THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

As of and for the Years Ended September 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

OFFICERS

Peter Williams
Chief Volunteer Officer

Vic Bell
Immediate Past
Chief Volunteer Officer

John Linderman
Vice President

Farad Ali
Secretary

John Glover
Treasurer

Leah Devlin
Assistant Secretary

PROFESSIONAL ADMINISTRATIVE STAFF

Douglas W. McMillan
Chief Executive Officer

W. Tracy Howe
Chief Operating Officer

Bryan Huffman
Chief Financial Officer

Tony Campione
Chief Experience Officer

Bruce Ham
Chief Development Officer

Lisa Humphreys
Chief Organizational Development Officer

James A. White
Executive Vice President, Organizational Relations

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.

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Report of Independent Auditor

Board of Directors
The Young Men's Christian Association
of the Triangle Area, Inc.
Raleigh, North Carolina

We have audited the accompanying consolidated financial statements of The Young Men's Christian Association of the Triangle Area, Inc. (a North Carolina nonprofit organization) (the "Association"), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with GAAP.

Emphasis of Matter

As discussed in Note 1, the Association adopted a change in accounting policy that stipulates if donor imposed restrictions are met in the same period as receipt of the contribution, the Association may report all such contributions as unrestricted support. The Association retroactively applied this policy to the prior fiscal year to report consistently from year to year. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Association adopted a change in accounting policy that stipulates that functional expenses are allocated based both on time spent on the function and revenue generated by the function. The Association retroactively applied this policy to the prior fiscal year to report consistently from year to year. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Cherry Bekaert LLP

Raleigh, North Carolina
January 28, 2019

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 24,169,972	$ 20,718,021
Accounts receivable	3,679,198	3,492,179
Pledges receivable - net (Note 2)	8,143,980	9,477,184
Investments, at market (Note 3)	9,049,178	8,501,607
Prepaid expenses	3,644,207	3,285,296
Land, buildings, and equipment - net (Note 5)	143,005,809	109,930,108
Land held for resale	2,640,492	2,640,492
Interest rate swap contracts (Note 9)	564,505	-
Other assets	2,813,153	1,911,172
Total Assets	$ 197,710,494	$ 159,956,059
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 9,276,724	$ 8,424,860
Deferred revenues	12,191,070	8,933,444
Agency funds payable	908,000	263,554
Capital leases payable	124,114	156,043
Notes payable (Note 8)	23,378,043	5,447,145
Bond loans payable (Note 8)	38,784,820	33,847,928
Obligations under interest rate swaps and collars (Note 9)	-	539,485
Total Liabilities	84,662,771	57,612,459
Net Assets:		
Unrestricted:		
Undesignated	77,968,069	63,054,374
Board designated	9,690,487	12,243,898
	87,658,556	75,298,272
Temporarily restricted (Note 10)	17,500,327	19,453,992
Permanently restricted (Note 10)	7,888,840	7,591,336
Total Net Assets	113,047,723	102,343,600
Total Liabilities and Net Assets	$ 197,710,494	$ 159,956,059

The accompanying notes to the consolidated financial statements are an integral part of these statements.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Program and camping fees	$ 48,629,833	$ -	$ -	$ 48,629,833
Membership dues and joining fees	30,068,834	-	-	30,068,834
In-kind contributions	1,954,870	-	-	1,954,870
United way	78,872	-	-	78,872
Contributions	6,236,930	5,922,833	297,504	12,457,267
Grants	1,687,677	-	-	1,687,677
Gain on disposal of fixed assets	342,000	-	-	342,000
Investment return	237,297	334,040	-	571,337
Other income	1,089,156	-	-	1,089,156
	90,325,469	6,256,873	297,504	96,879,846
Net assets released from donor restrictions (Note 11)	8,210,538	(8,210,538)	-	-
Total Public Support and Revenue	98,536,007	(1,953,665)	297,504	96,879,846
Expenses:				
Program services	72,406,356	-	-	72,406,356
Administrative services	11,112,762	-	-	11,112,762
Fundraising	3,760,672	-	-	3,760,672
Total Expenses	87,279,790	-	-	87,279,790
Change in net assets before change in interest rate swaps	11,256,217	(1,953,665)	297,504	9,600,056
Change in market value of interest rate swaps (Note 9)	1,104,067	-	-	1,104,067
Change in net assets	12,360,284	(1,953,665)	297,504	10,704,123
Net assets, beginning of year	75,298,272	19,453,992	7,591,336	102,343,600
Net assets, end of year	$ 87,658,556	$ 17,500,327	$ 7,888,840	$ 113,047,723

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2017

	2017 - Restated			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Public Support and Revenue:				
Program and camping fees	$ 46,192,323	$ -	$ -	$ 46,192,323
Membership dues and joining fees	27,074,223	-	-	27,074,223
In-kind contributions	459,457	-	-	459,457
United way	45,015	-	-	45,015
Contributions	5,144,804	9,907,295	172,120	15,224,219
Grants	1,853,506	71,104	-	1,924,610
Loss on disposal of fixed assets	(650,987)	-	-	(650,987)
Investment return	230,620	508,509	32,320	771,449
Other income	1,174,276	-	196,318	1,370,594
	81,523,237	10,486,908	400,758	92,410,903
Net assets released from donor restrictions (Note 11)	1,782,817	(1,782,817)	-	-
Total Public Support and Revenue	83,306,054	8,704,091	400,758	92,410,903
Expenses:				
Program services	67,207,684	-	-	67,207,684
Administrative services	11,637,923	-	-	11,637,923
Fundraising	3,153,148	-	-	3,153,148
Total Expenses	81,998,755	-	-	81,998,755
Change in net assets before change in interest rate swaps and collars	1,307,299	8,704,091	400,758	10,412,148
Change in market value of interest rate swaps and collars (Note 9)	(132,313)	-	-	(132,313)
Change in net assets	1,174,986	8,704,091	400,758	10,279,835
Net assets, beginning of year	74,123,286	10,749,901	7,190,578	92,063,765
Net assets, end of year	$ 75,298,272	$ 19,453,992	$ 7,591,336	$ 102,343,600

