Combined Financial Statements and Independent Auditor's Report

YOUNG MEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN LOS ANGELES AND AFFILIATE

For the years ended December 31, 2017 and 2016

Contents

Independent Auditor's Report

To the Board of Directors
Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

We have audited the accompanying combined financial statements of Young Men's Christian Association of Metropolitan Los Angeles and Affiliate, which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Young Men's Christian Association of Metropolitan Los Angeles and Affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Los Angeles, California
May 11, 2018

Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 6,333,000	$ 7,228,000
Accounts receivable, net (Note 2)	1,574,000	1,209,000
Investments (Notes 3 and 4)	58,192,000	46,274,000
Investments whose use is limited (Notes 3 and 4)	2,041,000	2,041,000
Pledges receivable, net (Note 5)	5,271,000	7,516,000
Beneficial interest in trusts	2,551,000	2,341,000
Prepaid expenses and other assets	3,860,000	4,449,000
Property and equipment, net (Note 7)	146,705,000	137,589,000
Total assets	$ 226,527,000	$ 208,647,000
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 6,176,000	$ 7,639,000
Accrued expenses and other liabilities	6,832,000	7,097,000
Deferred membership fees and other deferred revenue	3,682,000	3,461,000
Line of credit (Note 9)	6,650,000	-
Claims payable (Note 10)	5,951,000	5,752,000
Obligations under capital leases (Note 14)	4,475,000	3,504,000
Bonds payable (Note 11)	26,092,000	27,467,000
Obligations under interest rate swap agreement (Note 11)	558,000	837,000
Obligations under split-interest agreements	1,178,000	1,180,000
Obligations under service repayment agreements (Note 13)	4,900,000	5,200,000
Total liabilities	66,494,000	62,137,000
Net assets (Note 16)		
Unrestricted		
Controlling interest	92,824,000	78,350,000
Noncontrolling interest	8,441,000	8,474,000
	101,265,000	86,824,000
Temporarily restricted	22,704,000	32,257,000
Permanently restricted	36,064,000	27,429,000
Total net assets	160,033,000	146,510,000
Total liabilities and net assets	$ 226,527,000	$ 208,647,000

See Notes to Combined Financial Statements.

Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

COMBINED STATEMENTS OF ACTIVITIES

For the years ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT								
Contributions	$ 7,402,000	$ 2,783,000	$ 8,573,000	$ 18,758,000	$ 7,461,000	$ 4,366,000	$ 676,000	$ 12,503,000
In-kind contributions	-	-	-	-	4,200,000	-	-	4,200,000
Government grants	2,975,000	-	-	2,975,000	2,738,000	-	-	2,738,000
Special events	2,740,000	-	-	2,740,000	2,886,000	-	-	2,886,000
Direct donor benefits	(861,000)	-	-	(861,000)	(958,000)	-	-	(958,000)
Net special events	1,879,000	-	-	1,879,000	1,928,000	-	-	1,928,000
Membership fees	41,310,000	-	-	41,310,000	39,974,000	-	-	39,974,000
Program service fees	31,000,000	-	-	31,000,000	30,471,000	-	-	30,471,000
Net realized and unrealized gains on investments (Note 4)	1,672,000	5,051,000	-	6,723,000	734,000	1,308,000	-	2,042,000
Interest and dividend income	515,000	649,000	-	1,164,000	672,000	398,000	-	1,070,000
Gain on disposal of property and equipment	990,000	-	-	990,000	84,000	-	-	84,000
Other revenue	1,124,000	-	-	1,124,000	1,501,000	-	-	1,501,000
Total revenues and other support	88,867,000	8,483,000	8,573,000	105,923,000	89,763,000	6,072,000	676,000	96,511,000
Net assets released from restrictions (Note 16)	18,319,000	(18,319,000)	-	-	4,923,000	(4,923,000)	-	-
Total revenues, other support, and net assets released from restrictions	$ 107,186,000	$ (9,836,000)	$ 8,573,000	$ 105,923,000	$ 94,686,000	$ 1,149,000	$ 676,000	$ 96,511,000

See Notes to Combined Financial Statements.

Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

COMBINED STATEMENTS OF ACTIVITIES - CONTINUED

For the years ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES								
Program services								
Healthy living	$ 44,695,000	$ -	$ -	$ 44,695,000	$ 46,451,000	$ -	$ -	$ 46,451,000
Youth development	23,282,000	-	-	23,282,000	23,451,000	-	-	23,451,000
Social responsibility	13,642,000	-	-	13,642,000	13,434,000	-	-	13,434,000
Total program services	81,619,000	-	-	81,619,000	83,336,000	-	-	83,336,000
Supporting services								
General and administrative	8,920,000	-	-	8,920,000	8,673,000	-	-	8,673,000
Fundraising	2,575,000	-	-	2,575,000	2,546,000	-	-	2,546,000
Total supporting services	11,495,000	-	-	11,495,000	11,219,000	-	-	11,219,000
Total expenses	93,114,000	-	-	93,114,000	94,555,000	-	-	94,555,000
Change in net assets before other changes in net assets	14,072,000	(9,836,000)	8,573,000	12,809,000	131,000	1,149,000	676,000	1,956,000
Postretirement health plan related changes other than net periodic benefit cost (Note 15)	90,000	-	-	90,000	140,000	-	-	140,000
Unrealized gain on interest rate swap agreement	279,000			279,000	339,000			339,000
Change in value of beneficial interest in trusts		254,000	22,000	276,000		144,000	-	144,000
Change in value of split-interest agreements		29,000	40,000	69,000		9,000	3,000	12,000
Change in net assets	14,441,000	(9,553,000)	8,635,000	13,523,000	610,000	1,302,000	679,000	2,591,000
Excess of expenses over revenues attributable to noncontrolling interest	(33,000)	-	-	(33,000)	(31,000)	-	-	(31,000)
Excess of revenues over expenses attributable to controlling interest	$ 14,474,000	$ (9,553,000)	$ 8,635,000	$ 13,556,000	$ 641,000	$ 1,302,000	$ 679,000	$ 2,622,000

See Notes to Combined Financial Statements.

Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

COMBINED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2017 and 2016

	2017					
	Unrestricted Net Assets			Temporarily Restricted	Permanently	
	Controlling	Noncontrolling	Total	Net Assets	Restricted	Total
Balance, January 1, 2017						
Young Men's Christian Association of Metropolitan Los Angeles and Subsidiary	$ 78,350,000	$ -	$ 78,350,000	$ 32,257,000	$ 27,429,000	$ 138,036,000
Chase NMTC Wilshire YMCA Investment Fund, LLC and Subsidiaries	-	8,474,000	8,474,000	-	-	8,474,000
Total, January 1, 2017	78,350,000	8,474,000	86,824,000	32,257,000	27,429,000	146,510,000
Changes in net assets attributable to Young Men's Christian Association of Metropolitan Los Angeles and Subsidiary	14,474,000	-	14,474,000	(9,553,000)	8,635,000	13,556,000
Changes in net assets attributable to noncontrolling interest	-	(33,000)	(33,000)	-	-	(33,000)
Balance, December 31, 2017	$ 92,824,000	$ 8,441,000	$ 101,265,000	$ 22,704,000	$ 36,064,000	$ 160,033,000

	2016					
	Unrestricted Net Assets			Temporarily Restricted	Permanently	
	Controlling	Noncontrolling	Total	Net Assets	Restricted	Total
Balance, January 1, 2016						
Young Men's Christian Association of Metropolitan Los Angeles and Subsidiary	$ 77,709,000	$ -	$ 77,709,000	$ 30,955,000	$ 26,750,000	$ 135,414,000
Chase NMTC Wilshire YMCA Investment Fund, LLC and Subsidiaries	-	8,505,000	8,505,000	-	-	8,505,000
Total, January 1, 2016	77,709,000	8,505,000	86,214,000	30,955,000	26,750,000	143,919,000
Changes in net assets attributable to Young Men's Christian Association of Metropolitan Los Angeles and Subsidiary	641,000	-	641,000	1,302,000	679,000	2,622,000
Changes in net assets attributable to noncontrolling interest	-	(31,000)	(31,000)	-	-	(31,000)
Balance, December 31, 2016	$ 78,350,000	$ 8,474,000	$ 86,824,000	$ 32,257,000	$ 27,429,000	$ 146,510,000

See Notes to Combined Financial Statements.

Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended December 31, 2017 and 2016

	2017							
	Program Services				Supporting Services			
	Healthy Living	Youth Development	Social Responsibility	Total	General and Administrative	Fundraising	Total	Total Expenses
Salaries	$ 21,319,000	$ 10,814,000	$ 4,365,000	$ 36,498,000	$ 4,750,000	$ 1,308,000	$ 6,058,000	$ 42,556,000
Employee benefits	2,180,000	1,263,000	580,000	4,023,000	650,000	147,000	797,000	4,820,000
Payroll taxes	2,530,000	1,255,000	467,000	4,252,000	442,000	156,000	598,000	4,850,000
Professional fees and contract services	1,497,000	1,096,000	1,262,000	3,855,000	1,018,000	343,000	1,361,000	5,216,000
Supplies	1,396,000	1,283,000	1,363,000	4,042,000	58,000	161,000	219,000	4,261,000
Occupancy expenses	6,742,000	3,803,000	1,642,000	12,187,000	228,000	81,000	309,000	12,496,000
Insurance, licenses, and fees	1,189,000	654,000	432,000	2,275,000	146,000	-	146,000	2,421,000
Interest expense	688,000	280,000	122,000	1,090,000	18,000	-	18,000	1,108,000
Depreciation and amortization	4,889,000	1,980,000	861,000	7,730,000	130,000	-	130,000	7,860,000
Other expenses	2,265,000	854,000	2,548,000	5,667,000	1,480,000	379,000	1,483,000	7,150,000
Total expenses	44,695,000	23,282,000	13,642,000	81,619,000	8,920,000	2,575,000	11,495,000	93,114,000
Expenses attributable to noncontrolling interest	-	-	-	-	376,000	-	376,000	376,000
Expenses attributable to controlling interest	$ 44,695,000	$ 23,282,000	$ 13,642,000	$ 81,619,000	$ 8,544,000	$ 2,575,000	$ 11,119,000	$ 92,738,000

	2016							
	Program Services				Supporting Services			
	Healthy Living	Youth Development	Social Responsibility	Total	General and Administrative	Fundraising	Total	Total Expenses
Salaries	$ 21,839,000	$ 10,409,000	$ 4,119,000	$ 36,367,000	$ 4,562,000	$ 1,413,000	$ 5,975,000	$ 42,342,000
Employee benefits	2,254,000	1,274,000	546,000	4,074,000	661,000	165,000	826,000	4,900,000
Payroll taxes	2,453,000	1,136,000	402,000	3,991,000	406,000	156,000	562,000	4,553,000
Professional fees and contract services	1,500,000	1,239,000	1,266,000	4,005,000	989,000	223,000	1,212,000	5,217,000
Supplies	1,383,000	1,336,000	1,498,000	4,217,000	72,000	135,000	207,000	4,424,000
Occupancy expenses	7,649,000	4,208,000	1,773,000	13,630,000	254,000	105,000	359,000	13,989,000
Insurance, licenses, and fees	1,471,000	797,000	501,000	2,769,000	142,000	-	142,000	2,911,000
Interest expense	657,000	261,000	115,000	1,033,000	21,000	-	21,000	1,054,000
Depreciation and amortization	4,998,000	1,982,000	878,000	7,858,000	162,000	-	162,000	8,020,000
Other expenses	2,247,000	809,000	2,336,000	5,392,000	1,404,000	349,000	1,753,000	7,145,000
Total expenses	46,451,000	23,451,000	13,434,000	83,336,000	8,673,000	2,546,000	11,219,000	94,555,000
Expenses attributable to noncontrolling interest	-	-	-	-	375,000	-	375,000	375,000
Expenses attributable to controlling interest	$ 46,451,000	$ 23,451,000	$ 13,434,000	$ 83,336,000	$ 8,298,000	$ 2,546,000	$ 10,844,000	$ 94,180,000

See Notes to Combined Financial Statements.

Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

COMBINED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 13,523,000	$ 2,591,000
Adjustments to reconcile change in net assets to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	7,860,000	8,020,000
Realized and unrealized gains on investments, net	(6,723,000)	(2,042,000)
Unrealized (gain) on interest rate swap agreement	(279,000)	(339,000)
Change in discount of pledges receivable	(371,000)	53,000
Gain on disposal of property and equipment	(990,000)	(83,000)
Contributions revenue from donated assets	(324,000)	(4,298,000)
Contributions restricted for long-term investment	(952,000)	(1,599,000)
Contributions permanently restricted	(8,573,000)	(676,000)
Change in value of beneficial interest in trusts	(276,000)	(144,000)
Change in value of obligations under split-interest agreements	(69,000)	(12,000)
Forgiveness of debt service repayment agreement obligation	(300,000)	(300,000)
Amortization deferred financing costs	21,000	21,000
Changes in operating assets and liabilities:		
Accounts receivable	(365,000)	(136,000)
Pledges receivable	83,000	(742,000)
Beneficial interest in trusts	66,000	65,000
Prepaid expenses and other assets	589,000	(20,000)
Accounts payable	1,152,000	1,231,000
Accrued expenses and other liabilities	(431,000)	82,000
Deferred membership fees and other deferred revenue	221,000	336,000
Claims payable	199,000	(8,000)
Net cash provided by operating activities	4,061,000	2,000,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments and maturities	36,143,000	49,589,000
Purchases of investments	(40,476,000)	(31,538,000)
Proceeds from sales of property and equipment	2,011,000	990,000
Purchases of property and equipment	(17,839,000)	(18,684,000)
Net cash provided by (used in) investing activities	(20,161,000)	357,000

See Notes to Combined Financial Statements.

Young Men's Christian Association of Metropolitan Los Angeles and Affiliate

COMBINED STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted to investment in property and equipment	$ 2,587,000	$ 1,647,000
Proceeds from contributions restricted for investment in endowment	8,932,000	714,000
Advances on line of credit	6,650,000	-
Principal payments on bonds payable	(1,395,000)	(1,360,000)
Principal payments on capital leases	(1,636,000)	(1,631,000)
Payment of distributions under split-interest agreements	(144,000)	(160,000)
Reinvestment of interest, dividends, and gains restricted for split-interest agreement investment	211,000	75,000
Net cash (used in) provided by financing activities	15,205,000	(715,000)
Net increase (decrease) in cash	(895,000)	1,642,000
Cash, beginning of year	7,228,000	5,586,000
Cash, end of year	$ 6,333,000	$ 7,228,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid by controlling interest	$ 1,094,000	$ 1,028,000
Interest paid by noncontrolling interest	-	-
	$ 1,094,000	$ 1,028,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligations incurred for equipment	$ 2,607,000	$ 3,425,000
Donated investments for pledges receivable	$ 539,000	$ 942,000
Donated property and equipment	$ -	$ 4,200,000
Asset retirement obligations incurred	$ 166,000	$ 324,000
Capital expenditures incurred but not paid	$ 4,357,000	$ 3,239,000

See Notes to Combined Financial Statements.

