



YWCA OF MINNEAPOLIS

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Finance and Audit Committee
YWCA of Minneapolis:

We have audited the accompanying financial statements of the YWCA of Minneapolis, which comprise the statements of financial position as of June 30, 2017 and 2016, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the YWCA of Minneapolis as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Minneapolis, Minnesota
October 12, 2017

YWCA OF MINNEAPOLIS
 Statements of Financial Position
 June 30, 2017 and 2016

Assets	2017	2016
Cash	\$ 839,241	892,322
Membership and other receivables, net of allowance of \$81,285 and \$70,897 in 2017 and 2016, respectively	293,909	456,378
Pledges receivable, net	1,561,935	1,615,007
Inventory	32,170	27,516
Prepaid expenses and other assets	191,433	212,980
Investments	12,630,495	18,424,126
Property and equipment, net	28,425,192	22,314,568
Total assets	<u>\$ 43,974,375</u>	<u>43,942,897</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 631,020	1,633,222
Accrued payroll and related liabilities	589,150	1,025,590
Deferred support and revenue	250,800	243,596
Derivative financial instrument	6,261	21,030
Long-term debt	383,088	616,966
Total liabilities	<u>1,860,319</u>	<u>3,540,404</u>
Net assets:		
Unrestricted	32,563,049	30,594,173
Temporarily restricted	7,263,124	7,669,627
Permanently restricted	2,287,883	2,138,693
Total net assets	<u>42,114,056</u>	<u>40,402,493</u>
Total liabilities and net assets	<u>\$ 43,974,375</u>	<u>43,942,897</u>

See accompanying notes to financial statements.

YWCA OF MINNEAPOLIS

Statements of Activities

Years ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:								
Public support:								
Contributions	\$ 347,158	1,972,647	149,190	2,468,995	267,139	2,459,430	2,776	2,729,345
Legacy campaign contributions	15,008	468,097	—	483,105	52,792	342,166	—	394,958
Special events	548,269	250,499	—	798,768	553,733	253,205	—	806,938
United Way	6,035	1,095,000	—	1,101,035	16,895	1,095,000	—	1,111,895
Total public support	<u>916,470</u>	<u>3,786,243</u>	<u>149,190</u>	<u>4,851,903</u>	<u>890,559</u>	<u>4,149,801</u>	<u>2,776</u>	<u>5,043,136</u>
Revenue:								
Fees and grants – government	1,385,728	3,114,044	—	4,499,772	1,772,006	1,822,959	—	3,594,965
Program service fees and membership dues	12,514,216	—	—	12,514,216	12,687,734	—	—	12,687,734
Incidental revenue	165,024	—	—	165,024	177,033	—	—	177,033
Investment return	590,944	822,860	—	1,413,804	24,501	28,765	—	53,266
Room rental	144,496	—	—	144,496	162,024	—	—	162,024
Miscellaneous	83,546	—	—	83,546	84,261	—	—	84,261
Total revenue	<u>14,883,954</u>	<u>3,936,904</u>	<u>—</u>	<u>18,820,858</u>	<u>14,907,559</u>	<u>1,851,724</u>	<u>—</u>	<u>16,759,283</u>
Net assets released from program restrictions	8,129,650	(8,129,650)	—	—	7,496,443	(7,496,443)	—	—
Unrealized gain on derivative instrument	14,769	—	—	14,769	15,596	—	—	15,596
Total public support and revenue	<u>23,944,843</u>	<u>(406,503)</u>	<u>149,190</u>	<u>23,687,530</u>	<u>23,310,157</u>	<u>(1,494,918)</u>	<u>2,776</u>	<u>21,818,015</u>
Expenses:								
Health and wellness	8,561,306	—	—	8,561,306	8,516,796	—	—	8,516,796
Early childhood education	7,951,165	—	—	7,951,165	7,985,783	—	—	7,985,783
Girls and youth	1,987,956	—	—	1,987,956	2,033,444	—	—	2,033,444
Racial justice and public policy	581,848	—	—	581,848	481,230	—	—	481,230
Management and general	1,826,697	—	—	1,826,697	1,669,513	—	—	1,669,513
Fund-raising	1,066,995	—	—	1,066,995	938,875	—	—	938,875
Total expenses	<u>21,975,967</u>	<u>—</u>	<u>—</u>	<u>21,975,967</u>	<u>21,625,641</u>	<u>—</u>	<u>—</u>	<u>21,625,641</u>
Total change in net assets	1,968,876	(406,503)	149,190	1,711,563	1,684,516	(1,494,918)	2,776	192,374
Net assets at beginning of year	30,594,173	7,669,627	2,138,693	40,402,493	28,909,657	9,164,545	2,135,917	40,210,119
Net assets at end of year	<u>\$ 32,563,049</u>	<u>7,263,124</u>	<u>2,287,883</u>	<u>42,114,056</u>	<u>30,594,173</u>	<u>7,669,627</u>	<u>2,138,693</u>	<u>40,402,493</u>

See accompanying notes to financial statements.