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2018

	Program Services						
	Youth Programs	**Adult Programs**	**Resident Camps**	**Total Programs**	**Admin Services**	**Fundraising**	**Total**
Salaries	$ 22,581,557	$ 5,230,055	$ 4,110,111	$ 31,921,723	$ 4,690,044	$ 1,956,376	$ 38,568,143
Employee benefits	3,439,903	1,007,136	545,520	4,992,559	1,265,431	410,418	6,668,408
Payroll taxes	1,739,676	390,725	304,707	2,435,108	325,267	143,287	2,903,662
Total Payroll	27,761,136	6,627,916	4,960,338	39,349,390	6,280,742	2,510,081	48,140,213
Professional fees and contracts	683,424	688,026	976,950	2,348,400	1,964,128	165,691	4,478,219
Supplies	3,678,733	130,895	1,122,214	4,931,842	342,374	55,231	5,329,447
Telephone	274,061	216,887	206,530	697,478	28,126	9,961	735,565
Postage	675	17	11,611	12,303	116,262	43,807	172,372
Occupancy	5,340,662	4,775,126	1,918,728	12,034,516	629,156	56,970	12,720,642
Equipment lease and maintenance	281,904	99,368	395,630	776,902	59,103	1,492	837,497
Promotion and printing	13,141	3,876	79	17,096	605,415	531,402	1,153,913
Travel	664,433	17,157	139,073	820,663	83,944	22,781	927,388
Conferences and meetings	73,677	15,012	74,155	162,844	443,289	191,764	797,897
Food	1,323,021	30,833	1,115,762	2,469,616	181,514	117,057	2,768,187
Dues	171,611	186,443	117,660	475,714	168,782	14,979	659,475
Insurance	221,785	215,140	402,234	839,159	6,324	-	845,483
Interest	488,581	530,074	330,093	1,348,748	39,467	-	1,388,215
Miscellaneous	890	8,757	7	9,654	82,792	6,332	98,778
Total Other Expenses	13,216,598	6,917,611	6,810,726	26,944,935	4,750,676	1,217,467	32,913,078
Total expenses before depreciation	40,977,734	13,545,527	11,771,064	66,294,325	11,031,418	3,727,548	81,053,291
Depreciation	2,257,391	2,195,274	1,659,366	6,112,031	81,344	33,124	6,226,499
Total Expenses	$ 43,235,125	$ 15,740,801	$ 13,430,430	$ 72,406,356	$ 11,112,762	$ 3,760,672	$ 87,279,790

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2017 - RESTATED

	Program Services						
	Youth Programs	Adult Programs	Resident Camps	Total Programs	Admin Services	Fundraising	Total
Salaries	$ 17,561,227	$ 10,028,820	$ 2,777,645	$ 30,367,692	$ 5,129,391	$ 1,368,418	$ 36,865,501
Employee benefits	2,421,188	1,630,422	405,807	4,457,417	1,169,658	282,462	5,909,537
Payroll taxes	1,416,831	794,037	216,319	2,427,187	377,121	108,545	2,912,853
Total Payroll	21,399,246	12,453,279	3,399,771	37,252,296	6,676,170	1,759,425	45,687,891
Professional fees and contracts	371,375	494,885	891,847	1,758,107	1,907,746	150,772	3,816,625
Supplies	3,534,305	723,361	973,295	5,230,961	335,256	70,212	5,636,429
Telephone	187,598	147,462	187,448	522,508	39,921	10,813	573,242
Postage	1,834	362	326	2,522	110,023	50,719	163,264
Occupancy	4,508,117	3,762,568	1,462,496	9,733,181	726,977	4,214	10,464,372
Equipment lease and maintenance	278,371	209,699	423,109	911,179	62,328	1,673	975,180
Promotion and printing	8,257	21,893	823	30,973	565,788	534,194	1,130,955
Travel	711,079	29,174	112,260	852,513	78,863	11,124	942,500
Conferences and meetings	51,035	58,394	65,310	174,739	412,340	254,243	841,322
Food	1,090,041	381,709	1,068,521	2,540,271	228,985	129,351	2,898,607
Dues	185,758	210,586	132,649	528,993	196,278	14,561	739,832
Insurance	204,145	193,784	381,765	779,694	71,767	-	851,461
Interest	437,077	474,196	295,296	1,206,569	33,280	-	1,239,849
Miscellaneous	11,222	9,527	60	20,809	99,826	7,003	127,638
Total Other Expenses	11,580,214	6,717,600	5,995,205	24,293,019	4,869,378	1,238,879	30,401,276
Total expenses before depreciation	32,979,460	19,170,879	9,394,976	61,545,315	11,545,548	2,998,304	76,089,167
Depreciation	1,481,302	2,417,756	1,763,311	5,662,369	92,375	154,844	5,909,588
Total Expenses	$ 34,460,762	$ 21,588,635	$ 11,158,287	$ 67,207,684	$ 11,637,923	$ 3,153,148	$ 81,998,755

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 10,704,123	$ 10,279,835
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	6,226,499	5,909,588
Unrealized loss (gain) on charitable trusts	4,829	(9,507)
Unrealized gain on investments	(201,085)	(538,863)
Gain on disposal of investments	(173,881)	(288,010)
Loss (gain) on disposal of fixed assets	(342,000)	650,987
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(187,019)	(1,678,018)
Pledges receivable	1,333,204	1,406,254
Bequest receivable	-	2,116,000
Prepaid expenses	(358,911)	(867,178)
Land held for sale	-	(2,596,492)
Other assets	(906,810)	(815,950)
Increase (decrease) in:		
Accounts payable and accrued expenses	851,864	2,815,832
Agency funds payable	644,446	263,554
Deferred revenue	3,257,626	(619,586)
Net cash flows from operating activities	20,852,885	16,028,446
Cash flows from investing activities:		
Additions to land, buildings, and equipment	(39,304,909)	(21,824,214)
Proceeds from sale of fixed assets	344,709	622,847
Purchase of investments	(1,468,734)	(7,563,422)
Proceeds from sale of investments	1,296,129	7,257,944
Net cash flows from investing activities	(39,132,805)	(21,506,845)
Cash flows from financing activities:		
Borrowing (repayment) on line of credit	-	(4,000,000)
Additions to (principal payments on) capitalized lease financing	(31,929)	81,706
Borrowing on note payable	26,635,561	5,502,650
Principal payments on note payable	(8,613,525)	(2,010,664)
Borrowing on long-term obligations	8,105,000	34,030,000
Principal payments on long-term obligations	(3,168,108)	(22,745,000)
Payments of debt issuance costs	(91,138)	(73,517)
Change in Swaps & Collars	(1,103,990)	132,313
Net cash flows from financing activities	21,731,871	10,917,488
Net change in cash and cash equivalents	3,451,951	5,439,089
Cash and cash equivalents, beginning of year	20,718,021	15,278,932
Cash and cash equivalents, end of year	$ 24,169,972	$ 20,718,021
Supplemental information:		
Interest paid	$ 1,310,433	$ 893,312
Noncash transactions:		
Purchased new copiers through capital leases	$ -	$ 169,307