NOTE 1 - ORGANIZATION

Young Men's Christian Association of Metropolitan Los Angeles (the "YMCA") is an association of persons of all ages, ethnic groups, and religious affiliations who are united in a common effort to put Judeo-Christian principles into practice to enrich the quality of the spiritual, mental, physical, and social lives of individuals, families, and communities. The YMCA's program areas include youth development, healthy living, and social responsibility.

The financial statements of the YMCA include the accounts of the corporate office and facilities located throughout Los Angeles County.

In August 2012, the YMCA participated in a New Markets Tax Credit ("NMTC") transaction whereby a special purpose entity, Anderson Munger YMCA, Inc. ("AMY") was created to obtain NMTC funding for a community project (see Note 12).

Chase NMTC Wilshire YMCA Investment Fund, LLC ("Chase NMTC Fund") was formed on May 16, 2012 under the laws of the State of Delaware. Chase NMTC Fund was formed to make Qualified Equity Investments ("QEI") in LADF V, LLC, LEDC-CDE IV, LLC and CNMC Sub-CDE 3, LLC, its subsidiaries, (collectively, the "CDE") in accordance with the terms under the NMTC program pursuant to Section 45D of the Internal Revenue Code. Chase NMTC Fund and CDE (collectively, the "Investment Fund") shall continue to be in full force until terminated pursuant to their operating agreements or law.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination
The combined financial statements include the accounts of the YMCA and its subsidiary, AMY (collectively, the "Controlling Interest"), and its affiliate, the Investment Fund (collectively, the "Association"). All significant intercompany balances and transactions have been eliminated in combination.

Noncontrolling Interest
The equity in the Investment Fund reflects the noncontrolling ownership interest and is reported in the combined statements of financial position as a component of net assets, and earnings attributable to the noncontrolling interest are included in the combined statements of activities of the combined entity.

The noncontrolling interest in the combined statements of financial position reflects the original investment by the noncontrolling member in the combined entity and the noncontrolling interest's share of earnings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation

The accompanying combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The combined statements of financial position are presented in order of liquidity.

The Association classifies revenue, other support, and expenses into three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may, or will, be met by either actions of the Association and/or the passage of time.

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they must be maintained in perpetuity. Generally, the donors of these assets permit the Association to use all or part of the income earned on the related investments for general or specific purposes.

Cash Concentration

The Association maintains cash in two financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). Association noninterest-bearing accounts are insured at $250,000 for each financial institution. The Association held $6,731,000 and $6,341,000 in cash balances in excess of the FDIC insured level as of December 31, 2017 and 2016, respectively.

Accounts Receivable

The Association extends credit to third party payers of childcare and other programs in the normal course of operations, which are due within 60 days of the date of service. The Association also extends credit to its members enrolling in certain programs, such as summer and day camps, which are due in full prior to the start of the programs. Receivables are recorded at estimated fair value at the time of origination, and are reflected in the combined statements of financial position net of allowances for doubtful accounts. The allowance for doubtful accounts is determined by a monthly and annual review of account balances, including the age of the balance and historical collection experience. Uncollectible receivables are charged to the allowance. An expense is recorded at the time the allowance is adjusted. The Association had $204,000 and $175,000 in allowance for doubtful accounts as of December 31, 2017 and 2016, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pledges Receivable

The Association records pledges receivable, net of allowances for estimated uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was received. The Association discounts multi-year pledges that are expected to be collected after one year using rates ranging from 1% to 9%. Multi-year pledges are recorded at fair value at the date of the pledge. Allowances for uncollectible amounts are calculated based on historical collection rates and specific identification of uncollectible accounts. Uncollectible pledges are charged to the allowance. An expense is recorded at the time the allowance is adjusted. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. As of December 31, 2017 and 2016, four donors accounted for approximately 57% and 48%, respectively, of the Association's pledges receivable.

Investments

The Association's investment policy is to adhere to high standards of quality in the selection of all types of investments, with reasonable diversification to be maintained at all times. Marketable securities are primarily managed by independent investment managers and are held by an independent custodian bank.

The fair values of investments in securities traded on national securities exchanges are valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price.

Investments which are not publicly traded consist primarily of several offshore investment hedge funds and private equity investments and are recorded at fair value using the Net Asset Value ("NAV"). The Association uses the NAV to determine the fair value of the underlying investments which (a) do not have a readily determinable fair value, and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Depending on the underlying asset, the NAV is determined by the underlying asset's manager through national exchange price for securities with a readily determinable value or valuations and estimates. The financial statements of these investments are audited annually (typically December 31) by independent auditors.

Securities transactions are recorded on a trade-date basis. Dividend income is recorded as of the ex-dividend date, and interest income is recorded as earned using the accrual basis. Net realized and unrealized gains and losses on investments include realized and unrealized gains and losses on investments held or sold during the year. Investment income is recognized as a component of unrestricted net assets, unless its use is temporarily or permanently restricted by donors for a specified purpose or future period. Investment income earned on restricted contributions whose restrictions are met within the same year as received is reported as unrestricted investment income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

Property and equipment are recorded at cost if purchased, or if donated, at fair value at date of donation. Asset retirement obligations related to property and equipment are capitalized. Property and equipment acquired with government grant funds are considered to be owned by the Association while used in the program or in future authorized programs. However, the granting agency has a reversionary interest in the property, as well as the right to determine the use of any proceeds from the sale of the assets. Management expects to have continuous use of such property and equipment throughout their useful lives.

Depreciation of buildings, improvements, and equipment is provided using the straight-line method over the estimated useful lives of the assets. Land is not depreciated.

Leased equipment	Lease life
Building improvements	5-20 years
Fitness equipment, furniture and fixtures	3-7 years
Leasehold improvements	Lesser of lease life or 10 years
Land improvements	5-25 years
Buildings	40 years

Property and equipment under capital lease obligations and leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset.

Gains and losses are recognized in the combined statements of activities and changes in net assets upon disposal of property and equipment.

Deferred Financing Costs

Deferred financing costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the debt to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting for the Impairment of Long-Lived Assets and for the Disposal of Long-Lived Assets

The Association reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2017 and 2016, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Asset Retirement Obligations

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Association. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of the liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. The fair value of a liability for an asset retirement obligation is recorded by the Association as an asset and a liability when there is a legal obligation associated with the retirement of a long-lived asset and the amount can be reasonably estimated.

There were $796,000 and $813,000 of capitalized asset retirement costs in property and equipment as of December 31, 2017 and 2016, respectively, and $1,479,000 and $1,451,000 of conditional retirement obligations included in accrued expenses and other liabilities as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, accretion expenses totaled approximately $20,000 and $9,000, respectively, and are included in depreciation and amortization expense.