YWCA OF MINNEAPOLIS
Statement of Functional Expenses
Year ended June 30, 2017

	Program services					Supporting services			
	Health and wellness	Early childhood education	Girls and youth	Racial justice and public policy	Total	Management and general	Fund-raising	Total	Total
Salaries	\$ 3,998,909	4,167,708	1,233,900	304,785	9,705,302	981,885	566,909	1,548,794	11,254,096
Employee benefits	329,503	490,392	130,798	16,363	967,056	73,899	48,766	122,665	1,089,721
Payroll taxes and workers' compensation	374,206	392,477	116,676	27,678	911,037	87,048	47,770	134,818	1,045,855
Total salaries and related expenses	4,702,618	5,050,577	1,481,374	348,826	11,583,395	1,142,832	663,445	1,806,277	13,389,672
Professional fees and contract service payments	351,180	555,496	83,917	65,670	1,056,263	213,632	153,708	367,340	1,423,603
Supplies	536,579	544,056	212,160	23,075	1,315,870	49,363	44,207	93,570	1,409,440
Telephone	28,742	25,428	7,692	1,876	63,738	5,089	2,389	7,478	71,216
Postage	15,276	2,473	752	267	18,768	3,596	2,068	5,664	24,432
Occupancy	1,324,414	1,301,534	71,330	18,606	2,715,884	88,089	8,126	96,215	2,812,099
Outside printing and advertising	349,322	105,382	10,284	13,954	478,942	15,984	53,442	69,426	548,368
Transportation	9,028	4,012	29,764	3,126	45,930	5,294	873	6,167	52,097
Conferences, conventions, and meetings	40,163	40,840	35,596	10,638	127,237	30,463	14,634	45,097	172,334
Payments to YWCA of the USA	—	—	—	—	—	40,000	—	40,000	40,000
Interest expense	22,116	—	—	—	22,116	—	—	—	22,116
Special events expenses	—	—	—	79,417	79,417	—	81,425	81,425	160,842
Licenses and permits	34,058	9,833	849	535	45,275	195	23	218	45,493
Miscellaneous	60,119	62,947	15,622	2,933	141,621	26,735	28,204	54,939	196,560
Total expenses before depreciation and amortization	7,473,615	7,702,578	1,949,340	568,923	17,694,456	1,621,272	1,052,544	2,673,816	20,368,272
Depreciation and amortization	1,087,691	248,587	38,616	12,925	1,387,819	205,425	14,451	219,876	1,607,695
Total expenses	\$ 8,561,306	7,951,165	1,987,956	581,848	19,082,275	1,826,697	1,066,995	2,893,692	21,975,967

See accompanying notes to financial statements.

YWCA OF MINNEAPOLIS
Statement of Functional Expenses
Year ended June 30, 2016

	Program services				Supporting services				
	Health and wellness	Early childhood education	Girls and youth	Racial justice and public policy	Total	Management and general	Fund-raising	Total	Total
Salaries	\$ 4,032,372	4,447,080	1,212,999	282,250	9,974,701	937,534	560,019	1,497,553	11,472,254
Employee benefits	331,164	545,430	128,623	19,203	1,024,420	86,397	49,962	136,359	1,160,779
Payroll taxes and workers' compensation	380,142	420,219	113,285	25,722	939,368	79,425	46,047	125,472	1,064,840
Total salaries and related expenses	4,743,678	5,412,729	1,454,907	327,175	11,938,489	1,103,356	656,028	1,759,384	13,697,873
Professional fees and contract service payments	333,887	334,270	109,155	24,100	801,412	140,580	91,984	232,564	1,033,976
Supplies	599,857	561,540	254,502	15,638	1,431,537	39,937	16,466	56,403	1,487,940
Telephone	30,445	25,574	7,863	1,891	65,773	5,354	2,474	7,828	73,601
Postage	15,742	975	595	102	17,414	5,913	4,844	10,757	28,171
Occupancy	1,389,644	1,263,762	60,969	8,784	2,723,159	88,328	7,290	95,618	2,818,777
Outside printing and advertising	256,947	79,188	5,401	3,338	344,874	9,939	41,271	51,210	396,084
Transportation	8,034	3,188	35,888	2,319	49,429	5,211	203	5,414	54,843
Conferences, conventions, and meetings	42,769	44,799	42,881	7,208	137,657	48,423	20,416	68,839	206,496
Payments to YWCA of the USA	—	—	—	—	—	40,000	—	40,000	40,000
Interest expense	32,429	—	—	—	32,429	—	—	—	32,429
Special events expenses	—	—	—	79,471	79,471	—	75,336	75,336	154,807
Licenses and permits	32,923	8,427	282	71	41,703	386	38	424	42,127
Miscellaneous	26,220	24,509	21,599	2,720	75,048	39,565	13,411	52,976	128,024
Total expenses before depreciation and amortization	7,512,575	7,758,961	1,994,042	472,817	17,738,395	1,526,992	929,761	2,456,753	20,195,148
Depreciation and amortization	1,004,221	226,822	39,402	8,413	1,278,858	142,521	9,114	151,635	1,430,493
Total expenses	\$ 8,516,796	7,985,783	2,033,444	481,230	19,017,253	1,669,513	938,875	2,608,388	21,625,641

See accompanying notes to financial statements.

