



REPORT OF INDEPENDENT AUDITORS AND CONSOLIDATED
FINANCIAL STATEMENTS WITH SCHEDULES AND
REPORTS UNDER UNIFORM GUIDANCE AND
SUPPLEMENTARY INFORMATION

YMCA OF GREATER SEATTLE

December 31, 2017

Table of Contents

	PAGE
Management's Report (Unaudited)	1
Report of Independent Auditors	2–3
Consolidated Financial Statements	
Consolidated statement of financial position – assets	4
Consolidated statement of financial position – liabilities and net assets	5
Consolidated statement of activities	6
Consolidated statement of functional expenses	7
Consolidated statement of cash flows	8
Notes to consolidated financial statements	9–27
Single Audit Reports	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28–29
Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	30–31
Schedule of findings and questioned costs	32
Summary schedule of prior audit findings	33
Supplementary Information	
Schedule of expenditures of federal awards	34–35
Notes to schedule of expenditures of federal awards	36

Management's Report (Unaudited)
YMCA of Greater Seattle
2017 Consolidated Financial Statements

YMCA of Greater Seattle (the Y) is responsible for the preparation, integrity, and fair presentation of its published financial statements. The Y's management is responsible for the reliability and objectivity of the financial statements. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management.

The Board of Directors, operating through its Audit and Finance Committees, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use, or disposition. The Y maintains a system of internal control over financial reporting and over safeguarding of assets which is designed to provide reasonable assurance to management, the Audit Committee, and the Board of Directors regarding the preparation of reliable published financial statements.

I, Robert B. Gilbertson Jr., President/CEO, and I, Marcia Isenberger, SVP/Co-Chief Operating Officer, certify that:

1. I have reviewed these financial statements;
2. Based on my knowledge, the statements do not contain any untrue statement of a material fact, nor do they omit a material fact;
3. Based on my knowledge, the financial statements fairly present in all material respects the financial position, results of operations, changes in net assets, and cash flows of the Y;
4. Both certifying officers are responsible for establishing and maintaining a system of internal controls and procedures;
5. Both certifying officers have disclosed any significant deficiencies and material weaknesses in the internal controls over financial reporting, and have disclosed any fraud that involves management or other employees.

As of December 31, 2017, YMCA of Greater Seattle believes its system of internal controls over financial reporting was effective for providing reliable published financial statements.

Signed: _____

Robert B. Gilbertson, Jr., President/CEO

Marcia Isenberger, SVP/Co-Chief Operating Officer

Report of Independent Auditors

To the Board of Directors
YMCA of Greater Seattle

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of YMCA of Greater Seattle (the Y), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of YMCA of Greater Seattle as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited YMCA of Greater Seattle's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2018, on our consideration of YMCA of Greater Seattle'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 solely 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 the effectiveness of YMCA of Greater Seattle's 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 YMCA of Greater Seattle's internal control over financial reporting and compliance.



Seattle, Washington
May 10, 2018

YMCA of Greater Seattle
Consolidated Statement of Financial Position – Assets
December 31, 2017

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,783,000	\$ 4,917,765
Accounts receivable, net	1,658,898	2,323,149
Pledges receivable, net	1,174,982	1,105,858
Prepaid expenses and other current assets	838,436	849,810
Total current assets	<u>9,455,316</u>	<u>9,196,582</u>
LONG-TERM ASSETS		
Restricted cash	680,000	1,175,000
Pledges receivable, noncurrent, net	13,637,210	17,781,452
Long-term investments	56,045,713	48,518,365
Split-interest agreements	1,130,877	1,038,805
Land, buildings, and equipment, net	143,972,511	143,235,165
Other long-term assets	666,186	676,128
Total long-term assets	<u>216,132,497</u>	<u>212,424,915</u>
 Total assets	 <u><u>\$ 225,587,813</u></u>	 <u><u>\$ 221,621,497</u></u>

YMCA Of Greater Seattle
Consolidated Statement of Financial Position – Liabilities and Net Assets
December 31, 2017

	2017	2016
CURRENT LIABILITIES		
Accounts payable	\$ 2,468,654	\$ 4,463,260
Accrued expenses	3,160,172	2,779,534
Deferred program revenue	3,398,401	3,344,688
Bonds payable, current	1,051,226	1,016,816
Other current liabilities	905,735	577,534
Total current liabilities	10,984,188	12,181,832
LONG-TERM LIABILITIES		
Liabilities under split-interest agreements	381,294	367,274
Interest rate swap agreements	192,675	390,607
Deferred program revenue, noncurrent	1,362,196	1,618,463
Capital leases	1,326,947	1,210,905
Line of credit	4,875,000	8,654,000
Bonds payable, noncurrent	26,282,942	27,365,320
Total long-term liabilities	34,421,054	39,606,569
Total liabilities	45,405,242	51,788,401
NET ASSETS		
Unrestricted net assets		
General and designated reserves	32,959,904	29,946,531
Debt service sinking fund	8,885,421	7,989,376
Invested in net fixed assets	86,360,568	83,617,151
Total unrestricted net assets	128,205,893	121,553,058
Temporarily restricted net assets	42,355,885	38,895,107
Permanently restricted net assets	9,620,793	9,384,931
Total net assets	180,182,571	169,833,096
Total liabilities and net assets	\$ 225,587,813	\$ 221,621,497

