# YOUNG MEN'S CHRISTIAN ASSOCIATION
# OF MIDDLE TENNESSEE

## FINANCIAL STATEMENTS

## December 31, 2016 and 2015

**YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE**

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Young Men's Christian Association of Middle Tennessee
Nashville, Tennessee

We have audited the accompanying financial statements of the Young Men's Christian Association of Middle Tennessee (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

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**Opinion**

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

Frasier, Dean & Howard, PLLC

Nashville, Tennessee
May 11, 2017

# YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE
## STATEMENTS OF FINANCIAL POSITION
### December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,083,485 | $ 10,733,664 |
| Accounts and grants receivable: | | |
| Membership and program fees, net | 779,609 | 808,825 |
| Grants and contracts | 232,834 | 195,278 |
| Pledges receivable, net | 1,878,604 | 374,834 |
| Note receivable | 1,353,730 | 91,653 |
| Prepaid expenses and other assets | 745,311 | 1,025,571 |
| Total current assets | 15,073,573 | 13,229,825 |
| Pledges receivable, less current portion, net | 77,888 | 1,098,043 |
| Note receivable, less current portion, net | - | 1,365,000 |
| Property and equipment - held for sale, net | - | 3,749,999 |
| Property and equipment, net | 115,848,724 | 117,292,084 |
| Cash restricted for investment in property and equipment | 870,610 | 1,026,526 |
| Total assets | $ 131,870,795 | $ 137,761,477 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,646,005 | $ 2,986,289 |
| Accrued expenses | 3,472,486 | 3,623,541 |
| Deferred membership and other revenues | 1,938,407 | 1,347,370 |
| Current portion of notes payable | 565,226 | 190,641 |
| Current portion of bonds payable | 1,474,681 | 1,421,528 |
| Current portion of capital leases | 1,263,525 | 1,966,512 |
| Total current liabilities | 10,360,330 | 11,535,881 |
| Line of credit | 31,718 | 1,871,718 |
| Deferred lease revenue | 939,554 | 1,056,868 |
| Interest rate swap liability | 2,365,090 | 3,111,723 |
| Long term notes payable, less current portion | 4,141,420 | 3,324,316 |
| Long term bonds payable, less current portion | 43,414,138 | 44,888,819 |
| Long term capital leases, less current portion | 435,800 | 1,700,816 |
| Total liabilities | 61,688,050 | 67,490,141 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 62,237,791 | 63,241,599 |
| Board designated | 4,135,186 | 3,789,661 |
| Total unrestricted | 66,372,977 | 67,031,260 |
| Temporarily restricted | 3,809,768 | 3,240,076 |
| Total net assets | 70,182,745 | 70,271,336 |
| Total liabilities and net assets | $ 131,870,795 | $ 137,761,477 |

See accompanying notes to financial statements.

# YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE
## STATEMENTS OF ACTIVITIES
### For the Year Ended December 31, 2016
### (With Summarized Financial Information for the Year Ended December 31, 2015)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | 2015 Total |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Public support: | | | | | |
| Contributions | $ 2,692,132 | $ 670,575 | $ - | $ 3,362,707 | $ 3,800,739 |
| Foundation and corporate grants | 592,046 | 860,021 | - | 1,452,067 | 1,338,767 |
| Special events, net | 695,653 | - | - | 695,653 | 585,488 |
| Gain (loss) of disposal of property and equipment | (252,225) | - | - | (252,225) | 71,604 |
| Total public support | 3,727,606 | 1,530,596 | - | 5,258,202 | 5,796,598 |
| Revenue: | | | | | |
| Membership fees, net | 42,129,423 | - | - | 42,129,423 | 43,533,000 |
| Program fees, net | 22,536,131 | - | - | 22,536,131 | 22,251,616 |
| Government grants and contracts | 2,189,276 | - | - | 2,189,276 | 2,055,785 |
| Other income | 965,132 | - | - | 965,132 | 1,114,170 |
| Sales to members | 839,597 | - | - | 839,597 | 835,198 |
| Consulting and management fees | 187,374 | - | - | 187,374 | 174,829 |
| Interest income | - | - | - | - | 14,194 |
| Total revenue | 68,846,933 | - | - | 68,846,933 | 69,978,792 |
| Total public support and revenue | 72,574,539 | 1,530,596 | - | 74,105,135 | 75,775,390 |
| Expenses: | | | | | |
| Program services | 64,531,444 | - | - | 64,531,444 | 65,637,156 |
| Administrative | 9,306,949 | - | - | 9,306,949 | 8,342,223 |
| Fundraising | 2,115,904 | - | - | 2,115,904 | 1,832,000 |
| Total expenses | 75,954,297 | - | - | 75,954,297 | 75,811,379 |
| Changes in net assets from operations | (3,379,758) | 1,530,596 | - | (1,849,162) | (35,989) |
| Non-operating activities: | | | | | |
| Unrealized gain on interest rate swap | 746,643 | - | - | 746,643 | (872,694) |
| Contributions for capital assets | 413,235 | 702,274 | - | 1,115,509 | 1,476,222 |
| Loss on restructuring | (101,581) | - | - | (101,581) | (257,839) |
| Release from restriction | 1,663,178 | (1,663,178) | - | - | - |
| Total non-operating activities | 2,721,475 | (960,904) | - | 1,760,571 | 345,689 |
| Change in net assets | (658,283) | 569,692 | - | (88,591) | 309,700 |
| Net assets - beginning of year | 67,031,260 | 3,240,076 | - | 70,271,336 | 69,961,636 |
| Net assets - end of year | $ 66,372,977 | $ 3,809,768 | $ - | $ 70,182,745 | $ 70,271,336 |