YWCA OF MINNEAPOLIS

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,711,563	192,374
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,607,695	1,430,493
Net realized and unrealized (gains) losses on investments	(1,247,644)	110,427
Contributions received for long-term purposes	(149,190)	(4,883)
Unrealized gain on derivative instrument	(14,769)	(15,596)
Changes in operating assets and liabilities:		
Membership and other receivables, net	162,469	(54,413)
Pledges receivable, net	53,072	213,497
Inventory	(4,654)	3,956
Prepaid expenses	21,547	(10,796)
Accounts payable	(1,002,202)	608,435
Accrued payroll and related liabilities	(436,440)	88,738
Deferred support and revenue	7,204	3,971
Net cash provided by operating activities	<u>708,651</u>	<u>2,566,203</u>
Cash flows from investing activities:		
Purchases of property and equipment	(7,718,319)	(3,913,001)
Proceeds from sale of investments	12,141,394	11,158,961
Purchase of investments	<u>(5,100,119)</u>	<u>(10,616,975)</u>
Net cash used in investing activities	<u>(677,044)</u>	<u>(3,371,015)</u>
Cash flows from financing activities:		
Proceeds on long-term debt	—	27,107
Payments on long-term debt	(233,878)	(220,904)
Proceeds from contributions restricted for:		
Investment in endowment	149,190	2,776
Investment in property and equipment	—	2,107
Net cash used in financing activities	<u>(84,688)</u>	<u>(188,914)</u>
Net change in cash	(53,081)	(993,726)
Cash at beginning of year	<u>892,322</u>	<u>1,886,048</u>
Cash at end of year	\$ <u><u>839,241</u></u>	<u><u>892,322</u></u>
Supplemental disclosure:		
Cash paid for interest	\$ 22,116	32,429
Noncash contribution of free rent and supplies	1,086,751	1,011,402
Noncash purchases of property and equipment in accounts payable	—	547,614

See accompanying notes to financial statements.

YWCA OF MINNEAPOLIS
Notes to Financial Statements
June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

YWCA Minneapolis (YWCA) is dedicated to eliminating racism, empowering women and girls, and promoting peace, justice, freedom, and dignity for all. Since our founding in 1891, YWCA has been a pioneering, proven leader, opening doors for women, people of color, and low-income families, and opening minds throughout our community to the potential that exists in all of us. Today, YWCA lives its 125-year tradition of social justice through innovative programs and passionate advocacy in education, racial justice, and wellness—equipping people to create brighter futures for themselves, their families, and their community.

YWCA operates in the Twin Cities Metropolitan area, with a focus on urban Minneapolis:

- YWCA owns and operates three buildings in Minneapolis in the neighborhoods of Downtown, Uptown, and Midtown; these buildings provide program and office space and three fitness centers.
- YWCA's Early Childhood Education program operates five Children's Centers: in Minneapolis in the neighborhoods of Downtown, Midtown and Phillips; and in Saint Paul in the neighborhoods of Downtown and Frogtown. A sixth Center in Golden Valley was closed in February 2017.
- YWCA's Girls and Youth Programs operate in 15 Minneapolis public schools and at the Midtown and Downtown locations.
- Racial Justice programs are primarily based in Minneapolis with a national reach. Public Policy programs are primarily based in Minneapolis with a statewide reach.

(i) Health and Wellness

The health and fitness of our community is improved through welcoming, supportive, and inclusive programming at three urban fitness centers staffed by certified personal trainers, experienced fitness instructors, Stott Pilates® trained and certified instructors, industry-leading aquatics coaches, and endurance sports specialists. These professionals annually help 25,000+ members of all ages and abilities find the best workout program to achieve their fitness goals. In addition, 2,200+ other community members participate in classes and clinics on CPR, first aid, lifeguard certifications, swimming instruction, personal training, endurance sports, and other specialty topics to enhance their personal well-being. Sliding fee memberships provide access to individuals and families from low-income households.

The health and wellness of women has been a cornerstone of YWCA since its founding. Today, YWCA Minneapolis offers gender-specific classes, workshops, leagues and races delivering women-centric programs that build strength, dignity, and vitality. In August 2016, approximately 1,500 women and girls, ages 11-78, competed in the YWCA Women's Triathlon.

