

	2016	2015
Capital	$ 10,095,761	$ 15,809,377
Time and Program	11,062,653	11,034,759
Endowment	8,268,472	7,183,296
Beneficiary Agreements	312,946	426,221
Total Temporarily Restricted Net Assets	$ 29,739,832	$ 34,453,653

Net assets released from restriction for the years ended December 31 are as follows:

	2016	2015
Time - Annual Support	$ 2,815,280	$ 2,319,205
Purpose - Program and Capital	14,820,190	8,957,611
Spending Rate Release of Endowment Funds	1,279,869	1,190,226
Total Releases from Restriction	$ 18,915,339	$ 12,467,042

NOTE 6 NET ASSETS (CONTINUED)

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

	2016	2015
Endowment	$ 25,812,367	$ 25,332,028
Beneficiary Agreements	2,645,325	2,581,833
Total Permanently Restricted Net Assets	$ 28,457,692	$ 27,913,861

NOTE 7 ENDOWMENT

Board-Designated and Donor-Restricted Endowments

The YMCA has board-designated and donor-restricted endowment funds established for the purpose of securing the YMCA's long-term financial viability and continuing to meet the needs of children and families in the community. As required by accounting principles generally accepted in the United States of America, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The board of directors of the YMCA has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as maintaining 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 YMCA classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the YMCA in a manner consistent with the standard of prudence prescribed by UPMIFA.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the YMCA to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $166,373 and $264,544 as of December 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations in the endowment fund's investments and continued appropriations that were deemed prudent by the board of directors.

NOTE 7 ENDOWMENT (CONTINUED)

Board-Designated and Donor-Restricted Endowments (Continued)

The YMCA 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 YMCA must hold in perpetuity or for a donor-specified period 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 portfolio containing diverse asset classes without concentration in any particular class or holding while assuming a moderate level of investment risk. The YMCA expects its endowment funds, over time, to provide an average rate of return of approximately 5% more than the consumer price index. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the YMCA 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 YMCA 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.

The YMCA has a policy of targeting for distribution each year an average of 4.5% of the endowment’s market value calculated as of the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the YMCA considered the long-term expected return on its endowment. Accordingly, over the long term, the YMCA expects the current spending policy to allow its endowment to grow to outpace the distribution. This is consistent with the YMCA’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. The endowment payout was $1,835,439 and $1,726,722 for the years ended December 31, 2016 and 2015, respectively.

The composition of endowment funds by type of fund as of December 31 are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (166,373)	$ 8,268,472	$ 27,660,703	$ 35,762,802
Board-Designated Endowment Funds	13,517,829	-	-	13,517,829
Total Endowment Funds	$ 13,351,456	$ 8,268,472	$ 27,660,703	$ 49,280,631

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (264,544)	$ 7,183,296	$ 27,030,496	$ 33,949,248
Board-Designated Endowment Funds	13,032,352	-	-	13,032,352
Total Endowment Funds	$ 12,767,808	$ 7,183,296	$ 27,030,496	$ 46,981,600

NOTE 7 ENDOWMENT (CONTINUED)

Board-Designated and Donor-Restricted Endowments (Continued)

The summary of changes in endowment net assets for the years ended December 31 are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, December 31, 2015	$ 12,767,808	$ 7,183,296	$ 27,030,496	$ 46,981,600
Change in Value of Perpetual Trusts	-	-	68,728	68,728
Contributions	63,278	-	561,479	624,757
Earnings (Losses) and Expenses:				
Investment Income	333,166	839,322	-	1,172,488
Investment Expenses	(7,420)	(18,675)	-	(26,095)
Realized Losses	(168,677)	(423,370)	-	(592,047)
Unrealized Gains	820,574	2,066,065	-	2,886,639
Total Earnings (Losses) and Expenses	977,643	2,463,342	-	3,440,985
Transfer of Temporary Restricted Earnings and Expenses to Unrestricted	98,297	(98,297)	-	-
Appropriations	(555,570)	(1,279,869)	-	(1,835,439)
Endowment Fund Balance, December 31, 2016	$ 13,351,456	$ 8,268,472	$ 27,660,703	$ 49,280,631

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, December 31, 2014	$ 13,454,414	$ 8,591,855	$ 25,942,089	$ 47,988,358
Change in Value of Perpetual Trusts	-	-	(168,969)	(168,969)
Contributions	89,099	-	1,257,376	1,346,475
Earnings (Losses) and Expenses:				
Investment Income	276,620	668,023	-	944,643
Investment Expenses	(7,687)	(18,550)	-	(26,237)
Realized Gains	204,513	495,932	-	700,445
Unrealized Losses	(603,802)	(1,472,591)	-	(2,076,393)
Total Earnings (Losses) and Expenses	(130,356)	(327,186)	-	(457,542)
Transfer of Temporary Restricted Earnings and Expenses to Unrestricted	(108,853)	108,853	-	-
Appropriations	(536,496)	(1,190,226)	-	(1,726,722)
Endowment Fund Balance, December 31, 2015	$ 12,767,808	$ 7,183,296	$ 27,030,496	$ 46,981,600

NOTE 8 LEASES

The YMCA leases various pieces of equipment and facilities under operating lease agreements which expire on various dates. Rent expense totaled $2,333,590 and $2,230,283 for the years ended December 31, 2016 and 2015, respectively.