See accompanying notes to the financial statements.

## YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE
## STATEMENTS OF ACTIVITIES
## For the Year Ended December 31, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Operating activities: | | | | |
| Public support: | | | | |
| Contributions | $ 3,367,052 | $ 433,687 | $ - | $ 3,800,739 |
| Foundation and corporate grants | 695,730 | 643,037 | - | 1,338,767 |
| Special events, net | 585,488 | - | - | 585,488 |
| Gain (loss) of disposal of property and equipment | 71,604 | - | - | 71,604 |
| Total public support | 4,719,874 | 1,076,724 | - | 5,796,598 |
| Revenue: | | | | |
| Membership fees, net | 43,533,000 | - | - | 43,533,000 |
| Program fees, net | 22,251,616 | - | - | 22,251,616 |
| Government grants and contracts | 2,055,785 | - | - | 2,055,785 |
| Other income | 1,114,170 | - | - | 1,114,170 |
| Sales to members | 835,198 | - | - | 835,198 |
| Consulting and management fees | 174,829 | - | - | 174,829 |
| Interest income | 14,194 | - | - | 14,194 |
| Total revenue | 69,978,792 | - | - | 69,978,792 |
| Total public support and revenue | 74,698,666 | 1,076,724 | - | 75,775,390 |
| Expenses: | | | | |
| Program services | 65,637,156 | - | - | 65,637,156 |
| Administrative | 8,342,223 | - | - | 8,342,223 |
| Fundraising | 1,832,000 | - | - | 1,832,000 |
| Total expenses | 75,811,379 | - | - | 75,811,379 |
| Changes in net assets from operations | (1,112,713) | 1,076,724 | - | (35,989) |
| Non-operating activities: | | | | |
| Unrealized loss on interest rate swap | (872,694) | - | - | (872,694) |
| Contributions for capital assets | 308,715 | 1,167,507 | - | 1,476,222 |
| Loss on restructuring | (257,839) | - | - | (257,839) |
| Release from restriction | 441,350 | (441,350) | - | - |
| Total non-operating activities | (380,468) | 726,157 | - | 345,689 |
| Change in net assets | (1,493,181) | 1,802,881 | - | 309,700 |
| Net assets - beginning of year | 68,524,441 | 1,437,195 | - | 69,961,636 |
| Net assets - end of year | $ 67,031,260 | $ 3,240,076 | $ - | $ 70,271,336 |

See accompanying notes to the financial statements.

**YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE**
**STATEMENT OF FUNCTIONAL EXPENSES**
**For the Year Ended December 31, 2016**