(ii) Early Childhood Education

High-quality nationally accredited early childhood education is provided by YWCA to families across the Twin Cities community. Six YWCA Children's Centers served 660 children, ages 6 weeks to 10 years old, from more than 540 families. Four of the Centers are community based with a focus on serving diverse children from low-income households. Knowing school readiness begins at birth, experienced professional classroom teachers partner with families to prepare children to

YWCA OF MINNEAPOLIS

Notes to Financial Statements

June 30, 2017 and 2016

excel in school and life. The YWCA curriculum is culturally celebratory, incorporating antibias values and conflict resolution skills that equip children for success. Learning opportunities are incorporated into every part of the day promoting social and emotional development, language and literacy development, creativity and the arts, cognitive development, physical and motor skills. Teachers regularly assess all children to ensure age appropriate development and school readiness using national, research-based assessment tools.

(iii) *Girls and Youth*

Girls and youth are prepared to be leaders, learners, and creators of change so that they graduate from high school ready for college and careers. Five culturally responsive, out-of-school time, YWCA Girls and Youth programs use research-based curriculum focused on increasing academic success, strengthening positive decision-making skills, developing leadership skills, and supporting physical and emotional health. Professionally trained youth workers become trusted adults in the lives of the 1,400+ young people served by these programs.

Through an affiliation with the national Girls Inc.® organization, Girls Inc. at YWCA Minneapolis delivers life-changing programs inspiring girls to be strong, smart, and bold. A curriculum designed to meet the developmental needs of girls integrates academic success in STEM (science, technology, engineering, and mathematics), financial literacy, leadership development, and healthy decision-making. This multifaceted approach creates an enriching and fun community that supports girl-led learning, great friendships, and personal growth.

(iv) *Racial Justice*

The racial justice program engages, connects, and leads the community in eliminating racism. Creating space for meaningful and open dialogue about racism and privilege is the critical first step to building an equitable and inclusive community. Throughout the year, 5,900+ diverse individuals were motivated and empowered through public forums, community dialogues, workshops, and trainings to understand racism and privilege and take action to improve race relations in the community where they work and live.

For more than a decade, YWCA Minneapolis has brought together courageous community leaders and members to engage in meaningful conversations and actions to eliminate racism in their workplaces and communities. In November 2016, 1,300+ people attended the 14th annual It's Time to Talk: Forums on Race ®. After the keynote presentation, attendees engaged in professionally facilitated dialogues about race relations at their table, leaving the event empowered to take action.

(v) *Public Policy*

YWCA believes that everyone has a role to play in shaping public policy. Ground-breaking, culturally competent advocacy strategies are created that mobilized more than 2,300 people to become informed, register to vote, and take action to create change in their community. YWCA's current legislative priority is to improve equity and access to high-quality early childhood education and afterschool girls and youth programs for all Minnesota children. Throughout the year, YWCA advocates for this agenda educating and organizing program participants, members, and the public to take action. YWCA advocacy work brings the voices and stories of the people most impacted by

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Notes to Financial Statements
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policy—parents, students, and teachers of young children—into the state Capitol and in front of Minnesota policy-makers with tremendous impact.

(b) Basis of Presentation

The accounting policies of the YWCA conform to U.S. generally accepted accounting principles (GAAP).

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the YWCA and changes therein are classified into the following three categories:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the YWCA's operations. Certain of these amounts have been designated by the board for future operations and endowment;
- Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are not available for use until a specific time; and
- Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the resources be maintained permanently but permit the YWCA to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the YWCA's borrowing rates applicable to the years in which the promises are received. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

(c) Cash

For purposes of the statements of cash flows, cash includes operating cash only, with original maturities of three months or less, and excludes cash equivalents held in brokerage accounts reported as investments.

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(d) Investments

Investments are recorded at fair value, as described in note 3. Realized and unrealized gains and losses are recorded in the period in which they occur in the appropriate net asset classification.

The YWCA utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The YWCA determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the fair value hierarchy as described in note 3 distinguishes between observable and unobservable inputs.

(e) Property and Equipment

The YWCA capitalizes all expenditures for property and equipment in excess of \$300; the fair value of donated fixed assets is similarly capitalized. Depreciation expense is computed using the straight-line method based on estimated useful lives of 30 to 50 years for buildings, 3 to 20 years for furnishings and equipment, and 5 years for vehicles. When property and equipment are sold or retired, the basis and related accumulated depreciation are removed from the accounts.

(f) Deferred Support and Revenue

Deferred support and revenue consist of prepaid membership dues, which are amortized pro rata into income over the life of the related membership, and prepaid program service fees, which are recognized as revenue when services are provided.

(g) Derivative Financial Instrument

The interest rate swap represents a derivative financial instrument and is recognized as either an asset or liability at its fair value in the statements of financial position, with the changes in the fair value reported in the statements of activities. The YWCA has elected not to apply hedge accounting. The interest rate swap agreement effectively modifies the YWCA's exposure to volatility in floating rates of interest by converting the YWCA's floating rate debt to fixed-rate debt. The interest rate swap is marked to market in the statements of financial position. The YWCA recognized unrealized gains of \$14,769 and \$15,596 for the years ended June 30, 2017 and 2016, respectively, on the derivative financial instrument and has reported the fair value of \$6,261 and \$21,030 as a component of liabilities in the statements of financial position at June 30, 2017 and 2016, respectively.