Note 1—Nature of activities and summary accounting policies

Nature of Activities

Mission and Nature of Activities – The Young Men's Christian Association of the Triangle Area, Inc. (the "Association") is an association of volunteers, members, and staff incorporated in 1911 for the purpose of putting Christian principles into practice through programs that build healthy spirit, mind, and body for all. The Young Men's Christian Association of the Triangle Area, Inc. is comprised of fifteen branches, three resident camps, and administrative offices. Members and participants primarily come from Wake, Durham, Orange, Johnston, Lee, Pamlico, Chatham, and surrounding counties.

SER Development I, Inc. (the "Organization") is an organization incorporated on February 16, 2018. It was formed for the exclusive purpose of holding the title to a parcel of real property located at 1436 Rock Quarry Road, Raleigh, North Carolina 27610, collecting income therefrom, and turning over the entire amount thereof, less expenses to the YMCA. The Organization intends to develop, construct, equip, and lease the development project for use as a YMCA facility, which will include a wellness center, parking lot, gymnasium, outdoor swimming pool, exercise studious and other athletic and recreational amenities.

The transactions of the Association and the Organization have been consolidated in these statements in accordance with Accounting Standards Codification ("ASC") 958-810. All intercompany balances and transactions have been eliminated.

Summary of Accounting Policies

Basis of Accounting – The Association's consolidated financial statements are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Changes in Accounting Policy – The Association adopted a change in accounting policy that stipulates if donor imposed restrictions are met in the same period as receipt of the contribution, the Association may report all such contributions as unrestricted support. The Association retroactively applied this policy to the prior fiscal year to report consistently from year to year. This resulted in a restatement increasing unrestricted contributions and decreasing temporarily restricted contributions both by $6,842,178, decreasing the amount released from restriction during the year by the same amount. The change had no impact on net income or net assets.

The Association adopted a change in accounting policy that stipulates that functional expenses are allocated based both on time spent on the function and revenue generated by the function. The Association retroactively applied this policy to the prior fiscal year to report consistently from year to year. The change had an immaterial impact to total program expenses. The change had no impact net income or net assets.

Basis of Presentation – The financial statement presentation follows the recommendations of the Financial Accounting Standards Board's ("FASB") ASC 958, *Not-for-Profit Entities*. Under ASC 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

> *Unrestricted Net Assets* – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. All unrestricted net assets, including board designated funds, may be used by the Association for general operations as determined by management or the Board of Directors.

Note 1—Nature of activities and summary accounting policies (continued)

Temporarily Restricted Net Assets – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently Restricted Net Assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor are otherwise removed by the Association's actions.

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

Tax Exempt Status – The Association is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the 50% of adjusted gross income charitable contributions deduction for individual donors. FASB ASC 740, *Income Taxes*, requires the Association to estimate the likelihood that a potential income tax liability, including penalties and interest, exists for any income tax position taken on a return that has a more-likely-than-not chance that the position would fail under a federal or state revenue audit. This estimated liability is known as an uncertain tax position. Also required is the disclosure of all tax years that the Association's federal or state information returns are open for potential examination. The Association has evaluated their income tax positions and has determined that they have no uncertain tax positions that should be accounted for under ASC 740. The Association is not currently under examination by the Internal Revenue Service or the State of North Carolina.

Tax Exempt Status – The Organization is a not-for-profit organization exempt from federal income taxes under Section 501(c)(2) of the Internal Revenue Code. It has been classified as an organization that is organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under IRC 501(a). FASB ASC 740, *Income Taxes*, requires the Organization to estimate the likelihood that a potential income tax liability, including penalties and interest, exists for any income tax position taken on a return that has a more-likely-than-not chance that the position would fail under a federal or state revenue audit. This estimated liability is known as an uncertain tax position. Also required is the disclosure of all tax years that the Organization's federal or state information returns are open for potential examination. The Organization has evaluated their income tax positions and has determined that they have no uncertain tax positions that should be accounted for under ASC 740. The Organization is not currently under examination by the Internal Revenue Service or the State of North Carolina.

Cash and Cash Equivalents – For purposes of the statements of cash flows, cash and cash equivalents represent cash in bank demand accounts and short-term highly liquid investments with original maturities of three months or less.

Accounts Receivable – Based upon a periodic review of receivables, accounts deemed uncollectible are charged back against the accounts receivable balance with the corresponding revenue account being reduced.

Contributions and Promises to Give – Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction has been satisfied, temporarily restricted net assets are released to unrestricted net assets.

Note 1—Nature of activities and summary accounting policies (continued)

Investments – Investments in equity and debt securities are recorded at fair value based on closing market prices or bid quotations in accordance with professional standards. The resulting unrealized gain or loss is reflected in the statements of activities.

Property and Equipment – Property and equipment that is purchased is valued at historical cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Life
Land improvements	5 – 40 years
Buildings	1 – 40 years
Vehicles and boats	3 – 10 years
Furnishings and equipment	3 – 44 years

Construction in Progress – Amounts represent the accumulated cost of a project that has not yet been placed into service. When the project is complete and placed into service, the cost is removed from this account and recorded as a long-term asset.