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program Services | Administrative | Fundraising | Total |
| Personnel costs: | | | | |
| Salaries and wages | $ 28,251,401 | $ 5,047,088 | $ 1,171,947 | $ 34,470,436 |
| Employee benefits | 2,936,599 | 175,628 | 183,507 | 3,295,734 |
| Payroll taxes | 2,646,991 | 393,211 | 81,316 | 3,121,518 |
| Total personnel costs | 33,834,991 | 5,615,927 | 1,436,770 | 40,887,688 |
| Non-personnel costs: | | | | |
| Occupancy | 9,280,937 | 329,103 | - | 9,610,040 |
| Depreciation and amortization | 7,822,319 | 354,371 | - | 8,176,690 |
| Supplies | 3,852,889 | 157,046 | 154,524 | 4,164,459 |
| Purchased services | 1,734,877 | 451,875 | 98,038 | 2,284,790 |
| Financing costs | 1,914,019 | - | - | 1,914,019 |
| Technology system and services | 1,056,663 | 808,883 | 26,901 | 1,892,447 |
| Awards, grants and assistance | 1,457,383 | - | - | 1,457,383 |
| Conferences, meetings, and staff development | 1,074,927 | 265,836 | 43,863 | 1,384,626 |
| Equipment | 710,110 | 214,518 | 6,197 | 930,825 |
| Promotion and publication | 246,349 | 672,359 | - | 918,708 |
| Travel, meals and entertainment | 472,515 | 153,200 | 8,411 | 634,126 |
| Membership and professional dues | 473,061 | 52,981 | 3,862 | 529,904 |
| Bad debt expense | 204,057 | - | 314,487 | 518,544 |
| Miscellaneous | 167,324 | 48,226 | 20,209 | 235,759 |
| Liability and other insurance | 206,759 | 14,394 | - | 221,153 |
| Postage and shipping | 22,264 | 168,230 | 2,642 | 193,136 |
| Total non-personnel costs | 30,696,453 | 3,691,022 | 679,134 | 35,066,609 |
| Total expenses | $ 64,531,444 | $ 9,306,949 | $ 2,115,904 | $ 75,954,297 |

See accompanying notes to the financial statements.

**YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE**
**STATEMENT OF FUNCTIONAL EXPENSES**
**For the Year Ended December 31, 2015**

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program Services | Administrative | Fundraising | Total |
| Personnel costs: | | | | |
| Salaries and wages | $ 28,431,575 | $ 4,472,087 | $ 1,080,269 | $ 33,983,931 |
| Employee benefits | 2,985,007 | 453,502 | 181,105 | 3,619,614 |
| Payroll taxes | 2,731,423 | 372,891 | 74,412 | 3,178,726 |
| Total personnel costs | 34,148,005 | 5,298,480 | 1,335,786 | 40,782,271 |
| Non-personnel costs: | | | | |
| Occupancy | 9,635,514 | 383,473 | - | 10,018,987 |
| Depreciation and amortization | 8,243,655 | 397,943 | - | 8,641,598 |
| Supplies | 4,071,518 | 149,126 | 166,261 | 4,386,905 |
| Purchased services | 1,569,899 | 377,244 | 105,271 | 2,052,414 |
| Technology system and services | 1,200,162 | 757,586 | 30,924 | 1,988,672 |
| Financing costs | 1,677,886 | 15,929 | - | 1,693,815 |
| Conferences, meetings, and staff development | 889,312 | 169,110 | 30,981 | 1,089,403 |
| Equipment | 671,756 | 320,764 | 3,960 | 996,480 |
| Promotion and publication | 962,998 | 10,609 | - | 973,607 |
| Awards, grants and assistance | 952,884 | - | - | 952,884 |
| Travel, meals and entertainment | 406,353 | 141,144 | 9,713 | 557,210 |
| Membership and professional dues | 450,439 | 50,706 | 4,049 | 505,194 |
| Bad debt expense | 256,629 | - | 113,511 | 370,140 |
| Miscellaneous | 172,550 | 121,845 | 30,032 | 324,427 |
| Liability and other insurance | 222,863 | 46,033 | - | 268,896 |
| Postage and shipping | 104,733 | 102,231 | 1,512 | 208,476 |
| Total non-personnel costs | 31,489,151 | 3,043,743 | 496,214 | 35,029,108 |
| Total expenses | $ 65,637,156 | $ 8,342,223 | $ 1,832,000 | $ 75,811,379 |

See accompanying notes to the financial statements.

**YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE**
**STATEMENTS OF CASH FLOWS**
**For the Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (88,591) | $ 309,700 |
| Adjustments to reconcile change in net assets to cash provided by operating activities: | | |
| Depreciation and amortization | 8,176,690 | 8,641,598 |
| Loss on disposition and impairment of property and equipment | 252,225 | 18,848 |
| (Decrease) increase in interest rate swap liability | (746,633) | 872,694 |
| Contributions for property and equipment | (1,115,509) | (1,476,222) |
| Changes in operating assets and liabilities: | | |
| Accounts and grants receivable | (8,340) | 625,203 |
| Pledges receivable | (217,099) | (224,885) |
| Prepaid expenses and other assets | 280,260 | (407,253) |
| Accounts payable and accrued expenses | (1,269,100) | (83,053) |
| Deferred membership and other revenues | 591,037 | (615,527) |
| Deferred lease revenue | (117,314) | (113,797) |
| Net cash provided by operating activities | 5,737,626 | 7,547,306 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (7,141,199) | (4,075,062) |
| Decrease (increase) in cash restricted for investment in property and equipment | 155,916 | (754,518) |
| Principal payments received on note receivable | 102,923 | 8,347 |
| Proceeds from sale of property and equipment | 3,737,816 | 3,029,470 |
| Net cash used in investing activities | (3,144,544) | (1,791,763) |
| Cash flows from financing activities: | | |
| Proceeds received from contributions for property and equipment | 848,993 | 1,393,417 |
| Principal payments on debt obligations | (2,124,251) | (7,956,479) |
| Proceeds from debt obligations | - | 3,355,312 |
| Principal payments on capital lease obligations | (1,968,003) | (1,685,186) |
| Net cash used in financing activities | (3,243,261) | (4,892,936) |
| (Decrease) increase in cash and cash equivalents | (650,179) | 862,607 |
| Cash and cash equivalents - beginning of year | 10,733,664 | 9,871,057 |
| Cash and cash equivalents - end of year | $ 10,083,485 | $ 10,733,664 |

See accompanying notes to the financial statements.

## YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE
## STATEMENTS OF CASH FLOWS (Continued)
## For the Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Supplemental cash flow disclosures: | | |
| Non-cash investing and financing activities: | | |
| Property and equipment acquired through notes payable | $ 54,412 | $ - |
| Property and equipment acquired through capitalized leases | $ - | $ 3,027,205 |
| Sale of property financed through note receivable | $ - | $ 1,465,000 |
| Accounts payable for construction-in-progress | $ 175,539 | $ 397,778 |
| Interest expense paid | $ 1,914,019 | $ 1,693,815 |

See accompanying notes to the financial statements.

**YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE**
**NOTES TO FINANCIAL STATEMENTS**
**December 31, 2016 and 2015**

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

The Young Men's Christian Association of Middle Tennessee (the "YMCA") is a worldwide charitable fellowship united by a common loyalty to Jesus Christ for the purpose of helping people grow in spirit, mind and body. As the region's leading nonprofit dedicated to strengthening community, the YMCA works side-by-side with neighbors to make sure that everyone, regardless of age, income or background, has the opportunity to learn, grow and thrive. With 15 family wellness centers and over 150 program locations, the YMCA exists to nurture the potential of children and teens, improve the region's health and well-being and to provide opportunities to give back and support neighbors.

### Basis of Presentation

The accompanying financial statements present the financial position and operations of the corporate office and all YMCA centers on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. All significant transactions and balances between and among the Corporate Office and the centers have been eliminated in combination.

Resources are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

*Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction. Unrestricted net assets include certain board designated reserves for contingencies, major maintenance and capital asset additions.

*Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

*Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations or certain restricted purposes. The YMCA had no permanently restricted net assets as of December 31, 2016 or 2015.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The YMCA also receives grant revenue from various federal and state agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

Any gifts of equipment or materials are reported as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

### Donated Services

Many individuals volunteer their time and perform a variety of tasks for or on behalf of the YMCA. During 2016 and 2015, contributed services meeting the requirements for recognition in the financial statements was not significant.

### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of checking account balances, savings account balances, and money market funds that can be liquidated without significant penalty or restriction.

### Accounts and Grants Receivable

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through adjustments to valuation allowances based on its assessment of the current status of individual receivables. The allowance for doubtful accounts for accounts and grants receivable at December 31, 2016 and 2015, is $68,951 and $83,100, respectively.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using an appropriate discount rate commensurate with the rate on U.S. Government bonds whose maturities correspond to the maturities of the contributions and management's estimate of credit risk for each contribution. Amortization of the discount is recognized using the interest method over the term of the gift and is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends.

**Prepaid Expenses**

Prepaid expenses include certain marketing and promotional costs pertaining to future campaigns and are paid in advance and charged to operating expense when the campaign occurs.

Advertising, marketing and promotional costs incurred totaled $1,273,706 and $1,314,903 for the years ended December 31, 2016 and 2015, respectively.

**Property and Equipment**

Land, building, equipment, furniture and software are reported at cost at the date of purchase or at estimated fair value at date of gift to the YMCA. The YMCA's policy is to capitalize purchases with a cost of $5,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from two to forty years for equipment and furniture, five to seven years for software, fifteen to twenty years for land improvements and forty years for buildings and improvements.