(h) Income Taxes

The YWCA is classified as a tax-exempt organization under Section 501(c)(3), is not a private foundation under Section 509(a)(2) of the Internal Revenue Code, and is subject to federal and state income taxes on net unrelated business income.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely than not recognition threshold to be recognized. This interpretation also provides guidance on measurement derecognition, classification, interest and penalties, accounting in interim

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Notes to Financial Statements
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periods, disclosure, and transition. The YWCA recorded no liabilities in 2017 or 2016 for unrecognized tax positions.

(i) Expense Distribution

Expenses have been charged to program and supporting service functions as follows:

- i) Wages, salaries, and related costs are allocated to the various functions based on actual or estimated time expended.
- ii) Other expenses not directly related to specific functions are allocated to the various functions based on estimated usage.

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 these estimates.

Estimated amounts in the financial statements include valuation of investments, depreciable lives, and self-insurance reserves for the YWCA's estimated cost of claims incurred in its self-insurance for medical claims.

(k) Subsequent Events

The YWCA has evaluated subsequent events through October 12, 2017, the date on which the financial statements were available to be issued. No items requiring adjustment to or disclosure in the financial statements were identified.

(l) Recent Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The guidance supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principle of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, on May 9, 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers Narrow-Scope Improvements and Practical Expedients*. The guidance amends ASU 2014-09 to clarify the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, completed contracts, and contract modifications at transition. This guidance is effective for private entities with fiscal years beginning after December 15, 2017 for not-for-profit entities with conduit debt, and early adoption is permitted. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

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In February 2016, the FASB issue ASU 2016-02, *Leases*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018 for not-for-profit entities with conduit debt, and early adoption is permitted. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expenses and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

(2) Investments

Investment securities at fair value consisted of the following:

	<u>2017</u>	<u>2016</u>
Equity mutual funds	\$ 6,858,465	8,161,010
Fixed income mutual funds	3,726,175	3,814,173
Money market mutual funds	1,658,026	6,005,027
Life insurance policies	176,054	174,286
Cash	211,775	269,630
	<u>\$ 12,630,495</u>	<u>18,424,126</u>

		<u>2017</u>		
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Dividends and interest	\$	73,958	92,202	166,160
Net realized gains		138,519	148,588	287,107
Net unrealized gains		378,467	582,070	960,537
Total return on investments	\$	<u>590,944</u>	<u>822,860</u>	<u>1,413,804</u>

		<u>2016</u>		
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Dividends and interest	\$	77,826	85,867	163,693
Net realized gains		255,793	269,618	525,411
Net unrealized losses		(309,118)	(326,720)	(635,838)
Total return on investments	\$	<u>24,501</u>	<u>28,765</u>	<u>53,266</u>

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(3) Fair Value Measurements

The YWCA has adopted FASB ASC 820, *Fair Value Measurement*, which established a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 – quoted prices in active markets for identical securities;
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.); and
- Level 3 – significant unobservable inputs that are not corroborated by observable market data.

The inputs or methodology used in valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the YWCA's assets and liabilities as of June 30, 2017 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds:				
Large cap	\$ 2,711,651	—	—	2,711,651
Mid cap	2,039,292	—	—	2,039,292
World stock	1,181,180	—	—	1,181,180
Foreign	926,342	—	—	926,342
Fixed income mutual funds:				
Intermediate term	3,057,106	—	—	3,057,106
Short term	669,069	—	—	669,069
Money market mutual funds	1,658,026	—	—	1,658,026
Life insurance policies	—	176,054	—	176,054
Cash	211,775	—	—	211,775
Total investments	<u>\$ 12,454,441</u>	<u>176,054</u>	<u>—</u>	<u>12,630,495</u>
Derivative financial instrument	\$ —	(6,261)	—	(6,261)

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The summary of inputs used to value the YWCA's assets and liabilities as of June 30, 2016 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds:				
Large cap	\$ 3,193,424	—	—	3,193,424
Mid cap	2,765,677	—	—	2,765,677
World stock	1,351,373	—	—	1,351,373
Foreign	850,536	—	—	850,536
Fixed income mutual funds:				
Intermediate term	3,151,801	—	—	3,151,801
Short term	662,372	—	—	662,372
Money market mutual funds	6,005,027	—	—	6,005,027
Life insurance policies	—	174,286	—	174,286
Cash	269,630	—	—	269,630
Total investments	<u>\$ 18,249,840</u>	<u>174,286</u>	<u>—</u>	<u>18,424,126</u>
Derivative financial instrument	\$ —	(21,030)	—	(21,030)

There were no transfers between Levels 1, 2, and 3 during the years ended June 30, 2017 and 2016.

Equity mutual funds, fixed income mutual funds, and money market mutual funds are valued using the closing price in an active market for identical securities. The life insurance policies are fair valued based on cash surrender value, which is believed to approximate fair value. The derivative financial instrument is valued utilizing daily marks derived from pricing data available for comparable transactions in the over-the-counter market.