Deferred Membership and Program Fees – Membership and program fees which are paid in advance are deferred and subsequently recognized as earned in the periods to which they relate.

Contributed Assets, Materials, and Services – Donations of property, equipment, and materials are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the YMCA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

For the years ended September 30, 2018 and 2017, the value of contributed services meeting the requirements for recognition in the financial statements was approximately $1,852,540 and $361,991, respectively. The services were primarily medical services for the resident camping programs and architectural services. In addition, many individuals volunteer their time and perform a variety of tasks that assist the YMCA at their various facilities. During the years ended September 30, 2018 and 2017, the value of contributed supplies, materials, software licenses, and space was approximately $102,330 and $97,466, respectively.

Statements of Functional Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising – Advertising costs are expensed as incurred and totaled $986,872 and $867,958, respectively, for the years ended September 30, 2018 and 2017.

Agency Funds Payable – The Association considers all cash held in the agency capacity to be restricted cash. The Organization does not have variance power over the cash and has properly recognized the full amount at year-end. The Association had agency funds in the amount of $908,000 and $263,554, respectively for the years ended September 30, 2018 and 2017.

Note 1—Nature of activities and summary accounting policies (continued)

Concentrations – The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") permanently increased coverage to $250,000 for substantially all depository accounts. Effective January 1, 2013, all funds in certain noninterest-bearing transaction accounts will be insured in full by the FDIC with coverage to $250,000. During the year, the Association from time to time may have had amounts on deposit in excess of the insured limits. At September 30, 2018 and 2017, the Association exceeded the federally insured limit by approximately $21,236,633 and $15,520,524, respectively. At September 30, 2018 and 2017, 22% and 27% of the Association's rent expense was paid to the Wake County Public School System, respectively.

Recent Accounting Pronouncements – In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (*Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2017. The Association has not yet selected a transition method and is currently evaluating the effect the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Association is in the process of evaluating the impact of this new guidance.

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are intended to improve financial statement presentation by not-for-profit organizations by providing more relevant information about their resources and the changes in those resources to their donors, grantors, creditors, and other users. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The standard will be effective for the fiscal years beginning after December 15, 2017. The Association is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In June 2018, the FASB issued a new accounting standard, ASU 2018-08, *Clarifying the Scope and Account Guidance for Contributions Received and Contributions Made (Topic 958)*, which is intended to clarify issues that have been faced when characterizing grants and similar contracts with governmental agencies and others as reciprocal transactions or nonreciprocal transactions. The new standard is also intended to help with difficulties in distinguishing between conditional and unconditional contributions for reporting purposes. The new standard is also intended to help with difficulties in distinguishing between conditional and unconditional contributions for reporting purposes. The standard will be effective for the fiscal years beginning after December 15, 2019. The Association is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Note 2—Pledges receivable

As of September 30, 2018 and 2017, the present value of pledges receivable, net of allowance for uncollectible accounts are due as follows:

	2018	2017
Receivable in less than one year	$ 4,150,728	$ 4,414,910
Receivable in one to five years	4,896,904	6,041,296
Receivable in more than five years	1,152,078	1,333,423
	10,199,710	11,789,629
Less present value discount	(1,259,432)	(1,622,015)
	8,940,278	10,167,614
Less allowance for uncollectible accounts	(796,298)	(690,430)
	$ 8,143,980	$ 9,477,184

To reflect the value of its long-term pledges in today's dollars, the Association used an 8% discount rate for the fiscal years ended September 30, 2018 and 2017. The pledges are made, predominately, for branch-specific scholarships and outreach programs, capital improvements, and an endowment for underprivileged children.

Note 3—Investments

Investments as of September 30, 2018 and 2017, consisted of the following:

	2018			2017		
	Cost	Fair Value	Carrying Value	Cost	Fair Value	Carrying Value
Equity funds	$ 4,229,536	$ 6,488,668	$ 6,488,668	$ 4,395,897	$ 6,003,127	$ 6,003,127
Bond funds	2,622,704	2,567,031	2,567,031	2,513,665	2,504,522	2,504,522
	$ 6,852,240	$ 9,055,699	$ 9,055,699	$ 6,909,562	$ 8,507,649	$ 8,507,649

Market values are determined by market quotations at year-end. At September 30, 2018 and 2017, investment income includes realized gains on the sale of securities in the amount of $276,795 and $333,425, respectively. In 2018 and 2017, the Association's Investments in Partnerships decreased in value by $479 and $455, respectively. In 2018 and 2017, the net reported negative basis value of all K-1s received is ($6,042) and ($5,587), respectively.

Note 4—Fair value measurements

The Association applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Association applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 – inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy, within which a fair measurement in its entirety falls, is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2018:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments, at market:				
Large Cap	$ 3,322,616	$ -	$ -	$ 3,322,616
Mid Cap	828,258	-	-	828,258
Small Cap	358,912	-	-	358,912
International	1,326,669	-	-	1,326,669
Alternative Mutual Funds	302,325	-	-	302,325
Fixed Income	2,916,919	-	-	2,916,919
Total investments, at market	9,055,699	-	-	9,055,699
Investment in Partnerships	-	-	(6,521)	(6,521)
Obligations under the interest rate swaps	-	564,505	-	564,505
	$ 9,055,699	$ 564,505	$ (6,521)	$ 9,613,683

Note 4—Fair value measurements (continued)

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2017:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Investments, at market:				
Large Cap	$ 3,279,571	$ -	$ -	$ 3,279,571
Mid Cap	707,707	-	-	707,707
Small Cap	320,662	-	-	320,662
International	1,332,065	-	-	1,332,065
Alternative Mutual Funds	363,123	-	-	363,123
Fixed Income	2,504,521	-	-	2,504,521
Total investments, at market	8,507,649	-	-	8,507,649
Investment in Partnerships	-	-	(6,042)	(6,042)
Obligations under interest rate swaps and collars	-	(539,485)	-	(539,485)
	$ 8,507,649	$ (539,485)	$ (6,042)	$ 7,962,122

The following is a reconciliation of activity for Level 3 assets measured at September 30, 2018 and 2017, at fair value based on significant unobservable (non-market) information:

	Investment in Partnership	
	2018	**2017**
Beginning balance	$ (6,042)	$ (5,587)
Realized losses	(479)	(455)
Ending balance	$ (6,521)	$ (6,042)

Note 5—Land, buildings, and equipment

Land, buildings, and equipment and related accumulated depreciation at September 30, 2018 and 2017, consisted of the following:

	2018	**2017**
Land and land improvements	$ 39,785,412	$ 34,971,862
Buildings	120,528,352	103,129,623
Vehicles and boats	6,404,441	6,167,520
Furnishings and equipment	21,501,825	18,400,595
Construction in progress	27,023,921	13,923,166
	215,243,951	176,592,766
Less accumulated depreciation	(72,238,142)	(66,662,658)
	$ 143,005,809	$ 109,930,108

Depreciation expense for the years ended September 30, 2018 and 2017 was $6,226,499 and $5,909,588, respectively.

Note 6—Defined contribution plan

The Association participates in The YMCA Retirement Fund Retirement Plan which is a defined contribution, money purchase, church plan that is intended to satisfy the qualification requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended and The YMCA Retirement Fund Tax-Deferred Savings Plan which is a retirement income account plan as defined in Section 403(b)(9) of the code. Both Plans are sponsored by The Young Men's Christian Association Retirement Fund ("Fund"). The Fund is a not-for-profit, tax-exempt pension fund incorporated in the State of New York (1922) and is organized and operated for the purpose of providing retirement and other benefits for employees of YMCAs throughout the United States. The plans are operated as church pension plans. Participation is available to all duly organized and reorganized YMCAs and their eligible employees. As a defined contribution plan, the retirement plan and tax-deferred savings plan have no unfunded benefit obligations.

In accordance with the agreement, contributions for the YMCA Retirement Fund Retirement Plan are a percentage of the participating employees' salary. These amounts are paid by the Association. Contributions charged to retirement costs for fiscal years ended September 30, 2018 and 2017 totaled $2,618,932 and $2,554,151, respectively, of which $-0- was unpaid at year-end for September 30, 2018 and 2017. Contributions to the YMCA Retirement Fund Tax-Deferred Savings Plan are withheld from employees' salaries and remitted to the YMCA Retirement Fund. There is no matching employer contribution in this plan.

Note 7—Line of credit

On May 1, 2017, the Association entered into a $1,000,000 unsecured line of credit with SunTrust Bank. The line of credit was not used during either fiscal year ending September 30, 2018 and 2017.

On January 3, 2018, the Association received an irrevocable standby letter of credit not to exceed $547,996. The date of expiration for the letter of credit is December 5, 2019 with an automatic extension of 12 months unless cancelled by the bank 60 days prior to the expiration date. The letter of credit was not used during the fiscal year ending September 30, 2018.

On February 20, 2018, the Association received an irrevocable standby letter of credit not to exceed $659,000. The date of expiration for the letter of credit is April 1, 2019. The letter of credit was not used during the fiscal year ending September 30, 2018.

Note 8—Notes and Bonds Payable

Bonds Payable

On May 1, 2017, the Association entered into a Bond Purchase and Loan Agreement with the North Carolina Capital Facilities Finance Agency (the "Agency") in which the Agency committed to make loans to the Association from the proceeds of its Bonds in the principal amounts of $7,410,000, $12,725,000 and not to exceed $22,000,000 for the Series 2017A, Series 2017B and Series 2017C, respectively. The funds were provided from the proceeds of the Agency's issuance of $7,410,000 Revenue Refunding Bond (YMCA of the Triangle) Series 2017A (the "2017A Bond"), $12,725,000 Revenue Refunding Bonds (YMCA of the Triangle) Series 2017B (the "2017B Bond"), and not to exceed $22,000,000 Revenue Bonds (YMCA of the Triangle) Series 2017C (the "2017C Bond") (collectively referred to as "the 2017 Bonds" which were purchased by SunTrust Bank). The Association used the proceeds of the 2017A Bonds to prepay the 2002 Bonds, the 2017B Bonds to prepay the 2006 Bonds, and the 2017C Bonds to pay or reimburse itself for the costs of certain projects and pay certain expenses incurred in connection with the authorization and issuance of the 2017 Bonds. The YMCA was in compliance with all covenants at September 30, 2018.

Note 8—Notes and Bonds Payable (continued)

The term of the 2017 Bonds included that interest shall accrue on the outstanding principal amount of each series of the 2017 Bonds, and shall initially be calculated at the Adjusted LIBOR Rate applicable to each such series on the basis of actual days elapsed over a 360-day year and shall be payable as provided in the form of the 2017 Bonds. Interest on the outstanding principal amount of the 2017 Bonds shall be payable on the first Business Day of each month.

The Association and SunTrust Bank entered into a Continuing Covenant Agreement which contains the financial covenants applicable to the Association going forward, including a requirement for unrestricted liquidity of not less than $6,000,000, measured each March 31 and September 30, and a Debt Service Coverage Ratio, tested each September 30 of 1.2 to 1.0. The Association's Unrestricted Liquidity as of September 30, 2018 was $10,896,775 and its debt service coverage ratio was 3.55 to 1.0.

Bonds Payable consisted of the following at September 30:

	2018	2017
Series 2017A - matures,subject to the right of prior redemption, on May 1, 2022. Interest rate as September 30, 2018 was 2.47%	$ 6,015,000	$ 7,410,000
Series 2017B - matures, subject to the right of prior redemption, on May 1, 2027. Interest rate at September 30, 2018 was 2.52%	11,705,000	12,725,000
Series 2017C - matures, subject to the right of prior redemption, on May 1, 2032. Interest rate at September 30, 2018 was 2.63%.	21,213,438	13,895,000
Less: Bond Issuance Costs	(148,618)	(182,072)
Total Bonds Payable	$ 38,784,820	$ 33,847,928

Notes Payable

On April 12, 2018 the Organization entered into a loan agreement with CAHEC Sub-CDE XIV, LLC, a North Carolina limited liability company and ST CDE XLVI, LLC, a Georgia limited liability company (collectively referred to as the "Lenders"). The lenders will fund the loan in the original aggregate principal amount of $21,000,000 using the New Markets Tax Credit (the "NMTC") and the Organization intends to develop, construct, equip and lease the development project for use as a YMCA facility, which will include a wellness center, parking lot, gymnasium, outdoor swimming pool, exercise studios and other athletic and recreational amenities. The Organization is expected to constitute a "qualified active low-income community business" within the meaning of Section 45D of the Code and the Treasury Regulations and guidance thereunder.