Interest costs are capitalized in connection with construction of qualifying assets. Capitalization begins when expenditures for qualifying assets are made, activities necessary to prepare the asset for its intended use are in progress, and interest cost is being incurred. Capitalization ends when the asset is ready for its intended use. Capitalized interest cost is depreciated the same as the associated qualifying asset.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property and Equipment (Continued)

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The YMCA assesses recoverability of the carrying value of the asset by estimating future net cash flows expected to result from the assets, including eventual disposition. If the future cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and its estimated fair value.

### Derivatives

The YMCA utilizes derivative financial instruments to manage its interest rate exposure by reducing the impact of fluctuating interest rates on its debt service requirements. Derivatives are recognized as either assets or liabilities in the statement of financial position at fair value. Changes in the fair value of derivatives are recognized currently in the statement of activities.

### Deferred Revenues

Deferred revenue consists of membership dues, unearned revenue from a lease, and advance operational and maintenance costs received from a leasee.

Income from membership dues is deferred initially and recognized over the periods to which the dues relate.

Deferred lease revenue is recognized into income on the straight-line method over the term of the lease.

The reimbursement for operational and maintenance costs relating to a lease is recognized as the actual costs are incurred which is currently expected to represent a term of approximately 15 years.

Grant funds received prior to expenditure are recorded initially as deferred revenue and recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

### Reclassifications

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income Taxes

The YMCA qualifies as a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The YMCA pays tax on unrelated business income from certain activities. These activities and the related tax were insignificant in 2016 and 2015.

The YMCA files U.S. Federal Form 990 for organizations exempt from income tax and Form 990-T, an exempt organization business income tax return. In addition, the YMCA files a Tennessee state income tax return.

The YMCA follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The YMCA has no tax penalties or interest reported in the accompanying financial statements. There is no accrual for uncertain tax positions at December 31, 2016 and 2015.

### Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services - includes activities carried out to fulfill the YMCA's mission to provide nurturing and healthy development of children, teens, adults, seniors, families and communities.

Supporting Services:

Administrative - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Program and Supporting Services (Continued)**

Fundraising - includes costs of activities directed toward appeals for financial support including annual giving campaigns and grants. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

As part of its fundraising efforts, the YMCA holds periodic special events. Direct expenses related to special events are included within special event revenue in the accompanying statements of activities and totaled $268,309 and $254,172 for the years ended December 31, 2016 and 2015, respectively.

**Allocation of Functional Expenses**

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

**Use of Estimates**

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements**

The YMCA classifies its financial assets and liabilities based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for financial assets and liabilities:

Interest rate swaps are measured at fair value on a recurring basis utilizing Level 2 inputs. The YMCA obtains bank quotations to value its interest rate swaps. For purposes of potential valuation adjustments to its derivative positions, the YMCA evaluates the credit risk of its counterparties as well as that of the YMCA.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fair Value Measurements (Continued)**

The carrying value of cash and cash equivalents, accounts and grants receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying value of contributions receivable approximates fair value because of the present value discount included in the carrying amount. Notes payable, bonds payable, and capital lease obligations have a carrying value which approximates the fair value of the outstanding balance of the notes, bonds, and capital lease obligations, respectively. The estimated fair value amounts have been determined by the YMCA using available market information and appropriate valuation methodologies.

No changes in the valuation methodologies were made during 2016 or 2015.

**Subsequent Events**

The YMCA evaluated subsequent events through May 11, 2017, when these financial statements were available to be issued. YMCA management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

## NOTE 2 – CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents | $ 10,083,485 | $ 10,733,664 |
| Cash restricted for investment in property and equipment | 870,610 | 1,026,526 |
| | $ 10,954,095 | $ 11,760,190 |

## NOTE 3 – CONTRIBUTIONS RECEIVABLE

Pledges receivable consisted of the following as of December 31:

| | 2016 | 2015 |
|---|---|---|
| Temporarily restricted: | | |
| Less than one year | $ 1,943,986 | $ 562,322 |
| Over one year | 137,100 | 1,201,934 |
| | 2,081,086 | 1,764,256 |
| Less: allowance for uncollectible contributions | (65,382) | (187,488) |
| Less: discount to net present value | (59,212) | (103,891) |
| Total | $ 1,956,492 | $ 1,472,877 |

## NOTE 3 – CONTRIBUTIONS RECEIVABLE (Continued)

Contributions receivable are discounted at rates ranging from 0.72% to 5.17%.

## NOTE 4 – NOTE RECEIVABLE

During 2015, the YMCA financed the sale of property held for sale (see Note 5) by entering into a note receivable agreement with the purchaser. The note requires monthly interest payments calculated at an annual rate of 5%. Additionally, periodic principal payments are required with the balance due in full on November 15, 2017.