(4) Pledges Receivable

Anticipated future collections of pledges receivable at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,039,729	830,873
One year to five years	568,423	849,848
Less discount (4.5%)	<u>(46,217)</u>	<u>(65,714)</u>
	<u>\$ 1,561,935</u>	<u>1,615,007</u>

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(5) Property and Equipment

Property and equipment consisted of the following at June 30, 2017 and 2016:

	2017	2016
Land, buildings, and leasehold improvements	\$ 40,912,352	33,293,294
Furnishings and equipment	6,595,037	4,794,980
Vehicles	57,109	85,247
Construction in progress	863,471	2,582,090
	48,427,969	40,755,611
Less accumulated depreciation and amortization	20,002,777	18,441,043
	\$ 28,425,192	22,314,568

(6) Long-Term Debt

Long-term debt consisted of the following at June 30, 2017 and 2016:

	2017	2016
Note payable to bank, floating interest at 65% of the one-month LIBOR, plus 146 basis points	\$ 363,662	592,119
Loan for business vehicle	19,426	24,847
	\$ 383,088	616,966

Maturities of long-term debt at June 30, 2017 are as follows:

2018	\$ 244,941
2019	129,563
2020	5,421
2021	3,163
	\$ 383,088

The note payable to bank was used to finance improvements to the YWCA's Uptown facility. The City of Minneapolis issued \$2,000,000 in tax-exempt bonds, loaned the proceeds to the YWCA, and assigned its interest in the borrowings to a financial institution. Monthly principal and interest payments began January 31, 2009 with the outstanding balance due in full on December 31, 2018. The note is secured by a mortgage of the Uptown facility. In addition to the interest and principal payments, the YWCA is obligated to pay a semiannual administrative fee to the City of Minneapolis equal to 1/8th of 1% of the principal amount outstanding throughout the term of the note. The note payable to bank requires compliance with certain financial covenants, including a debt service coverage ratio, established limitations on the permitted

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amount of capital expenditures, and required minimum maintenance of unrestricted cash and investment balances. Management believes the YWCA is in compliance with the debt covenants as of June 30, 2017.

In September 2008, the YWCA entered into an interest rate swap agreement, which trades the obligation to pay the floating rate interest on the YWCA's \$2,000,000 note payable for a fixed interest rate of 4.5%. The interest rate swap agreement effectively modifies the YWCA's exposure to volatility in floating rates of interest by converting the YWCA's floating rate debt to fixed-rate debt. The arrangement requires the difference between the fixed rate of interest and the index to be settled monthly. Included in interest expense for the years ended June 30, 2017 and 2016 is \$12,679 and \$20,364, respectively, paid to the bank. The change in fair value of the interest rate swap arrangement has been recorded in the statements of activities, resulting in an unrealized gain of \$14,769 and \$15,596 for the years ended June 30, 2017 and 2016, respectively.

The swap agreement contains the same payment dates as the corresponding original issue. The fair values of the swap agreements are included as a liability on the statements of financial position in the amounts of \$6,261 and \$21,030 at June 30, 2017 and 2016, respectively. The fair value of the interest rate swap agreement represents the estimated amount the YWCA would pay to terminate the agreement.

(7) Endowment Funds

The YWCA has adopted the provisions of FASB ASC 958-205-45, *Not-for-Profit Entities*, including *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, and *Enhanced Disclosures for All Endowment Funds*. ASC 958 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted and board-designated endowment funds.

(a) Interpretation of Relevant Law

The YWCA has interpreted 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 YWCA 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, and (c) 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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(b) Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	4,570,733	2,287,883	6,858,616
Board-designated endowment funds	<u>1,714,704</u>	<u>—</u>	<u>—</u>	<u>1,714,704</u>
	<u>\$ 1,714,704</u>	<u>4,570,733</u>	<u>2,287,883</u>	<u>8,573,320</u>

(c) Changes in Endowment Net Assets for the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 7,280,381	3,999,093	2,138,693	13,418,167
Contributions	25,008	—	149,190	174,198
Investment return:				
Investment income	52,162	81,772	—	133,934
Realized and unrealized gains, net	<u>358,813</u>	<u>730,744</u>	<u>—</u>	<u>1,089,557</u>
Total investment return	410,975	812,516	—	1,223,491
Appropriation of endowment assets	<u>(6,001,660)</u>	<u>(240,876)</u>	<u>—</u>	<u>(6,242,536)</u>
Endowment net assets, end of year	<u>\$ 1,714,704</u>	<u>4,570,733</u>	<u>2,287,883</u>	<u>8,573,320</u>

(d) Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	3,999,093	2,138,693	6,137,786
Board-designated endowment funds	<u>7,280,381</u>	<u>—</u>	<u>—</u>	<u>7,280,381</u>
	<u>\$ 7,280,381</u>	<u>3,999,093</u>	<u>2,138,693</u>	<u>13,418,167</u>