Split-Interest Agreements

The Association has been designated as the trustee for irrevocable split-interest agreements, consisting primarily of charitable remainder trusts and charitable gift annuities. The charitable remainder trust agreements generally require the Association to make annual payments to the trust beneficiaries based on stipulated payment rates ranging from 5% to 11%, applied to the fair value of the trust assets, as determined annually. The charitable gift annuities require the Association to pay an annuity to the trust beneficiary, determined upon execution of each annuity, based on stipulated payment rates issued by the American Council on Gift Annuities and adopted and filed with the California Department of Insurance. Upon the death of the beneficiaries, or other termination of the trusts as may be defined in the individual agreements, the remaining trust assets will be distributed by the Association to itself and to other beneficiaries, as stipulated in the trust agreements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Split-Interest Agreements - Continued

The fair value of the trust assets has been included in the Association's combined statements of financial position as investments whose use is limited, and a corresponding liability has been recorded to reflect the present value of required lifetime payments and remaining obligation to the named beneficiaries using discount rates ranging from 5% to 6% for the years ended December 31, 2017 and 2016. The difference between the fair value of the assets received and the present value of the obligation to named beneficiaries under the agreements is recognized as contributions revenue. Realized and unrealized gains and losses, interest and dividend income from the investments and payments of the obligations are reflected as adjustments to obligations under split-interest agreements in the accompanying combined statements of financial position. Amortization of discounts and changes in actuarial assumptions are reflected in the combined statements of activities as a change in value of split-interest agreements.

Beneficial Interest in Trusts

The Association is also a beneficiary of irrevocable split-interest agreements, consisting primarily of charitable remainder trusts and charitable lead trusts administered by other trustees. A receivable is recorded at the estimated fair value of the amount held by the trustee that is due to the Association. The Association uses an interest rate commensurate with the risks involved to discount the contribution receivable. The discount rates used were between 3% and 8% for the year ended December 31, 2017 and between 4% and 10% for the year ended December 31, 2016. The investment yield rates used were between 4% and 7% for the year ended December 31, 2017 and between 3% and 9% for the year ended December 31, 2016. The amortization of this discount and changes in actuarial assumptions are reflected in the combined statements of activities as a change in value of split-interest agreements.

Donor-Restricted Contributions

Unconditional promises to give (pledges receivable) are recognized as contributions when received at their estimated fair value. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

When a donor-imposed time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying combined statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year the contribution is received are reported as unrestricted. Capital campaign contributions are considered temporarily restricted until the asset is placed into service.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributed Services

A substantial number of volunteers have donated significant amounts of time and services to the Association's program operations and to its fundraising campaigns. Contributed services are recognized by the Association if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The services donated are not reflected in the accompanying combined financial statements as an expense or as income from donations; such services do not meet the above criteria for recording under U.S. GAAP.

In-Kind Contributions

During the years ended December 31, 2017 and 2016, the value of in-kind contributions or noncash assets received by the Association was $0 and $4,200,000, respectively. The value of in-kind donations is based on either donor-stated value, face value or replacement value had the Association needed to purchase from an outside source.

Government and Other Grants

The Association receives numerous grants from governmental agencies and certain foundations that are not considered contributions under U.S. GAAP. The Association recognizes income from these grants as revenue and support only to the extent that expenditures have been made for the purposes specified by the grant agreement. Revenue received in excess of expenditures incurred is recorded as deferred revenue.

Deferred Membership Fees

Membership fees paid to the Association in advance are recorded as deferred membership revenue. The Association recognizes income from these membership fees over the period to which the fees relate.

Derivatives

The Association has elected to execute a derivative instrument for purposes of elimination of interest rate risk on its long-term debt. The Association uses an interest rate swap agreement to eliminate its exposure resulting from variable rate debt. The derivative instrument is recognized in the combined statements of financial position at fair value. Fair value for the Association's derivative instrument is based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current assumptions. The derivative has not been designated as a hedge under Accounting Standards Codification ASC Topic 815, *Derivatives and Hedging*. Accordingly, the Association records changes in the fair value of its derivative instrument as a mark-to-market gain or loss on financial instruments on the combined statements of activities.

Should the counterparty to the contract fail to meet its obligation, the Association would be exposed to fluctuations in interest rates. The Association manages exposure to counterparty credit risk by entering into the derivative financial instrument with a highly rated financial institution that can be expected to perform fully under the terms of the agreement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Association was organized pursuant to the General Nonprofit Corporation Law of the State of California. The Association has been recognized by the Internal Revenue Service as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Association has also been recognized by the California Franchise Tax Board as exempt from California franchise taxes and certain general county real and personal property taxes under Section 23701d of the California Revenue and Taxation Code. However, the Association is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the combined financial statements taken as a whole. If applicable, the Association would recognize interest and penalties associated with tax matters as operating expenses and would include accrued interest and penalties with accrued expenses in the combined statements of financial position.

Tax positions taken related to the Association's tax exempt status, unrelated business activities taxable income, and deductibility of expenses, and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Association would more likely than not be sustained by examination. Accordingly, the Association has not recorded an income tax liability for uncertain tax benefits as of December 31, 2017 and 2016 and no material change is anticipated in the 12 months following December 31, 2017. As of December 31, 2017, the Association's tax years ended December 31, 2014 through December 31, 2017 remain subject to examination.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying combined statements of activities and detailed in the combined statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - FAIR VALUE

The Association measures the fair value of its financial assets and liabilities in accordance with accounting guidance that requires the Association to base fair value on exit price, maximize the use of observable inputs, and minimize the use of unobservable inputs to determine the exit price. The Association categorizes the financial assets and liabilities, based on the priority of inputs to the valuation technique, into a three-tiered hierarchy as described below.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Level 1 investments include listed equities, listed fixed income securities, certain mutual funds and money market accounts. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Observable inputs, other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable for the asset or liability either directly or indirectly. Investments in this category include corporate and government bonds, and certain money market funds. Interest rate swaps are also included in this category. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Unobservable inputs that are supportable by little or no market activity, which requires the Association to develop its own assumptions. Investments that are included in this category include hedge funds and private equity funds. Contributions receivable from beneficial interest in trusts are also included in this category. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The Association is required to measure and report investments, investments whose use is limited, interest rate swaps and beneficial interest in split-interest agreements on a recurring basis at fair value. Investments are measured using the market approach. Beneficial interest in split-interest agreements are valued using the income approach based on the life expectancy of the beneficiaries and the net present value of the expected cash flows using a discounted rate. Interest rate swaps are valued using the forward interest rate estimates and present value techniques, adjusted to reflect nonperformance risk of both counterparties and the Association.

The Association's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the year of the change in circumstances that caused the transfer.