Annual principal payments to be received under the note receivable at December 31, 2016 are:

| Years Ending December 31: | |
|---|---|
| 2017 | $ 1,353,730 |

## NOTE 5 – PROPERTY AND EQUIPMENT - HELD FOR SALE

During 2011, the YMCA received a land donation with an estimated fair value of $2,000,000. During the same year, the YMCA purchased adjacent land for $1,825,738. During 2013, management determined that the YMCA would sell the land and listed the property for sale and recognized an impairment loss of $1,725,738. During 2015, the property was sold and a note receivable for the balance was negotiated with the purchaser (see Note 4).

During 2015, the YMCA ceased operations in a facility with a net recorded value of $4,913,552 at the date of closure. The property was written down to $3,749,999 to reflect management's estimate of net proceeds to be received upon the ultimate sale of the property. The property was sold during 2016 for $3,334,106. The resulting loss on the sale is recorded in loss on disposal of property and equipment in the accompanying 2016 statement of activities.

## NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

| | 2016 | 2015 |
|---|---|---|
| Land and land improvements | $ 17,208,074 | $ 15,538,300 |
| Buildings and improvements | 133,627,865 | 133,627,865 |
| Equipment and furniture | 35,205,912 | 39,768,788 |
| Software | 4,116,376 | 4,116,376 |
| Construction in progress | 5,873,799 | 1,537,395 |
| | 196,032,026 | 194,588,724 |
| Less: accumulated depreciation | (80,183,302) | (77,296,640) |
| | $115,848,724 | $117,292,084 |

Construction in progress includes renovations and additions that were underway at December 31, 2016 and 2015 at YMCA centers.

## NOTE 7 – DEFERRED LEASE REVENUE

In June 2006, the YMCA entered into an agreement with Fifty Forward (a nonprofit organization) for facility use and maintenance. Under the terms of the lease, Fifty Forward has the right to occupy approximately 20% of the space at the Bellevue Family YMCA and J.L. Turner Center for Lifelong Learning for an initial term of 20 years, with four consecutive five-year renewal options. The agreement required an initial advance payment of $2,000,000, of which $1,486,636 was prepaid rent for the entire initial lease term, and $513,364 was a prepayment for estimated operational costs and maintenance for approximately 15 years. The remaining unamortized balance of deferred lease revenue for the Bellevue facility totaled $939,554 and $1,056,868 at December 31, 2016 and 2015, respectively.

## NOTE 8 – LINE OF CREDIT

The YMCA maintains a line of credit with a financial institution. The line of credit provides for maximum borrowings of $15,000,000 through October 31, 2020. The agreement requires monthly interest payments calculated at a rate of LIBOR plus 1.30% (1.92% and 1.60% at December 31, 2016 and 2015, respectively) in addition to a fee of 1.00% of the unused principal balance. The line of credit contains a provision to periodically convert portions of the balance to term notes, based upon the purpose for which the funds were drawn as well as the length of time the funds remain unpaid. During 2016 and 2015, balances totaling $1,710,000 and $3,463,649, respectively, were converted to term loans (see Note 9).

## NOTE 8 – LINE OF CREDIT (Continued)

Outstanding borrowings on the line of credit totaled $31,718 and $1,871,718 at December 31, 2016 and 2015, respectively. The line of credit contains restrictive covenants and is secured by a negative pledge of the YMCA's assets. The YMCA was in compliance with all covenants at December 31, 2016.

## NOTE 9 – NOTES AND BONDS PAYABLE

On July 1, 2012, the YMCA entered into an agreement with a financial institution to provide up to $57 million in financing through a guaranty and credit qualified tax exempt loan and up to $15 million in financing (see line of credit discussed in Note 8) through a taxable debt facility. These debt instruments served to refinance substantially all existing debt and provide additional borrowing capacity. The industrial development bond associated with the tax exempt loan was approved by the Davidson County Industrial Development Board on May 8, 2012. The guaranty and credit agreement contains restrictive covenants and is secured by a negative pledge of the YMCA's real property. The agreement contains a provision to adjust the monthly payment requirement and provide the financial institution the option to call the bonds, with 90 days notice, on October 1, 2015, October 1, 2030, and October 1, 2035. The YMCA was in compliance with all covenants at December 31, 2016.