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(e) Changes in Endowment Net Assets for the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 8,564,731	4,216,395	2,135,917	14,917,043
Contributions	(42,963)	—	2,776	(40,187)
Investment return:				
Investment income	63,705	74,202	—	137,907
Realized and unrealized gains, net	(46,010)	(57,928)	—	(103,938)
Total investment return	17,695	16,274	—	33,969
Appropriation of endowment assets	(1,259,082)	(233,576)	—	(1,492,658)
Endowment net assets, end of year	\$ <u>7,280,381</u>	<u>3,999,093</u>	<u>2,138,693</u>	<u>13,418,167</u>

(f) Return Objectives and Risk Parameters

As approved by the Board of Directors, the YWCA's endowments are invested primarily in publicly traded mutual funds with the expected ratio of underlying equity securities to comprise 20%–80% of the total portfolio and underlying debt securities to comprise 20%–80% of the total portfolio. The primary objectives in the investment management for the portfolio assets is to maintain the purchasing power of the portfolio; minimize market fluctuations of the Operating Funds consistent with a yield reflective of the time value of money; and achieve long-term growth of assets for Board Restricted and Endowment Funds.

(g) Spending Policy

The Board of Directors annually approves an appropriation of a portion of the endowment and board-designated investment income to current operations. In 2017 and 2016, such amounts were \$689,924 and \$478,710, respectively.

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(8) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA consists of:		
General Endowment – any activity of the organization	\$ 1,550,881	1,353,437
Jean Wigley Memorial Fund – any activity of the organization	101,715	83,886
Elizabeth Lyman Lodge Endowment – camping activities	2,809,907	2,468,150
Ruth Keith Endowment – domestics instruction	<u>108,231</u>	<u>93,620</u>
Subtotal	<u>4,570,734</u>	<u>3,999,093</u>
Gifts and other unexpended revenues and gains available for:		
Health and Fitness program activities	76,764	60,543
Early Childhood Education programs:		
General program activities	477,810	345,099
Capital improvements	500,913	1,386,164
Girls and Youth program activities	1,097,620	1,194,311
Racial Justice and Public Policy program activities	41,000	65,605
General operating purposes time-restricted	176,054	174,286
Capital improvements	302,024	424,320
General program activities	<u>20,205</u>	<u>20,206</u>
Subtotal	<u>2,692,390</u>	<u>3,670,534</u>
Total temporarily restricted net assets	<u>\$ 7,263,124</u>	<u>7,669,627</u>

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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Purpose restrictions accomplished:		
Health and Fitness program expenses	\$ 48,854	84,429
Early Childhood Education program expenses	2,780,664	2,721,404
Early Childhood Education capital expenses	2,512,069	348,338
Girls and Youth program expenses	2,104,965	2,744,029
Racial Justice and Public Policy program expenses	316,494	361,460
Capital improvements	122,296	1,000,000
Time restrictions released:		
Appropriation of general endowment	240,875	233,576
General operating expenses	3,433	3,207
Total restrictions released	\$ 8,129,650	7,496,443

(9) Permanently Restricted Net Assets

Permanently restricted net assets are restricted to endowment investments, at historical cost, the income from which is expendable to support the following activities at June 30, 2017 and 2016:

	2017	2016
General Endowment – any activity of the organization	\$ 2,118,689	1,969,499
Jean Wigley Memorial Fund – any activity of the organization	50,237	50,237
Elizabeth Lyman Lodge Endowment – camping activities	102,669	102,669
Ruth Keith Endowment – domestics instruction	16,288	16,288
Total permanently restricted net assets	\$ 2,287,883	2,138,693

(10) Affiliation with the YWCA USA

The YWCA is a member of the YWCA USA. Assessments paid to the YWCA USA were \$40,000 for the years ended June 30, 2017 and 2016.

(11) Retirement Plan

The YWCA participates in a defined-benefit cash balance retirement plan, which is administered through a national organization, YWCA Retirement Fund. Benefits of the plan are based on individual employee account balances. The actuarial present value of accumulated plan benefits and net assets available for benefits relating to the YWCA's employees is not available because such information is not accumulated for each participating organization. The YWCA's level of contribution is elected at the beginning of each calendar year. The YWCA elected to contribute 3% of the participating employees' wages to the YWCA Retirement Fund for the years ended June 30, 2017 and 2016, respectively. The YWCA Retirement Fund matches the YWCA's contributions at varying levels depending on the contribution level of the YWCA. For the years ended June 30, 2017 and 2016, the YWCA Retirement Fund contributed 1.2% to the employees'

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accounts. Effective with the May 2014 contribution until December 31, 2015, the YWCA Retirement Fund reduced its member organizations' contributions by 75%, while still crediting the employees' accounts at the elected contribution level. Expense for the years ended June 30, 2017 and 2016 was \$195,906 and \$207,660, respectively.