NOTE 3 - FAIR VALUE - Continued

The following table summarizes the valuation of the Association's investments and beneficial interest under split-interest agreements by fair value hierarchy levels as of December 31, 2017:

	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Investments and investments whose use is limited					
Equity securities					
Consumer goods and services	$ 2,358,000	$ -	$ -	$ -	$ 2,358,000
Financial services	2,838,000	-	-	-	2,838,000
Healthcare	2,434,000	-	-	-	2,434,000
Industrials	1,654,000	-	-	-	1,654,000
Oil and gas	1,738,000	-	-	-	1,738,000
Technology	4,744,000	-	-	-	4,744,000
Telecommunications	1,063,000	-	-	-	1,063,000
Other	2,142,000	-	-	-	2,142,000
Total equity securities	18,971,000	-	-	-	18,971,000
Mutual funds					
Domestic equity	3,650,000	-	-	-	3,650,000
International equity	14,659,000	-	-	-	14,659,000
Domestic fixed income	10,205,000	-	-	-	10,205,000
International fixed income	4,413,000	-	-	-	4,413,000
Other	53,000	-	-	-	53,000
Total mutual funds	32,980,000	-	-	-	32,980,000
Money market accounts/funds	114,000	1,860,000	-	-	1,974,000
US government and agency bonds	-	70,000	-	-	70,000
Private equity funds	-	-	-	476,000	476,000
Hedge funds / other					
Multi-strategy credit driven	-	-	-	704,000	704,000
Multi-strategy event driven	-	-	-	805,000	805,000
Fund of hedge funds	-	-	-	2,433,000	2,433,000
Long/short equity	-	-	-	1,211,000	1,211,000
Other	-	609,000	-	-	609,000
Total hedge funds	-	609,000	-	5,153,000	5,762,000
Total investments	52,065,000	2,539,000	-	5,629,000	60,233,000
Beneficial interest in trusts	-	-	2,551,000	-	2,551,000
	$ 52,065,000	$ 2,539,000	$ 2,551,000	$ 5,629,000	$ 62,784,000

NOTE 3 - FAIR VALUE - Continued

The following table summarizes the valuation of the Association's investments and beneficial interest under split-interest agreements by fair value hierarchy levels as of December 31, 2016:

	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Investments and investments whose use is limited					
Equity securities					
Consumer goods and services	$ 1,472,000	$ -	$ -	$ -	$ 1,472,000
Financial services	2,101,000	-	-	-	2,101,000
Healthcare	2,170,000	-	-	-	2,170,000
Industrials	1,233,000	-	-	-	1,233,000
Oil and gas	1,483,000	-	-	-	1,483,000
Technology	3,422,000	-	-	-	3,422,000
Telecommunications	998,000	-	-	-	998,000
Other	1,923,000	-	-	-	1,923,000
Total equity securities	14,802,000	-	-	-	14,802,000
Mutual funds					
Domestic equity	2,400,000	-	-	-	2,400,000
International equity	9,759,000	-	-	-	9,759,000
Domestic fixed income	7,770,000	-	-	-	7,770,000
International fixed income	3,637,000	-	-	-	3,637,000
Other	57,000	-	-	-	57,000
Total mutual funds	23,623,000	-	-	-	23,623,000
Money market accounts/funds	2,196,000	1,403,000	-	-	3,599,000
US government and agency bonds	-	80,000	-	-	80,000
Corporate bonds	-	1,345,000	-	-	1,345,000
Private equity funds	-	-	-	174,000	174,000
Hedge funds / other					
Multi-strategy credit driven	-	-	-	409,000	409,000
Fund of hedge funds	-	-	-	3,826,000	3,826,000
Other	-	457,000	-	-	457,000
Total hedge funds	-	457,000	-	4,235,000	4,692,000
Total investments	40,621,000	3,285,000	-	4,409,000	48,315,000
Beneficial interest in trusts	-	-	2,341,000	-	2,341,000
	$ 40,621,000	$ 3,285,000	$ 2,341,000	$ 4,409,000	$ 50,656,000

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured using NAV per share (or its equivalent) as a practical expedient under FASB ASC Topic 820, *Fair Value Measurement*. The amendments within ASU 2015-07 are effective for the Association for its years beginning after December 15, 2016, with early application permitted.

NOTE 3 - FAIR VALUE - Continued

The following table summarizes the Association's Level 3 reconciliation as of December 31, 2017:

	Beneficial Interest In Trusts
Balance at December 31, 2016	$ 2,341,000
Change in value of beneficial interest in trusts	276,000
Distributions from beneficial interest in trusts	(66,000)
Balance at December 31, 2017	$ 2,551,000
Amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at December 31, 2017	$ -

(a) The Association's policy is to recognize transfers in and transfers out as of the end of the year or change in circumstances that caused the transfer.

The following table represents the Association's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input variables	Weighted average
Beneficial interest in trusts	$ 2,551,000	Present value of expected cash flows	Investment yield Discount rate	4% - 7% 3% - 8%	N/A

The following table summarizes the Association's Level 3 reconciliation as of December 31, 2016:

	Beneficial Interest In Trusts
Balance at December 31, 2015	$ 2,262,000
Change in value of beneficial interest in trusts	144,000
Distributions from beneficial interest in trusts	(65,000)
Balance at December 31, 2016	$ 2,341,000
Amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at December 31, 2016	$ -

(a) The Association's policy is to recognize transfers in and transfers out as of the end of the year or change in circumstances that caused the transfer.

NOTE 3 - FAIR VALUE - Continued

The following table represents the Association's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input variables	Weighted average
Beneficial interest in trusts	$ 2,341,000	Present value of expected cash flows	Investment yield Discount rate	3% - 7% 4% - 8%	N/A

The following table lists investments in investment companies that are valued at NAV by major category as of December 31, 2017:

	Strategy	NAV In Funds	# of Funds	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Hedge funds - multi strategies - credit driven fund	Multiple Strategies - credit driven fund primarily in North America and Europe	$704,000	1	Quarterly redemption with 90 days' notice.	One-year lock-up provision. Side pocket.	None
Hedge funds - multi strategies - event driven fund	Investment in securities and instruments of companies undergoing extraordinary corporate events	805,000	1	Quarterly redemption with 60 days' notice.	Up to 25%	None
Fund of hedge funds	Multi-strategy fund of hedge funds which invests across equity long/short, credit and multi-strategy hedge funds	2,433,000	2	Quarterly redemption with 95 days' notice.	One-year lock-up provision.	None
Long/short equity	Multiple strategies - utilizing fundamental and operational perspectives	1,211,000	2	Quarterly redemption with 45-60 days' notice.	One-year lock-up provision	None
Private equity funds	Investments in real estate, private real estate, private equity - secondaries and buyouts	476,000	6	Partners may not withdraw from the Fund prior to its termination.		
		$5,629,000	12			

None of these funds have predetermined remaining life expectancies. The Association has $2,335,000 of unfunded commitments related to these investments as of December 31, 2017.

NOTE 3 - FAIR VALUE - Continued

The following table lists investments in investment companies that are valued at NAV by major category as of December 31, 2016:

	Strategy	NAV In Funds	# of Funds	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year
Hedge funds - multi strategies - credit driven fund	Multiple Strategies - credit driven fund primarily in North America and Europe	$409,000	1	Quarterly redemption with 90 days' notice.	One-year lock-up provision. Side pocket.	None
Fund of hedge funds	Multi-strategy fund of hedge funds which invests across equity long/short, credit and multi-strategy hedge funds	3,826,000	2	Quarterly redemption with 95 days' notice.	One-year lock-up provision.	None
Private equity funds	Investments in real estate, private real estate, private equity - secondaries and buyouts	174,000	4	Partners may not withdraw from the Fund prior to its termination.		
		$4,409,000	7			

None of these funds have predetermined remaining life expectancies. The Association has $1,728,000 of unfunded commitments related to these investments as of December 31, 2016.

The fair value of cash, accounts receivable, pledges receivable, note receivable, payables, and accrued expenses is equal to their carrying value because of their liquidity and short-term maturity. Capital lease obligations to unrelated parties do not differ materially from their aggregate carrying values in that the obligations bear interest rates that are based on market differences. The fair value of bonds payable approximates $26,390,000 and $27,785,000 using a market approach at December 31, 2017 and 2016, respectively.