Notes and bonds payable consisted of the following at December 31:

| | | 2016 | 2015 |
|---|---|---|---|
| Bonds Payable | | | |
| 2012 Industrial Revenue Bonds, face value $57,000,000, final maturity date of June 1, 2037. Payments toward principal repayment are due monthly. Interest on the bonds is determined weekly by the Remarketing Agent. Rates at December 31, 2016 and 2015 were 1.90% and 1.61%, respectively. | (1) | $ 44,888,819 | $ 46,310,347 |
| Notes Payable | | | |
| Term note converted from the line of credit draw to finance major maintenance and renovation costs. The note requires principal payments of $13,636 plus interest, due monthly. Remaining principal is due upon maturity on October 31, 2020. The interest rate at December 31, 2016 was 1.92%. | | 1,800,012 | 1,963,649 |

## NOTE 9 – NOTES AND BONDS PAYABLE (Continued)

Notes and bonds payable consisted of the following at December 31 (Continued):

| | 2016 | 2015 |
|---|---|---|
| Notes Payable<br>Term note converted from the line of credit draw to finance the purchase of wellness equipment. The note requires principal payments of \$30,000 plus interest, due monthly. Remaining principal is due upon maturity on October 31, 2020. The interest rate at December 31, 2016 was 1.92% | 1,440,000 | - |
| Notes Payable<br>Term note converted from the line of credit draw to pay down bond payable portion associated with property sold in 2015. Monthly interest only payments required with principal due in full on January 1, 2018. The interest rate at December 31, 2016 was 1.92%. | 1,388,730 | 1,491,653 |
| Notes Payable<br>Notes payable on vehicles purchased for employee and program usage. Total monthly payments range from \$389 to \$667, including interest ranging from 0% to 4.89% per annum. Maturities range through 2018. | 77,904 | 59,655 |
| Total notes and bonds payable | $ 49,595,465 | $ 49,825,304 |

Annual principal maturities and required reimbursement payments of notes and bonds payable as of December 31, 2016, are as follows:

| Years Ending December 31: | Notes Payable | 2012 Bond Issue | Total |
|---|---|---|---|
| 2017 | $ 565,226 | $ 1,474,681 | $ 2,039,907 |
| 2018 | 1,933,093 | 1,531,768 | 3,464,861 |
| 2019 | 537,992 | 1,591,067 | 2,129,059 |
| 2020 | 1,670,335 | 1,652,674 | 3,323,009 |
| 2021 | - | 1,716,652 | 1,716,652 |
| Thereafter | - | 36,921,977 | 36,921,977 |
| | $ 4,706,646 | $ 44,888,819 | $ 49,595,465 |

## NOTE 9 – NOTES AND BONDS PAYABLE (Continued)

(1) Effective November 1, 2015, the YMCA entered into an interest rate swap agreement with a financial institution in order to lessen exposure to fluctuating interest rates on the Bonds. The agreement provides for a 10 year term (maturity of November 1, 2025) and an original notional amount of $46,426,417. The agreement requires the YMCA to make a monthly interest payment equal to a per annum rate of 2.32% times the current notional amount ($44,888,819 at December 31, 2016), and the financial institution makes a monthly interest adjustment payment to the YMCA equal to the applicable notional amount times a per annum rate of 77% of LIBOR (0.47% at December 31, 2016).

## NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist principally of contributions restricted for the following at December 31:

| | 2016 | 2015 |
|---|---|---|
| Capital improvements | $ 2,255,057 | $ 2,189,348 |
| Grants restricted for specific programs | 860,021 | 643,037 |
| Contributions restricted for future year operations | 694,690 | 407,691 |
| | $ 3,809,768 | $ 3,240,076 |

## NOTE 11 – COMMITMENTS AND CONTINGENCIES

The YMCA has received certain federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in disallowance of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to the grantors.

## NOTE 12 – CONCENTRATIONS OF CREDIT RISK

The YMCA maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of December 31, 2016, the YMCA's depositor accounts exceeded FDIC insurance limits by approximately $10,946,000.

Contributions receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources. Contributions receivable from one donor amounted to 57% of total gross outstanding contributions receivable as of December 31, 2016 (one donor comprised 66% of gross outstanding contributions receivable as of December 31, 2015).

## NOTE 13 – EMPLOYEE BENEFIT PLANS

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 (a separate corporation) (the "Retirement Fund"). This plan is for the benefit of all eligible professional and nonprofessional staff of duly organized and reorganized YMCA's throughout the United States.

Contributions to the plan by employees and employer YMCAs are based on a percentage of the participating employees' salaries. Employer contribution rates were 10% for the years ended December 31, 2016, and 2015, respectively. Total contributions to the plan by the YMCA of Middle Tennessee, which are included in employee benefits in the accompanying statements of functional expenses, amounted to $1,861,769 in 2016 and $1,889,329 in 2015.