The future minimum operating lease payments are as follows:

Year Ending December 31,	Amount
2017	$ 3,328,676
2018	2,311,936
2019	1,452,653
2020	283,759
2021	209,910
Thereafter	1,618,328
Total	$ 9,205,262

In 2004, the YMCA entered into a long-term lease for a new facility. The lease has an initial term of 30 years with six optional renewal periods of 10 years each and a final renewal term of 9 years. The lease is accounted for as a capital lease. The maximum lease payment in any year of the lease term is $635,000 including both principal and interest. Interest expense was $376,087 and $388,795 for the years ended December 31, 2016 and 2015, respectively. The cost of the building recorded under the capital lease was $9,672,643. Accumulated depreciation was $3,691,370 and $3,369,955 at December 31, 2016 and 2015, respectively. As part of the lease agreement the city of Andover donated the use of the land for the project. The value of the land was valued at $317,643 and is amortized over the initial 30-year lease period. Accumulated amortization was $137,645 and $127,057 as of December 31, 2016 and 2015, respectively. The amortization is included with depreciation expense.

NOTE 8 LEASES (CONTINUED)

On August 20, 2007, the YMCA entered into a lease agreement with the Economic Development Authority for the city of Elk River, Minnesota (EDA). The EDA built an approximately 55,000 square foot facility and the YMCA will provide health, wellness, and youth programs in the facility. The initial lease term is 31 years with an evergreen provision up to a maximum of 99 years. The YMCA's lease payment is equal to one-third of the interest and principal on two separate debt issuances – a 25-year $10-million issuance on November 8, 2007 and a 7-year $2-million dollar issuance on February 20, 2008. The debt payments began August 1, 2008 and cease February 1, 2033. The agreement obligates the city to re-pay two-thirds of the debt and interest, while the YMCA is obligated for one-third of the debt and interest.

On February 12, 2013, the EDA refinanced the $10 million issuance. The YMCA obligation remains one-third of the debt and interest under the new agreement.

Interest expense and principal payments for the years ended December 31 were as follows:

	2016		
	YMCA	City of Elk River	Total
Interest	$ 132,387	$ 264,775	$ 397,162
Principal	126,667	253,333	380,000
Total	$ 259,054	$ 518,108	$ 777,162

	2015		
	YMCA	City of Elk River	Total
Interest	$ 137,103	$ 274,218	$ 411,321
Principal	110,000	220,000	330,000
Total	$ 247,103	$ 494,218	$ 741,321

The cost of the facility under the capital lease was $12,906,013. Accumulated depreciation was $5,320,120 and $4,760,248 as of December 31, 2016 and 2015, respectively.

On January 22, 2013, the YMCA entered into a capital lease agreement for office equipment. The lease term is 63 months with lease payments of $26,999 per month. The cost of the equipment recorded under the capital lease was $758,186. Interest expense was $66,733 and $92,764 for the years ended December 31, 2016 and 2015. Accumulated depreciation was $553,596 and $409,180 as of December 31, 2016 and 2015, respectively.

NOTE 8 LEASES (CONTINUED)

Future minimum capital lease payments are as follows:

Year Ending December 31,	Andover	Elk River	Office Equipment	Total
2017	$ 633,399	$ 235,266	$ 222,784	$ 1,091,449
2018	634,774	241,863	92,827	969,464
2019	635,000	241,796	-	876,796
2020	635,000	241,663	-	876,663
2021	633,808	243,113	-	876,921
Thereafter	7,850,037	2,953,585	-	10,803,622
Total Capital Lease Payments	11,022,018	4,157,286	315,611	15,494,915
Less: Interest Expense	(3,247,021)	(797,285)	(39,609)	(4,083,915)
Noncash Donation of Long-Term Facility Use	-	6,720,000	-	6,720,000
Total Minimum Capital Lease Payments	$ 7,774,997	$ 10,080,001	$ 276,002	$ 18,131,000

NOTE 9 RETIREMENT BENEFITS

The YMCA participates in a defined contribution, individual account, money purchase retirement plan, which is administered by the Young Men's Christian Association Retirement Fund (the Retirement Fund). This plan is for the benefit of all eligible staff of the YMCA who qualify under applicable participation requirements. The Retirement Fund is operated as a church pension plan and is a nonprofit, tax-exempt New York state corporation. Participation is available to all duly organized or reorganized YMCAs in the United States. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligations.

In accordance with the agreement with the Retirement Fund, contributions made by the YMCA are a percentage of the participating employees' salaries and are remitted to the Retirement Fund monthly. Contribution expense was $4,542,615 and $4,340,022 in 2016 and 2015, respectively.

NOTE 10 CONTINGENCIES AND COMMITMENTS

Contracts

The YMCA receives fees and grants from various federal, state, and city government agencies for services performed under contracts. Such contracts are subject to governmental compliance audits and may, from time to time, result in adjustments to fees and grants received. In the opinion of the YMCA's management, the disposition of all such matters should not have a material adverse effect on the YMCA's financial position or changes in net assets.