NOTE 4 - INVESTMENTS

The Association's investments as of December 31, 2017 and 2016 are as follows:

	2017	2016
Investments	$ 58,192,000	$ 46,274,000
Investments whose use is limited	2,041,000	2,041,000
Total investments and investments whose use is limited	$ 60,233,000	$ 48,315,000

NOTE 4 - INVESTMENTS - Continued

Investments whose use is limited are restricted for the following long-term purposes as of December 31, 2017 and 2016:

	2017	2016
Restricted under grant agreements	$ 101,000	$ 161,000
Held in trust under split-interest agreements	1,940,000	1,880,000
	$ 2,041,000	$ 2,041,000

The composition of net realized and unrealized gains and losses on investments for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Realized gains on sales of investments, net	$ 1,396,000	$ 807,000
Unrealized gains (losses) on investments, net	5,327,000	1,235,000
	$ 6,723,000	$ 2,042,000

Investment management fees were $209,000 and $175,000 for the years ended December 31, 2017 and 2016, respectively.

California state law mandates the Association invest predetermined amounts held in trust under charitable gift annuities in direct obligations of the United States government, certain other quasi-government obligations, and money market funds or cash and cash equivalents. The Association was in compliance with these requirements for the years ended December 31, 2017 and 2016.

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable are expected to be received as follows as of December 31, 2017 and 2016:

	2017	2016
Within one year	$ 3,158,000	$ 2,917,000
Within two to five years	2,376,000	5,349,000
Greater than five years	1,000,000	1,000,000
	6,534,000	9,266,000
Less discount to reflect pledges receivable at fair value	(964,000)	(1,335,000)
Less allowance for uncollectible pledges receivable	(299,000)	(415,000)
Pledges receivable, net	$ 5,271,000	$ 7,516,000

NOTE 6 - CONDITIONAL PROMISES TO GIVE

As of December 31, 2017 and 2016, the Association had received one conditional promise to give pertaining to an Association endowment campaign up to $5,000,000, which has not been recorded in the combined financial statements. Subsequent to year end, the Association met the conditions of this pledge and received payment.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2017 and 2016:

	2017	2016
Land	$ 20,664,000	$ 20,664,000
Buildings and improvements	216,503,000	177,478,000
Equipment	10,446,000	9,990,000
Equipment under capital leases	9,199,000	7,934,000
Construction in progress	3,316,000	29,055,000
Total	260,128,000	245,121,000
Less accumulated depreciation, including $4,322,000 and $3,956,000 for equipment under capital leases at December 31, 2017 and 2016, respectively	(113,423,000)	(107,532,000)
	$ 146,705,000	$ 137,589,000

Depreciation and amortization of property and equipment totaled $7,840,000 and $8,011,000 for the years ended December 31, 2017 and 2016, respectively. Depreciation on construction in progress commences when the assets are placed in service.

Buildings and improvements include occupancy rights acquired at a cost of $4,500,000, which is being amortized over the 26-year life of the occupancy rights.

Land and buildings with a carrying value of $40,740,000 and $33,017,000 serve as collateral for certain long-term liabilities at December 31, 2017 and 2016, respectively. Depreciation expense totaled $1,696,000 and $1,901,000 on these buildings and improvements for the years ended December 31, 2017 and 2016, respectively.

The Association capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was $69,000 and $0 for the years ended December 31, 2017 and 2016, respectively.

NOTE 8 - ENDOWMENT

The Association's endowment consists of approximately 900 individual funds established for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association has interpreted the 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 Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) the fair value of the Association's interest in split-interest agreements at the time of termination of the trust as stipulated by the trust agreement with the permanent endowment, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

The following tables present the Association's endowment composition, changes, and net asset classifications as of and for the indicated year:

Endowment net asset composition by type of fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 13,230,000	$ 35,001,000	$ 48,231,000
Funds functioning as endowments	13,531,000	-	-	13,531,000
	$ 13,531,000	$ 13,230,000	$ 35,001,000	$ 61,762,000

NOTE 8 - ENDOWMENT - Continued

Endowment net asset composition by type of fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 9,719,000	$ 26,459,000	$ 36,178,000
Funds functioning as endowments	8,646,000	-	-	8,646,000
	$ 8,646,000	$ 9,719,000	$ 26,459,000	$ 44,824,000

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 8,646,000	$ 9,719,000	$ 26,459,000	$ 44,824,000
Investment return				
Investment income	210,000	649,000	-	859,000
Net appreciation (realized and unrealized)	1,630,000	5,051,000	-	6,681,000
Total investment return	1,840,000	5,700,000	-	7,540,000
Contributions	2,000	150,000	8,538,000	8,690,000
Appropriation of endowment assets for expenditure	(362,000)	(1,285,000)	-	(1,647,000)
Appropriation of endowment assets for capital projects	(2,122,000)	-	-	(2,122,000)
Release from donor restrictions	1,054,000	(1,054,000)	-	-
Funds functioning as endowments	4,676,000		4,000	4,680,000
Other	(203,000)	-	-	(203,000)
Endowment net assets, end of year	$ 13,531,000	$ 13,230,000	$ 35,001,000	$ 61,762,000

NOTE 8 - ENDOWMENT - Continued

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 12,936,000	$ 9,300,000	$ 26,183,000	$ 48,419,000
Investment return				
Investment income	212,000	398,000	-	610,000
Net appreciation (realized and unrealized)	696,000	1,308,000	-	2,004,000
Total investment return	908,000	1,706,000	-	2,614,000
Contributions	111,000	100,000	276,000	487,000
Appropriation of endowment assets for expenditure	(398,000)	(995,000)	-	(1,393,000)
Appropriation of endowment assets for capital projects	(7,076,000)	-	-	(7,076,000)
Release from donor restrictions	392,000	(392,000)	-	-
Funds functioning as endowments	1,945,000			1,945,000
Other	(172,000)	-	-	(172,000)
Endowment net assets, end of year	$ 8,646,000	$ 9,719,000	$ 26,459,000	$ 44,824,000

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 Association to retain as funds of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $0 at December 31, 2017 and 2016. These deficiencies resulted from unfavorable market fluctuations that occurred during prior years and continued appropriation for expenditures that were deemed prudent by the Association.

Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

The Association has adopted investment and distribution policies for endowment assets that attempt to provide sufficient income to sustain 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 organization must hold in perpetuity or for a donor-specified period, as well as funds functioning as endowment. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment fund's target allocation applied to the appropriate individual benchmarks, and to provide an average rate of return of approximately 5% annually in excess of the inflation rate. Actual returns in any given year may vary from this amount.

NOTE 8 - ENDOWMENT - Continued

To satisfy its long-term rate-of-return objectives, the Association 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 Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Association has a policy of appropriating for distribution each year a percentage of the endowment fund's average fair value over the prior 12 quarters through June 30 preceding the fiscal year in which the distribution is planned. The distribution rate used was 4.5% for the years ended December 31, 2017 and 2016. The distribution rate is reviewed annually to ensure it is consistent with the long-term investment objectives to maintain the purchasing power of the endowment and provide a satisfactory level of income to sustain programming dependent on endowment income. Accordingly, over the long term, the Association expects the current distribution policy to allow its endowment to grow at an average of 2% annually, consistent with its intention to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts.