YMCA of Greater Seattle
Consolidated Statement of Activities
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
PUBLIC SUPPORT AND REVENUE					
Public support					
Contributions	\$ 3,664,416	\$ 9,639,112	\$ 235,862	\$ 13,539,390	\$ 24,816,315
Contributed assets	-	-	-	-	27,192,752
United Way	1,154,278	-	-	1,154,278	1,588,714
Total public support	4,818,694	9,639,112	235,862	14,693,668	53,597,781
Revenue					
Program, net	31,145,751	-	-	31,145,751	28,333,136
Membership, net	35,670,738	-	-	35,670,738	31,378,189
Government	13,050,631	-	-	13,050,631	11,487,538
Other	519,783	-	-	519,783	508,610
Total earned revenue	80,386,903	-	-	80,386,903	71,707,473
Net assets released from restrictions	7,620,263	(7,620,263)	-	-	-
Total public support, revenue, and reclassifications	92,825,860	2,018,849	235,862	95,080,571	125,305,254
EXPENSES					
Program services	78,020,066	-	-	78,020,066	71,387,784
Management and general	11,661,442	-	-	11,661,442	8,954,126
Fundraising	2,482,444	-	-	2,482,444	2,290,037
Total expenses	92,163,952	-	-	92,163,952	82,631,947
PUBLIC SUPPORT AND REVENUE IN EXCESS OF EXPENSES BEFORE OTHER INCOME AND LOSSES	661,908	2,018,849	235,862	2,916,619	42,673,307
OTHER INCOME AND LOSSES					
Investment income	5,747,691	1,443,500	-	7,191,191	3,522,336
Loss on sale of assets	(34,318)	-	-	(34,318)	(8,333)
Change in value of split-interest agreements	79,623	(1,571)	-	78,052	4,314
Change in value of interest rate swap agreements	197,931	-	-	197,931	265,924
Total other income and losses	5,990,927	1,441,929	-	7,432,856	3,784,241
CHANGE IN NET ASSETS	6,652,835	3,460,778	235,862	10,349,475	46,457,548
NET ASSETS					
Beginning of year	121,553,058	38,895,107	9,384,931	169,833,096	123,375,548
End of year	\$ 128,205,893	\$ 42,355,885	\$ 9,620,793	\$ 180,182,571	\$ 169,833,096

YMCA of Greater Seattle
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Program Services				Support Services			
	Youth Development	Healthy Living	Social Responsibility	Total Program Services	Management and General	Fundraising	2017 Total	2016 Total
Salaries	\$14,585,343	\$19,251,510	\$5,914,244	\$39,751,097	\$5,164,063	\$1,527,475	\$ 46,442,635	\$ 40,943,786
Employee health and retirement benefits	1,877,486	2,249,924	1,171,988	5,299,398	844,709	239,646	6,383,753	6,026,416
Payroll taxes	1,315,585	1,735,045	516,692	3,567,322	393,140	121,305	4,081,767	3,601,700
Subtotal	17,778,414	23,236,479	7,602,924	48,617,817	6,401,912	1,888,426	56,908,155	50,571,902
Supplies	2,988,837	2,717,038	905,203	6,611,078	793,825	138,681	7,543,584	6,847,401
Occupancy	2,208,604	3,689,775	959,720	6,858,099	189,944	2,406	7,050,449	6,643,283
Depreciation and amortization	1,655,840	3,867,960	681,578	6,205,378	840,586	-	7,045,964	5,600,097
Professional fees and contract services	1,466,706	1,511,596	538,803	3,517,105	901,174	53,354	4,471,633	4,206,609
Public relations	111,277	257,950	37,084	406,311	943,013	252,556	1,601,880	2,066,672
Transportation and travel	965,739	326,387	261,801	1,553,927	188,882	50,036	1,792,845	1,735,853
Equipment rental and maintenance	286,550	572,466	91,406	950,422	160,267	6,280	1,116,969	1,093,141
Interest	212,936	497,408	70,402	780,746	37,706	-	818,452	677,006
Conferences and training	146,358	140,607	71,327	358,292	432,137	80,348	870,777	745,328
Telephone	121,594	126,445	123,070	371,109	412,442	1,083	784,634	703,516
Agency dues	149,370	308,358	44,336	502,064	85,911	3,835	591,810	534,230
Other	45,765	54,530	47,055	147,350	252,643	5,439	405,432	238,000
Specific assistance	-	45	1,140,323	1,140,368	21,000	-	1,161,368	968,909
Total expenses	<u>\$ 28,137,990</u>	<u>\$ 37,307,044</u>	<u>\$ 12,575,032</u>	<u>\$ 78,020,066</u>	<u>\$ 11,661,442</u>	<u>\$ 2,482,444</u>	<u>\$ 92,163,952</u>	<u>\$ 82,631,947</u>
Allocation Percentage	30.53%	40.48%	13.64%	84.65%	12.65%	2.70%	100.00%	

See accompanying notes.