NOTE 10 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Program Services

A rent agreement with White Bear Lake Area Schools was signed on October 12, 2009, in which the school district will pay $163,000 annually for 10 years beginning in 2010 for use of the aquatics facility at the White Bear Area YMCA.

Litigation and Insurance

The YMCA is involved in certain legal claims incidental to the normal course of its activities. As a result, the YMCA maintains liability insurance coverage. Although the ultimate outcome of these claims cannot be determined, management believes based on their current assessment, that the final disposition of these claims will not have a material adverse effect on the financial position of the YMCA.

NOTE 11 FAIR VALUE MEASUREMENTS

The YMCA uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the YMCA measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

Assets and liabilities measured at fair value on a recurring basis as of December 31 are as follows:

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of Deposit	$ -	$ 18,993,734	$ -	$ 18,993,734
U.S. Government Securities	2,344,662	-	-	2,344,662
U.S. Corporate Bonds	7,643,761	-	-	7,643,761
Non-U.S. Corporate Bonds	3,466,383	-	-	3,466,383
U.S. Common and Preferred Stocks	27,446,353	-	-	27,446,353
Non-U.S. Common and Preferred Stocks	14,718,258	-	-	14,718,258
Commodity Index Fund	3,941	-	-	3,941
Global Real Estate Fund	3,039,143	-	-	3,039,143
Cash and Cash Equivalents	-	-	-	4,903,412
Investments Held at NAV or Equivalent	-	-	-	9,154,403
Total	58,662,501	18,993,734	-	91,714,050
Funds Held in Escrow	4,377,567	-	-	4,377,567
Interest in Beneficiary Trusts	-	-	2,690,241	2,690,241
Deferred Swap Rate Liability	-	(338,218)	-	(338,218)
Total	$ 63,040,068	$ 18,655,516	$ 2,690,241	$ 98,443,640

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

	2015			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of Deposit	$ -	$ 13,676,000	$ -	$ 13,676,000
U.S. Government Securities	3,044,413	-	-	3,044,413
U.S. Corporate Bonds	7,253,427	-	-	7,253,427
Non-U.S. Corporate Bonds	2,871,505	-	-	2,871,505
U.S. Common and Preferred Stocks	22,202,639	-	-	22,202,639
Non-U.S. Common and Preferred Stocks	13,236,831	-	-	13,236,831
Commodity Index Fund	1,708,849	-	-	1,708,849
Global Real Estate Fund	3,168,364	-	-	3,168,364
Cash and Cash Equivalents	-	-	-	4,983,757
Investments Held at NAV or Equivalent	-	-	-	8,175,861
Total	53,486,028	13,676,000	-	80,321,646
Funds Held in Escrow	15,773,139	-	-	15,773,139
Interest in Beneficiary Trusts	-	-	2,620,903	2,620,903
Deferred Swap Rate Liability	-	(451,755)	-	(451,755)
Total	$ 69,259,167	$ 13,224,245	$ 2,620,903	$ 98,263,933

The following table provides a summary of changes in fair value of the YMCA's Level 3 financial assets for the years ended December 31:

	2016
	Interest in Beneficiary Trusts
Balances as of January 1, 2016	$ 2,620,903
Change in Value of Beneficiary Agreements	69,338
Balances as of December 31, 2016	$ 2,690,241

	2015
	Interest in Beneficiary Trusts
Balances as of January 1, 2015	$ 2,820,908
Change in Value of Beneficial Agreements	(200,005)
Balances as of December 31, 2015	$ 2,620,903

Quantitative Information about Level 3 Fair Value Measurements

The unobservable inputs used to determine the fair value of the interest in beneficiary trusts are the underlying assets controlled by the trustee. The underlying assets consist of marketable securities that are either classified as Level 1 or Level 2 assets and the YMCA's fair value is determined by taking the trust's total value multiplied by their interest in the trust, as stated in the trust document.

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) as of December 31:

	2016			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Fund of Funds	$ 6,672,969	$ -	Investments prior to April 1, 2006 - quarterly; subsequent investments - semi-annually	95 days regardless of date of investment
Private Equity	2,481,434	4,370,000	N/A	N/A

	2015			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Fund of Funds	$ 6,570,342	$ -	Investments prior to April 1, 2006 - quarterly; subsequent investments - semi-annually	95 days regardless of date of investment
Private Equity	1,605,519	5,126,000	N/A	N/A

Multi-Strategy Hedge Fund of Funds focus on building and maintaining low volatility, multi-manager portfolios which have little or no correlation to the broader debt and equity markets. Investments are primarily with institutional quality hedge fund managers who invest in a diversified historically uncorrelated strategy such as relative value, event-driven investing, equity market neutral, credit opportunities, and distressed. The fair value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments.

Private Equity includes venture capital, buyouts, mezzanine, and special situation funds. The unobservable inputs used to determine the fair value of the fund of private equity funds has been estimated based on the capital account balances reported by underlying partnerships subject to the private equity fund of funds management review and judgment