The NMTC program was established under IRC Section 45D and is administered through the Community Development Financial Institutions ("CFDI") fund, which is a division of the US Department of Treasury. The CFDI provides authority for Community Development Entities ("CDEs") to sell the provided tax credits to qualified investors. The mission of CDEs is to provide capital to low-income communities for eligible projects such as for-profit retail, manufacturing plants, service businesses and nonprofit businesses. Once the tax credits are received by the CDE, investors, such as local corporations, banks or insurance companies, invest (equity) in the CDE, which in turn allows the CDE to invest in qualifying businesses. This investment made into the CDE is called a qualified equity investment ("QEI") and can be made either as an equity investment or a loan. That investment is typically made with a combination of funds contributed by the investor and loaned by a lender, allowing the investor to take tax credits on the combined amount. The investor receives new market tax credits calculated on that aggregate amount equal to 39 percent of the QEI and is spread out over 7 years (5% in years 1-3 and 6% in years 4-7). The investment made by the CDE is typically structured as 7-year, below-market interest rate, interest-only loans. These loans are typically split into two loans, one corresponding to the equity portion of the investment and the second corresponding to the loan portion of the investment. At the end of the 7-year compliance period, there are mechanisms in place that would result in the portion of the loan relating to the equity being forgiven, as the equity investor made its investment in return for the tax credits, and is not looking for a return of its equity investment.

Note 8—Notes and Bonds Payable (continued)

Notes payable consisted of the following at September 30:

	2018	2017
Construction loan with SunTrust Bank for the SouthEast Raleigh YMCA branch and school; secured by a double negative pledge on all assets and assignment of rent under lease with the Wake County Board of Education. Interest is payable monthly at LIBOR plus .75%. First payment of up to $18,530,000 due no later than 12/31/20, with final payment of $6,170,000 due at 3/31/23. Interest rate at September 30, 2018 was 2.86%.	$ 16,580,345	$ -
Term loan agreement with SunTrust Bank with the proceeds of which was used to pay off a term loan from a different financial institution which financed the termination and payout of a defined benefit plan obligation. The monthly repayment of principal and interest is amortized over 60 months at the one month LIBOR rate plus 0.93% (rate at September 30, 2018 was 3.044%) continuing up to May 1, 2022.	1,199,000	1,526,000
Loan agreement with Miracle League of the Triangle to pay $150,000 starting October 1, 2014 over ten years in annual installments bearing no interest for the shared use of facilities built by the Miracle League on the Association's property. An imputed present value interest factor of 5% was attributed to the loan and the discounted value of the loan for the structures was capitalized on the books at $115,826. The amounts shown are net of imputed interest of $13,865 and $18,204, respectively.	76,135	86,796
Loan agreement with the State Employees' Credit Union Foundation, for a principal amount not to exceed $7,000,000. The proceeds were used to finance the construction of the Poole Family YMCA in Garner, North Carolina. The agreement included a -0-% interest rate and was paid in full on December 19, 2017. An in-kind contribution for the imputed interest was recorded for $52,401 for the fiscal year.	-	3,867,650
Loan agreement with CAHEC SUB-CDE XIV, LLC and ST CDE XLVI LLC for a principal amount of $21,000,000 to be paid for under the terms of the NMTC.	5,563,360	-
Less debt issuance costs	(40,797)	(33,301)
Total Notes Payable	$ 23,378,043	$ 5,447,145

Note 8—Notes and Bonds Payable (continued)

The following are maturities of bonds and notes payable for each of the next five years and in the aggregate:

	Notes Payable	Bonds Payable	Total
2019	$ 338,193	$ 3,788,801	$ 4,126,994
2020	338,753	3,951,923	4,290,676
2021	16,919,685	4,124,918	21,044,603
2022	230,958	3,986,829	4,217,787
2023	13,605	2,695,209	2,708,814
Thereafter	5,577,646	20,385,756	25,963,402
	23,418,840	38,933,436	62,352,276
Less unamortized debt issuance costs	(40,797)	(148,616)	(189,413)
	$ 23,378,043	$ 38,784,820	$ 62,162,863

In fiscal year 2017, $219,303 related to the issuance of the 2017 bonds and are recorded at cost. In fiscal year 2018, $45,000 related to the issuance of the construction loan with SunTrust. These costs are being amortized over the life of the bonds and note payable using the straight-line method. Accumulated amortization totaled $70,685 for the bonds and $4,202 for the note payable at September 30, 2018. Debt issuance costs are presented in the statements of financial position as a reduction to the related debt. Interest expense for notes and bonds payable was $1,348,748 and $1,215,666 for the years ending September 30, 2018 and 2017, respectively.

Note 9—Interest rate swaps

The Association holds derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the type of risk hedged relates to reducing the impact of changes in interest rates on its bonds. In hedging these transactions, the Association, in the normal course of business, holds both interest rate swaps and interest rate collars. Derivatives are held only for the purpose of hedging such risk, not for speculation.

Interest Rate Swaps – The Association entered into interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate bonds. At September 30, 2016, the Association had outstanding two interest rate swap agreements with a commercial bank, having total notional amounts of $10,813,750. These agreements effectively changed the Association's interest rate exposure on a portion of its $11,915,000 floating rate note due 2022 to a fixed 3.54% and on a portion of its $14,145,000 floating rate note due 2027 to a fixed 3.445% rate. The Association was exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. These two interest rate swap agreements matured on May 1, 2017.