YMCA of Greater Seattle
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,349,475	\$ 46,457,548
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items included in change in net assets		
Depreciation	7,045,963	5,600,097
Net realized and unrealized gain on investments	(5,954,433)	(2,166,471)
Loss on disposal of fixed assets	34,318	8,833
Loss on disposal of donated software	-	429,866
Noncash change in value of split-interest agreements	(78,052)	(4,314)
Change in allowance for doubtful accounts	-	(888)
Change in discount and allowance for uncollectable pledges	(681,667)	(50,198)
Change in value in interest rate swap agreements	(197,931)	(265,924)
Contributions restricted for long-term purposes	(11,274,122)	(18,527,645)
Contribution of leasehold asset	-	(27,192,752)
Change in operating accounts		
Accounts receivable	664,251	44,904
Pledges receivable	4,756,785	842,023
Prepaid expenses and other current assets	11,374	80,866
Other long-term assets	9,942	(390,058)
Accounts payable and accrued expenses	(1,613,968)	3,095,786
Other liabilities	(52,467)	(122,263)
Net cash provided by operating activities	<u>3,019,468</u>	<u>7,839,410</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	495,000	(50,000)
Purchases of land, buildings and equipment	(7,124,718)	(13,145,645)
Proceeds from sale of land, buildings and equipment	8,892	500
Purchases of investments	(20,692,302)	(40,801,267)
Proceeds from sale or maturity of investments	19,119,387	38,509,483
Net cash used in investing activities	<u>(8,193,741)</u>	<u>(15,486,929)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds payable and capital leases	(1,455,614)	(1,180,156)
Borrowings on line of credit, net	-	7,154,000
Principal payments on line of credit	(3,779,000)	-
Proceeds from contributions restricted for endowment	304,836	399,225
Proceeds from contributions restricted for capital campaign	10,969,286	1,796,551
Net cash provided by financing activities	<u>6,039,508</u>	<u>8,169,620</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	865,235	522,101
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,917,765</u>	<u>4,395,664</u>
End of year	<u>\$ 5,783,000</u>	<u>\$ 4,917,765</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 821,100</u>	<u>\$ 698,134</u>
Net contribution of capital assets	<u>\$ -</u>	<u>\$ 27,192,751</u>
Equipment acquired through capital lease	<u>\$ 701,802</u>	<u>\$ 1,769,383</u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 1 – Background and Summary of Significant Accounting Policies

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

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

Principles of consolidation – The accompanying consolidated financial statements as of December 31, 2017, include the accounts of YMCA of Greater Seattle and its wholly owned subsidiary, the 909 4th YMCA Limited Partnership. All significant intercompany accounts and transactions have been eliminated.

Communities served (unaudited) – The Y served 222,026 people during 2017 and engaged 18,223 volunteers who contributed 306,694 hours of service.

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

Unrestricted net assets – Unrestricted net assets include all net assets on which there are no donor-imposed restrictions for use, or on which donor-imposed restrictions were temporary and have expired. This category of net assets also includes certain net assets designated by the Board of Directors (Board) to support its activities as general and undesignated reserves.

Temporarily restricted net assets – Temporarily restricted net assets include all net assets received by donations under which the donors imposed some restriction on use. Such restrictions are time or purpose dependent and will expire on use of the net assets for the restricted purpose or the passage of time. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted (see Note 12).

Permanently restricted net assets – Permanently restricted net assets include all net assets received by donations wherein the donors imposed a permanent restriction on the use of the gift. This category of net assets is composed of various endowments given over the years by donors who required that the gift be invested and only the income from such investments be used to support the intended cause (see Note 13).

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

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

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

Restricted cash represents cash restricted for future capital purchases and cash restricted for self-insurance purposes, which totaled \$0 and \$680,000, respectively, as of December 31, 2017, and \$500,000 and \$675,000, respectively, as of December 31, 2016.

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

The Y recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Y recognizes interest and penalties related to income tax matters in income tax expense. As of December 31, 2017 and 2016, the Y is not aware of any uncertain tax positions requiring accrual.

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

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

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

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

Capitalization and depreciation – Purchased land, buildings, and equipment are recorded at cost, and those received by donations are capitalized at their estimated fair values on the date received.