NOTE 9 - LINE OF CREDIT

During the year ended December 31, 2017, the Association entered into a line of credit agreement with a bank. The line of credit has a maximum borrowing limit of $13,000,000. Borrowings on the line bear interest at LIBOR plus 1.75% (3.12% at December 31, 2017). The line of credit expires in January 2019. At December 31, 2017, the Association has $6,650,000 outstanding on the line of credit.

NOTE 10 - SELF-INSURANCE PROGRAM

The Association maintains a self-insurance program for general liability, automobiles, workers' compensation, and floods. Claims payable represent claims accrued in connection with the Association's self-insurance program and are based on the estimated cost of settlements, including an amount determined from reports of individual cases and an additional amount for losses incurred but not yet reported, based on estimates made by management using an independent actuarial report. Reinsurance is maintained to limit the Association's exposure to losses and claims above specified per incident and per year amounts.

NOTE 10 - SELF-INSURANCE PROGRAM - Continued

The estimated claims payable and changes in the claims payable amount for the years ended December 31, 2017 and 2016 are listed below:

	2017	2016
Claims payable at beginning of year	$ 5,752,000	$ 5,760,000
Claims incurred/changes in estimate	1,804,000	1,740,000
Claim payments	(1,605,000)	(1,748,000)
Claims payable at end of year	$ 5,951,000	$ 5,752,000

NOTE 11 - BONDS PAYABLE

In 2012, the Association issued California Infrastructure and Economic Development Bank Revenue Bonds, Series 2012 ("2012 Revenue Bonds") totaling $33,000,000. The 2012 Revenue Bonds carry a 20-year term requiring annual principal payments in varying installments prior to maturity and are secured by certain real property owned by the Association. The 2012 Revenue Bonds have an interest rate of 65.01% of LIBOR plus 1.05%. Interest on the 2012 Revenue Bonds is payable monthly.

Concurrent with the issuance of the 2012 Revenue Bonds, the Association also entered into an interest rate swap agreement with a bank. The term of the swap agreement coincides with that of the 2012 Revenue Bonds and has an interest rate of 1.78% less 65.01% of LIBOR. The execution of the interest rate swap agreement thereby fixes the interest rate on the 2012 Revenue Bonds at 2.83% for the full 20-year term of the bonds. The interest rate swap agreement had a recorded liability of $558,000 and $837,000 as of December 31, 2017 and 2016, respectively, as reported in the combined statements of financial position.

Costs of issuance totaled approximately $415,000 for the 2012 Revenue Bonds, of which $21,000 was amortized and included in interest expense for each of the years ended December 31, 2017 and 2016, using a method that approximates the effective interest rate method over the life of the bonds.

The proceeds of the 2012 Revenue Bonds were used to (i) defease and refund its 2001 Revenue Bonds and (ii) fund a portion of the Association's costs of the acquisition, construction, refurbishment, installation, and equipping of certain of its facilities.

Under the terms of the 2012 bond indenture, the Association is required to place its construction funds with a trustee. Such funds are included with investments whose use is limited and were fully depleted as of December 31, 2016.

NOTE 11 - BONDS PAYABLE - Continued

Under the provisions of the 2012 Revenue Bonds loan agreement, the Association is required to meet certain covenants during the term of the bonds, including maintaining a debt service coverage ratio of selected revenues less expenses to the following year's debt service, as defined, of 1.1-to-1; and maintain a liquid unrestricted and temporarily restricted cash and investments balances ratio to outstanding debt principal of greater than 0.35-to-1. The agreement also places limits on the incurrence of additional borrowings such that the Association meet certain criteria prior to incurring additional debt. The Association was in compliance with the provisions of the 2012 Revenue Bonds loan agreement for the years ended December 31, 2017 and 2016.

Future principal payments on the bonds payable at December 31, 2017 are as follows:

Fiscal year		
2018	$	1,435,000
2019		1,475,000
2020		1,520,000
2021		1,560,000
2022		1,605,000
Thereafter		18,795,000
		26,390,000
Bond issuance costs		(298,000)
	$	26,092,000

NOTE 12 - NEW MARKETS TAX CREDIT TRANSACTION

In 2012, AMY was formed for the purpose of participation in a NMTC financing transaction. AMY received an allocation of NMTC funds pursuant to Section 45D of the Internal Revenue Code and is a California corporation classified as a tax-exempt Type 1 supporting organization of the Association, as defined by Internal Revenue Code Section 509(a)(3).

Under the terms of the NMTC transaction, AMY received mortgage loans from three Community Development Entities. The loans were comprised of Loan A amounts totaling $19,707,000 and Loan B amounts totaling $8,250,000. All NMTC loans bear interest at 1% per annum. Per NMTC regulations, upon completion of a required seven-year period, the issuer of the NMTC loans is anticipated to liquidate interests in the NMTC transaction and thereby forgive the loans. Built within the agreements are put and call options for the Controlling Interest to acquire 100% of the Investment Fund. Due to the structure of the NMTC transaction, the Loan A balance is effectively a loan between the Association and AMY and has been eliminated in the combined reporting of the combined statements of financial position. The Loan B balance is included in the combined statements of financial position as a component of noncontrolling interest, until such time of its forgiveness under the NMTC program.

NOTE 12 - NEW MARKETS TAX CREDIT TRANSACTION - Continued

The Controlling Interest established a NMTC reserve account to be used for the payment of construction invoices for the AMY project. The NMTC reserve was fully depleted as of December 31, 2017 and 2016.

The YMCA has guaranteed the completion of the construction and payments and performance of certain obligations under the NMTC financing transaction.

NOTE 13 - OBLIGATION UNDER SERVICE REPAYMENT AGREEMENT

In 2010, the Association entered into an agreement with the Community Redevelopment Agency of the City of Los Angeles ("CRA") whereby the Association was granted $6,000,000 to assist with the construction of the Anderson Munger YMCA facility. The grant advance balance was $6,000,000 as of December 31, 2017 and 2016. The grant is to be incrementally forgiven by CRA upon the performance of community benefit programs for 20 years from the opening date of the new facility. In May 2014, the new facility opened to the public. The Association recognized $300,000 in debt service repayment forgiveness which is included the combined statements of activities for each of the years ended December 31, 2017 and 2016. At December 31, 2017 and 2016, the Association's obligation in the event that it fails to perform under the service agreement is $4,900,000 and $5,200,000, respectively.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Leases

The Association has entered into various operating leases for office facilities, parking facilities, and automotive and other equipment. Additionally, the Association has entered into various other lease arrangements that are recorded as capital leases and, accordingly, are reflected in property and equipment and obligations under capital leases in the accompanying combined statements of financial position.

As of December 31, 2017 and 2016, the estimated future present value of minimum lease and rental payments under these capital and operating leases are as follows:

	2017	2016
Capital leases	$ 4,475,000	$ 3,504,000
Operating leases	236,000	363,000
Total	$ 4,711,000	$ 3,867,000

NOTE 14 - COMMITMENTS AND CONTINGENCIES - Continued

A summary of the estimated future minimum lease and rental payments as of December 31, 2017 is as follows:

Fiscal year	Capital Leases	Operating Leases	Total
2018	$ 2,054,000	$ 122,000	$ 2,176,000
2019	1,517,000	84,000	1,601,000
2020	875,000	16,000	891,000
2021	316,000	3,000	319,000
2022	67,000	3,000	70,000
Thereafter	10,000	8,000	18,000
Total minimum payments	4,839,000	236,000	5,075,000
Less amount representing interest	(364,000)	-	(364,000)
Present value of minimum lease payments	$ 4,475,000	$ 236,000	$ 4,711,000

Rental expense, including amounts paid on month-to-month leases, totaled approximately $1,548,000 and $2,479,000 for the years ended December 31, 2017 and 2016, respectively.