(12) Commitments and Contingencies

During 2014, the State of Minnesota passed legislation to provide for \$3,000,000 for use in renovating the childcare and shared space in the YWCA's downtown building. To assist in the administration of these funds, the State of Minnesota Department of Human Services (State) entered into the General Obligation Bond Proceeds Grant Agreement – Construction Grant for the YWCA of Minneapolis Early Childhood Education Project (GO Grant Agreement) with Hennepin County, Minnesota (County). The GO Grant Agreement requires the land and building to be in substance owned by a public entity and used to provide early childhood education services.

To accomplish the ownership provision, during 2014, the YWCA entered into a Ground Lease with the County to lease the downtown land and building owned by the YWCA, for \$0 over a term of 31.25 years, which is considered to be 125% of the useful life of the improvements that are the subject of such ground lease, as required. In addition, the County entered into a Lease/Use Agreement with the YWCA to operate the Facility for the purpose of providing early childhood education services for \$0. The Lease/Use Agreement may not exceed 50% of the useful life of the improvements under State Statute; therefore, the original term is 12.5 years with an optional 12.5 years renewal, followed by a 7.25-year renewal. The Lease/Use Agreement renewals must be approved by the County. In the event the first 12.5-year renewal is declined by the County, the County must pay the greater of 60% of the YWCA's contribution to the land, Facility, and improvements (Premises) or 60% of the appraised value of the Premises. If the first two 12.5-year terms are completed, but the 7.25-year renewal is declined, the County must pay the greater of 20% of the YWCA's contribution to the Premises or 20% of the appraised value of the Premises. If the County terminates the Lease/Use Agreement pursuant to an Event of Default not caused by the YWCA or any other permissible reason other than nonrenewal and has determined to continue to carry out the Early Childhood Education programs in the Premises, then the County shall reimburse the YWCA in an amount equal to 100% of the YWCA Contribution less 2% for each year that has elapsed since the lease commencement. If the Lease/Use Agreement is terminated and the County determines not to carry out the Early Childhood Education program in the premises, then the Ground Lease will be sold at fair market value. The proceeds shall be used to pay all indebtedness (with the GO Grant Agreement considered to be the superior indebtedness), reimburse all entities that provided the land, building and improvements, and split any increase in value between the parties who provided such funding, including the State and the YWCA.

Contributions from the State are recognized when all conditions are substantially met. During 2017 and 2016, the YWCA received and recorded as temporarily restricted contribution government revenue, \$1,621,294 and \$615,202, respectively. The remainder is expected to be received in the remainder of calendar year 2017 and parts of 2018, as the renovations to the downtown building are completed.

In February 2015, the YWCA entered into an operating lease for certain rental space at North Commons Park. The effective date of the lease was January 2013 and expires December 31, 2017. Future minimum lease payments under this lease are \$16,500 annually.

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At the end of 2005, the YWCA took possession of space for a new childcare center on the Abbott Northwestern Hospital campus under a lease agreement, which was scheduled to expire in August 2015. An amendment was executed to extend the lease agreement under the same terms for five years, expiring July 31, 2020. The lease provides for waiver of base rent and operating expenses based on the understanding that the YWCA will incur yearly programming deficits as defined by the lease. Rent expense and corresponding contribution income of \$412,352 and \$431,676 have been recognized for the years ended June 30, 2017 and 2016, respectively.

Effective April 1, 2013, the YWCA leases space in the Ronald M. Hubbs Center for Lifelong Learning (Hubbs) to provide child care services to the Hubbs adult students. The lease runs for an indefinite period and requires no lease payments. Rent expense and corresponding contribution income of \$37,375 and \$36,168 have been recognized for the years ended June 30, 2017 and 2016.

Effective April 1, 2013, the YWCA began operating a workplace infant-only child care center at General Mills, Inc. No lease payments were required. Rent expense and corresponding contribution income of \$50,776 and \$76,178 have been recognized for the years ended June 30, 2017 and 2016, respectively. In addition, General Mills compensated the YWCA on a monthly basis for the difference in its costs, including overhead and subject to certain limitations, and the revenue generated in parent payments. The reimbursement amounted to \$207,190 and \$295,950 for the years ended June 30, 2017 and 2016, respectively, and is included in program service fees. Effective February 12, 2017, YWCA ceased operation of the center, as General Mills contracted with a different provider following an RFP where General Mills opted to contract with a provider with a national presence.

Effective April 1, 2013, the YWCA began operating a workplace child care center at The Travelers Indemnity Company (Travelers)) through the assignment of an existing agreement between Children's Home Society and Family Services. Effective January 1, 2016, the YWCA entered an agreement with Ecolab, who assumed the location formerly housed by Travelers. The new agreement runs indefinitely. No lease payments are required. In addition, Ecolab provides food and cook services without compensation. Rent and food expense and corresponding contribution income of \$572,148 and \$572,148 have been recognized for the years ended June 30, 2017 and 2016, respectively.

The YWCA undertook a construction project in its Downtown location. Through June 30, 2017, the YWCA had expended \$11,820,850 of the total contracted amount of \$12,450,265. The YWCA expects to pay the remainder of the construction balance through the end of June 2018. The construction project is fully funded by donations to the organization through a capital campaign.