Depreciation is accounted for on a straight-line method based upon the estimated useful lives of the assets as follows:

Buildings and improvements	20–40 years
Leasehold asset	40 years
Leasehold improvements - lesser of lease term or useful life	Generally 20 years
Furniture	7 years
Equipment	5 years
Vehicles	5–7 years

Revenue recognition – Revenue from public support is recognized at the time an unconditional promise to give or transfer of assets is made. Cost reimbursement government grants are recognized as revenue in the period the qualifying allowable expenditures are incurred. Program revenue is recognized at the start of the program or when goods or services are provided by the Y. Membership revenue is recognized over the membership service period. For the year ended December 31, 2017, program and membership revenues were reported on the statement of activities net of financial aid and discounts, which were \$10,710,510 and \$3,828,029, respectively. For the year ended December 31, 2016, program and membership revenues were reported on the statement of activities net of financial aid and discounts, which were \$9,962,652 and \$3,689,375, respectively.

Pledges and accounts receivable – Receivable balances consist primarily of receivables from government agencies and pledged contributions from individuals, foundations, and major corporations. The Y considers all endowment and temporarily restricted capital pledges as long-term, regardless of due dates. Pledges and accounts receivable are stated at the amount the Y expects to collect from outstanding balances. The Y provides for probable uncollectible amounts through a charge to the statement of activities and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges or accounts receivable. Management has evaluated the balances in pledges and accounts receivable. A reserve has been provided for doubtful accounts sufficient to cover expected losses for uncollectible pledges (see Note 3) and accounts receivable. The reserve for uncollectible receivables was \$166,576 as of December 31, 2017 and 2016.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

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

Donated goods and services (unaudited) – Many volunteers and corporations have donated significant amounts of time and services to the Y's fund-raising campaigns, policy-making boards, and program operations. However, such contributed services do not meet the criteria for recognition of contributed services contained in accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, are not reflected in the accompanying financial statements. While the financial statements reflect a de minimus value for donated professional services, the Y estimates that 18,223 program and policy volunteers gave over 306,694 hours of policy, program, administrative and facility support services in 2017. If valued at an average of \$30.04 per hour (this hourly amount is suggested by the Independent Sector in Washington D.C., a not-for-profit that promotes volunteerism and philanthropy), this would result in a total value of contributed services of \$9,213,088.

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

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

Vulnerability from certain concentrations – The Y may be vulnerable to loss of funding from various governmental agencies. Government funding accounted for 16.2% and 16.0% of earned revenue in 2017 and 2016, respectively. One contract/program through King County provided approximately \$3 million in revenue in 2017 and 2016, and represented 24% and 26% of government revenue, respectively. The receipt of governmental funding is subject to audit by various governmental agencies, the outcome of which is not known until the audits are completed. Management is aware of these risks and has contingency plans available.

Summarized information for prior year – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Y's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 2 – Fair Value Measurements

The Y has evaluated subsequent events through May 10, 2018, which is the date the consolidated financial statements were available for issuance and concluded that there were no events or transactions that need to be disclosed.

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

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

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

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

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

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

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

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 2 – Fair Value Measurements (continued)

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

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

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

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

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 2 – Fair Value Measurements (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2016, were as follows:

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Money market	\$ 48,748	\$ -	\$ -	\$ 48,748
Mutual funds				
Fixed income	15,623,755	-	-	15,623,755
Large cap	15,775,436	-	-	15,775,436
Mid cap	3,052,888	-	-	3,052,888
International	10,957,985	-	-	10,957,985
Exchange traded	32,099	-	-	32,099
Real estate	3,027,454	-	-	3,027,454
Split-interest agreements				
Money market	2,373	-	-	2,373
Equity mutual funds	325,974	-	-	325,974
Fixed income mutual funds	127,149	-	-	127,149
Other mutual funds	125,643	-	-	125,643
Beneficial interest held in trust	-	-	457,666	457,666
Total 2016 financial assets	<u>\$49,099,504</u>	<u>\$ -</u>	<u>\$ 457,666</u>	<u>\$49,557,170</u>
2016 financial liabilities				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,607</u>	<u>\$ 390,607</u>

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

	Split-Interest Agreements	Interest Rate Swap Agreements	Total (Level 3)
Balance at December 31, 2015	\$ 457,867	\$ (656,531)	\$ (198,664)
Total gains (loss) realized/ unrealized included in change in net assets	<u>(201)</u>	<u>265,924</u>	<u>265,723</u>
Balance at December 31, 2016	<u>\$ 457,666</u>	<u>\$ (390,607)</u>	<u>\$ 67,059</u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 3 – Pledges Receivable

Pledges receivable were as follows as of December 31:

	2017	2016
Pledges receivable expected to be collected in:		
Less than one year	\$ 7,658,820	\$ 7,577,534
One to five years	8,686,632	13,524,703
	16,345,452	21,102,237
Less allowance for uncollectible	(929,856)	(1,427,583)
Less unamortized discount	(603,404)	(787,344)
Total pledges receivable, net	14,812,192	18,887,310
Less current pledges receivable	(1,174,982)	(1,105,858)
	13,637,210	17,781,452
Total long-term pledges receivable*	\$ 13,637,210	\$ 17,781,452

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

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

Note 4 – Long-Term Investments

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

	2017	2016
Money market	\$ 70,682	\$ 48,748
Mutual funds - equity	34,920,948	29,818,408
Mutual funds - fixed income	17,199,973	15,623,755
Mutual funds - other	3,854,110	3,027,454
	56,045,713	48,518,365
Total long-term investments	\$ 56,045,713	\$ 48,518,365