Litigation
The Association is subject to certain claims that arise out of the normal course of operations of the Association. In the opinion of management, the Association has sufficient liability insurance to cover any such claims, and these matters will not have a material effect on the financial position of the Association if disposed of unfavorably.

NOTE 15 - RETIREMENT PLANS

Defined Contribution Pension Plan
The Association participates in a defined contribution, individual account, and money purchase retirement plan that is administered by the Young Men's Christian Association Retirement Fund (the "Retirement Fund"), a separate corporation. The Retirement Fund is operated as a church pension plan and is a nonprofit, tax-exempt, New York State corporation founded in 1922. Participation is available to all duly organized and reorganized YMCAs in the United States of America. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligation.

NOTE 15 - RETIREMENT PLANS - Continued

Defined Contribution Pension Plan - Continued

This plan is for the benefit of all eligible employees of the Association who qualify under the participation requirements. In accordance with the agreement with the Retirement Fund, employee and employer contributions are based on a percentage of the participating employee's salary; the employer's contributions are remitted to the Retirement Fund on a monthly basis. The Association's contributions to the plan for the years ended December 31, 2017 and 2016 totaled $2,653,000 and $2,571,000, respectively.

Postretirement Benefits Other than Pensions

The Association provides health care benefits to certain of its retired employees and eligible dependents subject to minimum age and service requirements. Substantially all benefits terminate at the age of Medicare eligibility. The following is a summary of the obligations and funded status of the plan and the amounts recognized in the combined statements of financial position for the years ended December 31, 2017 and 2016:

	2017	2016
Change in accumulated postretirement benefit obligation		
Accumulated postretirement benefit obligation, beginning of year	$ 1,517,000	$ 1,596,000
Service cost	58,000	63,000
Interest cost	52,000	58,000
Actuarial (gain) loss	(157,000)	(181,000)
Plan participant contributions	8,000	7,000
Benefits paid	(21,000)	(26,000)
Accumulated postretirement benefit obligation, end of year	$ 1,457,000	$ 1,517,000
Change in plan assets		
Benefits paid	$ (21,000)	$ (26,000)
Employer contributions	13,000	19,000
Plan participant contributions	8,000	7,000
Fair value of plan assets, end of year	$ -	$ -
Amounts recognized in statements of financial position		
Assets	$ -	$ -
Liabilities	(1,457,000)	(1,517,000)
Net liability recorded	$ (1,457,000)	$ (1,517,000)
Amounts recognized in other changes to unrestricted net assets		
Prior service cost	$ -	$ -
Net actuarial gain	(684,000)	(594,000)
Other changes in unrestricted net assets	$ (684,000)	$ (594,000)

NOTE 15 - RETIREMENT PLANS - Continued

Postretirement Benefits Other than Pensions - Continued

Components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other changes to unrestricted net assets for the years ended December 31, 2017 and 2016 include the following:

	2017	2016
Net periodic benefit cost		
Service cost	$ 58,000	$ 63,000
Interest cost	52,000	58,000
Amortization of prior service cost	-	-
Recognized net actuarial gain	(67,000)	(41,000)
Net periodic benefit cost recorded	$ 43,000	$ 80,000
Other changes in plan assets and benefit obligations recognized in other changes to unrestricted net assets		
Settlement/curtailment income	$ -	$ -
Actuarial loss (gain) for the period	(157,000)	(181,000)
Amortization of prior service cost	-	-
Recognized net actuarial gain	67,000	41,000
Total recognized in other changes to unrestricted net assets	$ (90,000)	$ (140,000)
Total recognized in net periodic benefit cost and other changes to unrestricted net assets	$ (47,000)	$ (60,000)

The weighted average assumptions used to determine benefit obligations at December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate used to determine the benefit obligation	3.10%	3.50%

The weighted average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate used to determine the net periodic benefit cost	3.50%	3.70%

NOTE 15 - RETIREMENT PLANS - Continued

Postretirement Benefits Other than Pensions - Continued

The assumed health care cost trend rates as of December 31, 2017 and 2016 are as follows:

	2017	2016
Health care cost trend rate assumed for the next year (pre-Medicare)	7.75%	8.21%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	5.0%
Year that the rate reaches the ultimate trend rate	2026	2025

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% point change in assumed health care cost trend rates would have the following effects as of December 31, 2017:

	1% point increase	1% point decrease
Effect on total service and interest components	$ 8,000	$ (7,000)
Effect on postretirement benefit obligation	106,000	(97,000)

The estimated amounts that will be amortized to net periodic benefit cost in the next fiscal year are as follows:

Prior service cost	$ -
Net actuarial gain	$ (90,000)
Estimated amortized net periodic benefit income	$ (90,000)

The plan has no assets. The Association expects to contribute $44,000 to its postretirement benefit plan in the year ending December 31, 2018.

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31,	
2018	$ 44,000
2019	72,000
2020	94,000
2021	104,000
2022	124,000
2023-2027	852,000

NOTE 15 - RETIREMENT PLANS - Continued

Postretirement Benefits Other than Pensions - Continued

The Association amortizes prior service costs and unrecognized net (gain) loss using the straight-line method.

The Association does not receive a Medicare Part D subsidy from the government in lieu of its postretirement drug benefits program.

NOTE 16 - NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes:

	2017	2016
Passage of time available to support operations	$ 16,963,000	$ 13,315,000
Construction or acquisition of property and equipment	5,741,000	18,942,000
	$ 22,704,000	$ 32,257,000

Net assets were released from donor restrictions during the years ended December 31, 2017 and 2016 as follows:

	2017	2016
Passage of time available to support operations	$ 3,755,000	$ 3,454,000
Completion of construction or acquisition of property and equipment	14,564,000	1,469,000
	$ 18,319,000	$ 4,923,000

NOTE 16 - NET ASSETS - Continued

Permanently Restricted Net Assets

Permanently restricted net assets are held by the Association for investment in perpetuity. Donors have specified that income from these investments is expendable to support any activities of the Association. Permanently restricted net assets totaled $36,064,000 and $27,429,000 as of December 31, 2017 and 2016, respectively. Permanently restricted net assets consist of the following:

	2017	2016
Permanently restricted endowment investments	$ 34,025,000	$ 25,059,000
Permanently restricted endowment contribution receivable	976,000	1,400,000
Permanently restricted non-endowment assets	628,000	570,000
Permanently restricted estate note receivable	435,000	400,000
	$ 36,064,000	$ 27,429,000

NOTE 17 - RELATED PARTIES

Various board members are employed by companies the Association contracts with in the normal course of business. The Association has a conflict of interest policy whereby all contracts with board members are reviewed by the board of directors for approval.

NOTE 18 - SUBSEQUENT EVENTS

In May 2018, the Association entered into a purchase and sale agreement to sell property for total consideration of $15,500,000.

The Association has performed an evaluation of subsequent events through May 11, 2018, which is the date the combined financial statements were available to be issued (see Note 6).