On May 1, 2017, the Association entered into three interest rate swap agreements with SunTrust Bank, having total beginning notional amounts of $34,030,000. These agreements effectively change the Association's interest rate exposure on all of its of $7,410,000 (Series 2017A) floating rate note due 2022 to a fixed 1.92%, on its $12,725,000 (Series 2017B) floating rate note due 2027 to a fixed 2.205% and $13,895,000 (Series 2017C) floating rate note due 2032 to a fixed 2.443%. The Association is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Association does not anticipate nonperformance by the counterparty. The interest rate swap agreements mature on May 1, 2022 (Series 2017A), May 1, 2027 (Series 2017B) and May 1, 2030 (Series 2017C). However, the Series 2017 C is cancellable by the Association at any time.

Note 9—Interest rate swaps (continued)

On July 31, 2018 the Association entered into interest rate swap agreement with SunTrust Bank, having total beginning notional amounts of $8,100,000. The agreement effectively changes the Association's interest rate exposure on an additional $8,100,000 taken out on its Series 2017C bond which has a floating rate note due 2032 to a fixed 3.0%. The Association is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Association does not anticipate nonperformance by the counterparty. The interest rate swap agreements mature on July 31, 2020.

Note 10—Restricted net assets

Temporarily restricted net assets at September 30, 2018 and 2017 are available for the following purposes or periods:

	2018	2017
Earnings on permanent endowment for which use is restricted	$ 1,355,412	$ 1,259,031
Land, buildings and equipment	16,092,610	18,147,944
Contributions for program services and scholarships	52,305	47,017
	$ 17,500,327	$ 19,453,992

Permanently restricted net assets consisted of:

	2018	2017
Endowments	$ 7,888,840	$ 7,591,336

Included in unrestricted net assets are board-designated net assets representing funds set aside for maintenance and capital improvements at the various facilities.

Note 11—Net assets released from restrictions

	2018	2017
Purpose restrictions accomplished:		
Contributions for program services and scholarships	$ 325,577	$ 202,672
Construction of buildings and improvements	7,884,961	1,580,145
Temporarily restricted net assets released	$ 8,210,538	$ 1,782,817

Note 12—Leases - operating

The Association leases certain facilities and equipment under operating leases expiring at various dates. In addition, the Association leases certain facilities on a month-to-month basis and on an as needed basis.

Future minimum rental payments under operating leases extending beyond 12 months from September 30, 2018 are as follows:

Years Ending September 30,	
2019	$ 2,507,996
2020	2,753,212
2021	3,440,271
2022	3,359,667
2023	3,438,229
Thereafter	53,330,796
	$ 68,830,171

Total rent expense under operating leases for the fiscal period ended September 30, 2018 and 2017 was $5,422,401 and $3,911,443, respectively.

Note 13—Related parties

The Association has many volunteers from the community, and it is common practice that various transactions take place between the Association and companies that may be related to board members, officers, and other volunteers. These transactions take place through the normal course of business. All decisions about investments, major purchases, and policy require the consensus of committees and the approval of the Board of Directors or the Executive Committee.

The Association leases office space from an entity whose CEO is a former board member of the Association. The term of the lease was renewed for another 132 months on September 25, 2015 and expires on September 30, 2026. The lease calls for cumulative base rents of $7,478,190 payable in monthly installments over the term of the lease.

Note 14—Contingencies

Legal Issues – The Association has received various civil summonses under separate incidents where program participants and members have allegedly sustained injuries while using the Association's facilities and/or participating in program activities. These are being handled by Counsel designated by the Association's insurance companies. The Association does not anticipate any financial exposure beyond its insurance coverage.

Note 15—Endowment

The Association's endowment consists of individual funds established for various purposes in accordance with explicit donor restrictions. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor- imposed restrictions.

Note 15—Endowment (continued)

Interpretation of Relevant Law – On March 19, 2009, North Carolina enacted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA); which in the absence of explicit donor restrictions, allows spending of the corpus of certain donor-restricted and board-designated endowments, so long as it is necessary for the continuing operation of the entity and is managed in a responsible and prudent manner. However, it is the Association's policy to maintain any original corpus that was permanently restricted by the donor and to recognize any other donor restrictions related to endowment gifts, such as restrictions on earnings. As a result, the Association classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The investment returns and any appreciation or depreciation of the endowment assets are classified as temporarily restricted net assets.

Endowment Net Asset Composition by Type of Fund as of September 30, 2018:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,355,412	$ 7,888,840	$ 9,244,252
Board-designated endowment funds	994,017	-	-	994,017
Total Mutual Funds	$ 994,017	$ 1,355,412	$ 7,888,840	$ 10,238,269

Changes in Endowment Net Assets for the fiscal year ended September 30, 2018:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 788,826	$ 1,259,031	$ 7,591,336	$ 9,639,193
Investment Return:				
Investment income	128,990	112,419	-	241,409
Net appreciation (realized and unrealized)	108,307	221,621	-	329,928
Total Investment Return	237,297	334,040	-	571,337
Contributions	-	-	297,504	297,504
Distributions	(87,921)	(237,659)	-	(325,580)
Other changes:				
Transfers	55,815	-	-	55,815
	(32,106)	(237,659)	297,504	27,739
Total funds	$ 994,017	$ 1,355,412	$ 7,888,840	$ 10,238,269

Note 15—Endowment (continued)

Endowment Net Asset Composition by Type of Fund as of September 30, 2017:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,259,031	$ 7,591,336	$ 8,850,367
Board-designated endowment funds	788,826	-	-	788,826
Total Mutual Funds	$ 788,826	$ 1,259,031	$ 7,591,336	$ 9,639,193

Changes in endowment net assets for the fiscal year ended September 30, 2017:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 707,633	$ 7,190,578	$ 7,898,211
Investment Return:				
Investment income	27,139	48,451	-	75,590
Net appreciation (depreciation) (realized and unrealized)	203,481	460,058	32,320	695,859
Total Investment Return	230,620	508,509	32,320	771,449
Contributions	(98,588)	(202,672)	172,120	(129,140)
Allowance for change in market value of bequest receivable	656,794	245,561	196,318	1,098,673
	558,206	42,889	368,438	969,533
Total funds	$ 788,826	$ 1,259,031	$ 7,591,336	$ 9,639,193

Funds with Deficiencies – From time to time, the fair market value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2018 and 2017.