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 4 – Long-Term Investments (continued)

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

	2017	2016
Dividends and interest	\$ 1,414,127	\$ 1,505,880
Realized and unrealized gains	5,980,002	2,164,877
Investment fees	(202,938)	(148,421)
Total investment income	<u>\$ 7,191,191</u>	<u>\$ 3,522,336</u>

Note 5 – Split-Interest Agreements

Perpetual trust – The Y is a one-third beneficiary of one trust held in perpetuity. The trust is administered by a financial institution. The trust provides for annual earnings distributions to the Y. The Y's interest in gains and losses in the value of the trust is recognized in the consolidated statement of activities as permanently restricted activities. The fair value of the Y's beneficial interest in the trust was \$480,146 and \$428,241 at December 31, 2017 and 2016, respectively.

Charitable remainder trust and charitable lead trust – During 2017 and 2016, the Y held a 100% beneficial interest in one charitable remainder unitrust. The unitrust provides a percentage of the net fair value of the trust, valued on the first day of each year, to be paid in a gift annuity. The annuity provides the donors a percentage of the original gift amount for the life of the donors. Upon the donors' deaths, the remainder goes to the Y. The trust provides for semi-annual payments, calculated as 8% of the net fair market value of the trust assets, valued as of the first day of each taxable year of the trust. The assets for this trust are reported at fair value of \$621,061 and \$581,139 at December 31, 2017 and 2016, respectively.

The liability to the donor is recorded at the present value of the estimated future payments expected to be distributed, discounted at a rate of 6%, which was \$381,294 and \$367,274 at December 31, 2017 and 2016, respectively.

The Y is also the beneficiary in an additional charitable remainder unitrust and charitable lead trust, both administered by investment brokerages. The fair value of the Y's beneficial interest in these trusts was \$29,670 and \$29,425 at December 31, 2017 and 2016, respectively.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 6 – Land, Buildings, and Equipment

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

	2017	2016
Land	\$ 14,669,749	\$ 14,669,749
Buildings and leasehold improvements	127,337,694	115,609,870
Leasehold asset	32,597,241	32,597,241
Furniture and equipment	18,784,042	15,754,056
Vehicles	2,713,146	2,704,402
Construction in progress	2,091,343	10,765,728
	<hr/>	<hr/>
Total unrestricted land, buildings and equipment	198,193,215	192,101,046
Less accumulated depreciation	<u>(55,607,732)</u>	<u>(50,336,535)</u>
	<hr/>	<hr/>
Unrestricted land, buildings and equipment, net	142,585,483	141,764,511
	<hr/>	<hr/>
Temporarily restricted furniture and equipment	206,058	206,058
Temporarily restricted real estate - building	1,984,135	1,984,135
Permanently restricted real estate - land	698,830	698,830
	<hr/>	<hr/>
Total restricted land, building and equipment	2,889,023	2,889,023
Less accumulated depreciation	<u>(1,501,995)</u>	<u>(1,418,369)</u>
	<hr/>	<hr/>
Restricted land, buildings and equipment, net	1,387,028	1,470,654
	<hr/>	<hr/>
Total land, buildings and equipment, net	<u>\$ 143,972,511</u>	<u>\$ 143,235,165</u>

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 6 – Land, Buildings, and Equipment (continued)

On April 29, 2013, the Y entered into an agreement with the City of Sammamish, whereby it would contribute approximately \$5 million toward the cost of construction on a new facility. In exchange, the Y would lease the facility, once complete, from the City at a rate of \$1 per year under an original 25-year lease. The lease also contains a provision allowing the Y to renew the lease for an additional 25-year period. At the inception date of the lease, the fair value of the building was estimated to be \$32,597,241. This amount, less the \$5,404,489, contributed by the Y was recognized 2016 as a contribution and a leasehold asset. The unamortized leasehold asset is reflected in the accompanying consolidated statements of financial position as a temporarily restricted net asset and is being amortized over the estimated useful life of the building at 40 years. At December 31, 2017, the unamortized leasehold asset is \$31,239,023. Of this balance, \$25,963,536 remains in temporarily restricted net assets as of December 31, 2017. Amortization expense for the year ended December 31, 2017 was \$814,931. The agreement also includes the lease of 7 acres of land, owned by the Y to the City for \$1 per year, for 25 years with the option to renew for an additional 25 years.