The Retirement Fund is operated as a church pension plan and is a nonprofit, tax-exempt New York State corporation. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligations.

## NOTE 14 – RELATED PARTY TRANSACTIONS AND RELATED ENTITIES

The YMCA purchases insurance, contracts for marketing services, law services, construction services and architectural services from entities in which certain Board members are affiliated. The total of such expenditures approximated $216,000 in 2016 and $325,000 in 2015.

The YMCA Foundation of Middle Tennessee (the "YMCA Foundation") was formed to establish a sustaining means of support, using its income primarily for the benefit of the YMCA. The YMCA has representation on the YMCA Foundation's Board of Directors but does not have a majority voting interest. The YMCA Foundation receives donor designated funds and also makes grants to other nonprofit organizations. For the year ended December 31, 2016, the YMCA Foundation paid out total grants of $386,306 ($382,619 in 2015), of which $323,184 ($348,165 in 2015) was paid to the YMCA and included in grant revenues. During 2016, the YMCA made a $500,000 pledge to the YMCA Foundation to be paid by December 31, 2017.

A condensed summary of financial information of the YMCA Foundation as of and for the years ended December 31, follows:

| | 2016 | 2015 |
|---|---|---|
| Total assets | $ 8,758,105 | $ 7,904,791 |
| Total liabilities | 284,859 | 288,711 |
| Net assets | $ 8,473,246 | $ 7,616,080 |

## NOTE 14 – RELATED PARTY TRANSACTIONS AND RELATED ENTITIES (Continued)

| | 2016 | 2015 |
|---|---|---|
| Net assets: | | |
| Unrestricted | $ 6,974,364 | $ 6,600,046 |
| Unrestricted – Philanthropic funds | 44,065 | 61,317 |
| Temporarily restricted | 1,454,817 | 954,717 |
| Total net assets | $ 8,473,246 | $ 7,616,080 |
| Total support and revenue, including realized and unrealized gains and (losses) on investments of 541,686 in 2016 and ($446,773) in 2015. | $ 1,311,789 | $ (78,524) |
| Total expenses | $ 454,623 | $ 450,110 |
| Resources held for the benefit of the YMCA | $ 8,429,181 | $ 7,554,763 |

## NOTE 15 – LEASES

The YMCA is obligated under several noncancelable operating leases for office space, equipment and vehicles that expire at various dates through 2020. Total rental expense incurred under these leases for the years ended December 31, 2016 and 2015, amounted to: office space - $738,255 and $777,274, respectively; equipment - $169,316 and $173,000, respectively; and vehicles - $162,604 and $98,371, respectively.

The YMCA has also entered into several noncancelable capital leases for equipment that expire at various dates through 2020. Total capital lease payments made under these leases for the years ended December 31, 2016 and 2015 amounted to $2,020,876 and $1,757,681, including $52,873 and $72,495 of imputed interest, respectively.

Assets recorded under capital leases are included in property, plant and equipment and consisted of the following at December 31:

| | 2016 | 2015 |
|---|---|---|
| Cost | $ 3,839,939 | $ 6,047,530 |
| Accumulated depreciation | (2,732,833) | (2,973,600) |
| Net book value | $ 1,107,106 | $ 3,073,930 |

## NOTE 15 – LEASES (Continued)

Future minimum lease payments required under all noncancelable leases as of December 31, 2016, are:

| | Operating Leases | | | | Capital Leases |
|---|---|---|---|---|---|
| | Office | Equipment | Vehicles | Total | Equipment |
| Years Ending December 31: | | | | | |
| 2017 | $ 605,886 | $ 108,855 | $ 1,646 | $ 716,387 | $ 1,285,782 |
| 2018 | 299,483 | - | - | 299,483 | 340,835 |
| 2019 | 133,273 | - | - | 133,273 | 94,799 |
| 2020 | 55,041 | - | - | 55,041 | 6,641 |
| | $ 1,093,683 | $ 108,855 | $ 1,646 | $ 1,204,184 | $ 1,728,057 |
| Less: interest imputed at rates ranging from 1.50% to 3.21% | | | | | 28,732 |
| Present value of future minimum lease payments | | | | | $ 1,699,325 |

The Association has entered into agreements to sublease two facilities to tenants under noncancelable operating lease agreements. The leases require monthly rental receipts ranging from $7,000 to $18,000 per month over the terms of the leases. The leases terminate in 2018.

Future minimum rental payments to be received required under the long-term lease agreements as of December 31, 2016 are:

| | |
|---|---|
| Years Ending December 31: | |
| 2017 | $ 302,400 |
| 2018 | 61,200 |
| | $ 363,600 |