Note 7 – Deferred Program Revenue

Deferred program revenue was as follows as of December 31:

	2017	2016
Current portion deferred revenue		
City of Auburn	\$ 107,460	\$ 107,460
City of Newcastle	22,255	22,255
City of SeaTac	51,552	51,552
King County	75,000	75,000
Membership and Program deferred revenue	2,476,503	1,947,279
Other deferred program revenue	665,631	1,141,142
	<u>3,398,401</u>	<u>3,344,688</u>
Long-term deferred revenue		
City of Auburn	486,840	594,300
City of Newcastle	14,838	37,093
City of SeaTac	554,239	605,791
King County	306,279	381,279
	<u>1,362,196</u>	<u>1,618,463</u>
	<u><u>\$ 4,760,597</u></u>	<u><u>\$ 4,963,151</u></u>

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 7 – Deferred Program Revenue (continued)

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

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

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

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

Note 8 – Line of Credit

The Y entered into a line of credit agreement with a financial institution in September 2015 for borrowings up to \$6,000,000. In September 2016, the Y modified the agreement, which increased the amount of the line to \$12,000,000. The line of credit is unsecured and matures on September 30, 2021. Interest expense for the line of credit was \$88,407 in 2017. The agreement also requires the Y to meet certain financial covenants, which the Y was in compliance with as of December 31, 2017 and 2016. At December 31, 2017 and 2016, the balance outstanding under the agreement was \$4,875,000 and \$8,654,000, respectively.

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 9 – Bonds Payable

Bonds payable consisted of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Variable Rate Demand Nonprofit Revenue Bonds, Series 2012, due August 1, 2037, interest payable monthly and principal payable annually in varying amounts, interest rate adjusted weekly but not to exceed a maximum rate of 10% per annum; interest rate averaged % and 0.98% in 2017 and 2016, respectively.	\$ 26,570,000	\$ 27,325,000
Fixed Rate Demand Nonprofit Revenue Bonds, Series 2013, due July 1, 2020, principal and interest payable monthly at \$26,276, interest rate of 2.42%.	764,168	1,057,136
	<u>27,334,168</u>	<u>28,382,136</u>
Less bonds payable, current	<u>(1,051,226)</u>	<u>(1,016,816)</u>
Total bonds payable, noncurrent	<u>\$ 26,282,942</u>	<u>\$ 27,365,320</u>

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

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 9 – Bonds Payable (continued)

Principal maturities on the bonds are as follows:

For the Year Ending December 31,

2018	\$ 1,051,226
2019	1,141,872
2020	1,076,070
2021	920,000
2022	970,000
Thereafter	<u>22,175,000</u>
	<u><u>\$ 27,334,168</u></u>

Note 10 – Interest Rate Swap Agreements

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

Outstanding Notional	Trade Date	Effective Date	Swap Fixed Rate	Final Maturity Date
\$ 5,000,000	6/17/2009	7/1/2009	2.675%	4/1/2019
\$ 5,000,000	8/1/2009	8/1/2009	2.410%	4/1/2019
\$ 25,780,000	4/28/2017	4/1/2019	1.648%	5/1/2024
\$ 16,750,000	4/28/2017	5/1/2017	1.125%	4/1/2019

As of December 31, 2017 and 2016, the net fair value of the swap agreements was a liability of \$192,675 and \$390,607, respectively, and the related unrealized gain/loss on the value of the swap agreement was included in the consolidated statement of activities.

Note 11 – Leases

In 2015, the Y entered into a master agreement with a financial institution for a \$2,000,000 equipment line of credit facility. As of December 31, 2017, the Y had eight lease schedules for equipment and buses under the agreement. The leases mature between May 2018 and May 2023, bear interest at rates between 2.27% and 3.80%, and are secured by the underlying equipment and buses. As of December 31, 2017 and 2016, the Y had total capital lease payables of \$1,902,704 and \$1,608,550, respectively. Amounts due in the next year of the capital lease payable are recorded in other current liabilities in the consolidated statement of financial position.

YMCA of Greater Seattle
Notes to Consolidated Financial Statements

Note 11 – Leases (continued)

The future lease payments under all capital leases at December 31, 2017, are as follows:

For the Year Ending December 31,

2018	\$ 627,550
2019	622,427
2020	487,659
2021	227,088
2022	33,469
Thereafter	<u>12,873</u>
	2,011,066
Less amounts for interest	<u>108,362</u>
	<u><u>\$ 1,902,704</u></u>

Certain operations of the Y are conducted in leased space in the Seattle area. The Y also leases copiers and other electronic equipment with future minimum commitments. Future minimum lease payments under all significant noncancelable operating leases at December 31, 2017 are as follows:

For the Year Ending December 31,

2018	\$ 693,263
2019	295,243
2020	155,174
2021	97,948
2022	87,379
Thereafter	<u>1,466,303</u>
	<u><u>\$ 2,795,310</u></u>

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes or periods:

	2017	2016
Program restrictions	\$ 904,689	\$ 983,880
Endowment earnings	3,008,723	2,063,541
Satisfaction of time restrictions	2,126,458	1,922,411
Contribution of long-term asset	26,059,721	26,643,355
Acquisition of long-term assets	10,256,294	7,281,920
	<u>\$ 42,355,885</u>	<u>\$ 38,895,107</u>

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

	2017	2016
Program expenditures	\$ 676,227	\$ 569,189
Endowment earnings	446,529	434,267
Use of contributed long-term asset	589,744	543,287
Acquisition of long-term assets	4,719,496	12,809,495
Satisfaction of time restrictions	1,188,267	918,965
	<u>\$ 7,620,263</u>	<u>\$ 15,275,203</u>

Note 13 – Permanently Restricted Net Assets

At December 31, 2017 and 2016, the Y had \$9,620,793 and \$9,384,931, respectively, of permanently restricted net assets. This is comprised of endowment investments, the income of which is primarily restricted to specific programs, endowment pledges, perpetual trusts, and real estate as described in Note 6.

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 14 – Endowments

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (61,190)	\$ 3,008,723	\$ 7,943,119	\$ 10,890,652
Board designated quasi-endowment fund	20,918,940	-	-	20,918,940
Endowment net assets	<u>\$20,857,750</u>	<u>\$ 3,008,723</u>	<u>\$ 7,943,119</u>	<u>\$31,809,592</u>

As of December 31, 2016, endowment net assets consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (127,868)	\$ 2,063,541	\$ 7,754,086	\$ 9,689,759
Board designated quasi-endowment fund	18,952,051	-	-	18,952,051
Endowment net assets	<u>\$18,824,183</u>	<u>\$ 2,063,541</u>	<u>\$ 7,754,086</u>	<u>\$28,641,810</u>

Reconciliation of endowment net assets to permanently restricted net assets at December 31:

	2017	2016
Permanently restricted endowment net assets	\$ 7,943,119	\$ 7,754,086
Permanently restricted real estate - land	698,830	698,830
Permanently restricted endowment pledges	498,698	503,775
Perpetual trusts	480,146	428,240
Total permanently restricted net assets	<u>\$ 9,620,793</u>	<u>\$ 9,384,931</u>

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 14 – Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2016	\$ 18,824,183	\$ 2,063,541	\$ 7,754,086	\$ 28,641,810
Endowment investment return				
Interest and dividends	549,274	274,173	-	823,447
Realized and unrealized gains	2,207,019	1,135,499	-	3,342,518
Change in value of split-interest agreement	-	27,718	-	27,718
Total endowment investment return	<u>2,756,293</u>	<u>1,437,390</u>	<u>-</u>	<u>4,193,683</u>
Contributions and recollection of pledges	140,000	-	189,033	329,033
Recovery of underwater endowment	66,679	(66,679)	-	-
Appropriation of endowment for expenditure	<u>(929,405)</u>	<u>(425,529)</u>	<u>-</u>	<u>(1,354,934)</u>
Endowment net assets, December 31, 2017	<u>\$ 20,857,750</u>	<u>\$ 3,008,723</u>	<u>\$ 7,943,119</u>	<u>\$ 31,809,592</u>

Changes to endowment net assets for the year ended December 31, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	\$ 18,170,291	\$ 1,849,720	\$ 7,075,435	\$ 27,095,446
Endowment investment return				
Interest and dividends	601,082	290,415	-	891,497
Realized and unrealized gains	755,283	399,768	-	1,155,051
Change in value of split-interest agreement	-	4,452	-	4,452
Total endowment investment return	<u>1,356,365</u>	<u>694,635</u>	<u>-</u>	<u>2,051,000</u>
Contributions and recollection of pledges	115,763	-	678,651	794,414
Recovery of underwater endowment	73,822	(73,822)	-	-
Appropriation of endowment for expenditure	<u>(892,058)</u>	<u>(406,992)</u>	<u>-</u>	<u>(1,299,050)</u>
Endowment net assets, December 31, 2016	<u>\$ 18,824,183</u>	<u>\$ 2,063,541</u>	<u>\$ 7,754,086</u>	<u>\$ 28,641,810</u>

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Y to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were (\$61,190) and (\$127,868) as of December 31, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations.

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

YMCA of Greater Seattle

Notes to Consolidated Financial Statements

Note 14 – Endowments (continued)

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

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

Note 15 – Retirement Plans

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

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

In accordance with the agreement with the Fund, the Y contributions are 12% of the participating employees' eligible salaries, and are remitted to the Fund monthly. Total Y retirement contributions charged to employee benefit expenses were \$2,504,969 and \$2,365,172 in 2017 and 2016, respectively.

Note 16 – Conditional Pledges

The Y periodically receives pledges with donor specified conditions that require further action or performance by the Y. The Y recognizes contributions revenue on the statement of activities in the year these conditions are met. During 2017 the Y recognized contribution revenue for the following pledge as all conditions of the pledge were satisfied: \$522,000 for a housing program used exclusively for young adults transitioning out of foster care.

As of December 31, 2017, the Y has received conditional pledges for which donor specified conditions have not been met of which, \$8,000,000 is to be used for capital purchases and \$530,700 is to be used for the Foster Care Funding Collaborative.

Single Audit Reports

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
YMCA of Greater Seattle

We have audited, in accordance with the 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, the consolidated financial statements of YMCA of Greater Seattle, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered YMCA of Greater Seattle's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of YMCA of Greater Seattle's internal control. Accordingly, we do not express an opinion on the effectiveness of YMCA of Greater Seattle's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether YMCA of Greater Seattle's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Seattle, Washington
May 10, 2018

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
YMCA of Greater Seattle

Report on Compliance for the Major Federal Program

We have audited YMCA of Greater Seattle's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on YMCA of Greater Seattle's major federal program for the year ended December 31, 2017. YMCA of Greater Seattle's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for YMCA of Greater Seattle's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about YMCA of Greater Seattle's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of YMCA of Greater Seattle's compliance.

Opinion on the Major Federal Program

In our opinion, YMCA of Greater Seattle complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of YMCA of Greater Seattle is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered YMCA of Greater Seattle's internal control over compliance with the types of requirements that could have a direct and material effect on the federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of YMCA of Greater Seattle's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Seattle, Washington
May 10, 2018

YMCA of Greater Seattle
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major Federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of Major Federal Programs

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for Major Federal Programs</i>
93.958	Block Grants for Community Mental Health Services	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

II. FINANCIAL STATEMENT FINDINGS

None reported

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

YMCA of Greater Seattle
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2016

There are no prior year findings.

Supplementary Information

YMCA of Greater Seattle
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency/Pass-Through Identifying Number	Federal Disbursements/ Expenditures
Department of Labor:			
<i>Pass-Through Program From-</i>			
King County:			
WIA/WIOA Youth Activities	17.259	16/253-YWK	40,453
WIA/WIOA Youth Activities	17.259	5907606 Exh IV	58,839
WIA/WIOA Youth Activities	17.259	5724876 Exh VII	63,094
<i>Total CFDA 17.259</i>			<u>162,386</u>
Total Department of Labor			<u>162,386</u>
Department of Justice:			
<i>Pass-Through Program From-</i>			
Center for Children and Youth Justice:			
Youth Gang Prevention	16.544		<u>22,500</u>
Total Department of Justice			<u>22,500</u>
Department of Housing & Urban Development:			
<i>Pass-Through Program From-</i>			
City of Seattle:			
Continuum of Care Program	14.267	DA16-1645	386,273
Continuum of Care Program	14.267	DA17-1645	106,603
<i>Total CFDA 14.267</i>			<u>492,876</u>
King County Housing Authority:			
Moving to Work Demonstration Program	14.881	PBSH-0007-2013	1,305
Seattle Housing Authority:			
Moving to Work Demonstration Program	14.881	4563	780
<i>Total CFDA 14.881</i>			<u>2,085</u>
Total Department of Housing & Urban Development			<u>494,961</u>
Department of Health & Human Services:			
<i>Pass-Through Program From-</i>			
King County Public Health:			
Child Support Enforcement	93.563	5498419	<u>602</u>
State of Washington – DSHS:			
Chafee Foster Care Independence Program	93.674	1612-76013	441,951
Chafee Foster Care Independence Program	93.674	1712-16446	115,707
<i>Total CFDA 93.674</i>			<u>557,658</u>
King County:			
Block Grants for Community Mental Health Services	93.958	5895705 Exh IV	<u>1,309,294</u>
Total Department of Health & Human Services			<u>\$ 1,867,554</u>

YMCA of Greater Seattle
Schedule of Expenditures of Federal Awards (continued)
Year Ended December 31, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency/Pass-Through Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
Department of Agriculture:			
<i>Pass-Through Program From-</i>			
State of Washington – Office of Superintendent of			
Public Instruction (OSPI):			
Child Nutrition Cluster			
Special Milk Program for Children	10.556		\$ 40,956
Summer Food Service Program for Children	10.559		23,865
<i>Total Child Nutrition Cluster</i>			<u>64,821</u>
Child and Adult Care Food Program	10.558		185,086
<i>Pass-Through Program From-</i>			
Natural Resources Conservation Service			
Environmental Quality Incentives Program	10.912		<u>25,417</u>
Total Department of Agriculture			<u>275,324</u>
Department of Education			
<i>Pass-Through Program From-</i>			
State of Washington, OSPI:			
Twenty-First Century Community Learning Centers	84.287	991134	195,987
Twenty-First Century Community Learning Centers	84.287	991154	56,167
Twenty-First Century Community Learning Centers	84.287	992969	244,213
Twenty-First Century Community Learning Centers	84.287	992949	184,545
Total CFDA 84.287			<u>680,912</u>
Total Department of Education			<u>680,912</u>
Total Federal Expenditures			<u>\$ 3,503,637</u>

YMCA of Greater Seattle
Notes to Schedule of Expenditures of Federal Awards
December 31, 2017

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of YMCA of Greater Seattle (the “Y” or “Organization”) under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Y, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Y. These amounts are included in the statement of activities in the basic financial statements, which also includes nonfederal government funding that is not reflected in the accompanying Schedule.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 – Indirect Cost Rate

The Y has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance to the extent allowed by each grant. The Y does not have an approved indirect cost rate.