Return Objectives and Risk Parameters – The Association has adopted investment policies for the long-term endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the corpus of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment portfolio is invested with a target of 35% in fixed income funds and cash equivalents, 55% in equity securities, and 10% in alternative investments. Because market timing has historically impaired the ability of portfolios to perform over a long period, the funds deemed long-term investments are invested within the guideline ranges at all times. The Association's goal is that these investments shall be able to achieve an average annual rate of return over a period of three years that meets or exceeds the weighted composite market indices comprised of 30% Russell 1000 Growth, 30% Russell 1000 Value and 40% Barclays Capital Aggregate Bond Index as well as achieving the portfolio goal that ranks in the top 50% of similarly managed portfolios.

Note 15—Endowment (continued)

Strategies Employed for Achieving Objectives – The Association's strategy is to maximize the total return of the Endowment funds consistent with prudent levels of risk by preserving and protecting the purchasing power of the Endowment assets and earning a total return for each fund appropriate to each fund's duration, liquidity needs and risk tolerance. The total return should exceed the inflation rate plus the spending rate.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Association has a policy of appropriating for distribution each year at a maximum of 5% of its endowment funds as measured by a 12 quarter rolling average of the fair market value of the assets. Per Board policy, the investment committee has the option to recommend adjustments due to unexpected market fluctuations.

Note 16—Split-interest agreements

The Association is a beneficiary of several charitable remainder unitrusts. The beneficial interests of these trusts have been initially recorded as permanently and temporarily restricted contribution revenue in the year the trusts were established; measured using a valuation method which approximates the present value of the estimated expected future benefits to be received when the trust assets are distributed.

Adjustments to the value of the Association's beneficial interest are made annually and are recorded on the statement of activities and changes in net assets as a part of investment return under permanently and temporarily restricted net assets. The value of the Association's beneficial interest is recorded in the statements of financial position as part of other assets.

As of September 30, 2018 and 2017, the value of the Association's beneficial interest in the various charitable remainder unitrusts totaled $248,188 and $243,359, respectively. For the years ended September 30, 2018 and 2017, the change in value of the Association's beneficial interest in the various charitable remainder unitrusts resulted in a gain of $4,829 and a loss of $9,507, respectively.

The Association is a lifetime income beneficiary of a permanently restricted Triangle Community Foundation account. The Association is entitled to receive up to 5% of the income earned in these funds for the life of the Association.

Note 17—Future commitments

Grants – Grant revenue for the years ended September 30, 2018 and 2017 totaled $1,687,677 and $1,911,398, respectively.

Construction – The Association has several construction projects ongoing. The largest construction projects ongoing for the fiscal year ended September 30, 2018 is the following:

Project	Location	Type of Work	Cost Incurred to Date	Estimated Cost to Complete
Southeast Raleigh Project	Raleigh, NC	Construction of a 39,000 sq ft YMCA and 74,000 sq ft school (to be leased to and operated by the local school system)	$10,465,186	$23,869,190

Note 18—Subsequent events

The Association has evaluated events and transactions through January 28, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2018

	Association	Organization	Eliminating Entries	Consolidated
ASSETS				
Cash and cash equivalents	$ 12,832,383	$ 11,337,589	$ -	$ 24,169,972
Accounts receivable	3,679,198	-	-	3,679,198
Pledges receivable, net	8,143,980	628,159	(628,159)	8,143,980
Notes receivable	14,713,500	-	(14,713,500)	-
Investments, at market	9,049,178	-	-	9,049,178
Prepaid expenses	3,637,449	1,582,289	(1,575,531)	3,644,207
Land, building, and equipment - net	132,471,945	10,533,864	-	143,005,809
Land held for resale	2,640,492	-	-	2,640,492
Other assets	2,813,153	-	-	2,813,153
Interest rate swap contracts	564,505	-	-	564,505
Intercompany due from	3,425,025	-	(3,425,025)	-
Total Assets	$ 193,970,808	$ 24,081,901	$ (20,342,215)	$ 197,710,494
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	$ 9,382,298	$ 522,585	$ (628,159)	$ 9,276,724
Deferred revenues	13,766,601	-	(1,575,531)	12,191,070
Agency funds payable	908,000	-	-	908,000
Long-term capital leases	124,114	-	-	124,114
Notes payable	17,814,683	20,276,860	(14,713,500)	23,378,043
Long-term obligations	38,784,820	-	-	38,784,820
Intercompany due to	2,349,432	1,075,593	(3,425,025)	-
Total Liabilities	83,129,948	21,875,038	(20,342,215)	84,662,771
Total Net Assets	110,840,860	2,206,863	-	113,047,723
Total Liabilities and Net Assets	$ 193,970,808	$ 24,081,901	$ (20,342,215)	$ 197,710,494

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE TRIANGLE AREA, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2018

	Association	Organization	Eliminating Entries	Consolidated
Public Support and Revenue:				
Program and camping fees	$ 48,629,833	$ -	$ -	$ 48,629,833
Membership and joining dues	30,068,834	-	-	30,068,834
In-kind contributions	1,954,870	-	-	1,954,870
United way	78,872	-	-	78,872
Contributions	12,457,267	2,273,888	(2,273,888)	12,457,267
Grants	1,687,677	-	-	1,687,677
Loss on disposal of fixed assets	342,000	-	-	342,000
Investment return	571,337	-	-	571,337
Other income	1,052,631	36,525	-	1,089,156
Total Public Support and Revenue	96,843,321	2,310,413	(2,273,888)	96,879,846
Expenses:				
Program services	72,302,806	103,550	-	72,406,356
Administrative services	13,386,650	-	(2,273,888)	11,112,762
Fundraising	3,760,672	-	-	3,760,672
Total Expenses	89,450,128	103,550	(2,273,888)	87,279,790
Change in net assets before change in interest rate swaps	7,393,193	2,206,863	-	9,600,056
Change in market value of Interest rate swaps	1,104,067	-	-	1,104,067
Change in net assets	8,497,260	2,206,863	-	10,704,123
Net assets, beginning of the year	102,343,600	-	-	102,343,600
Net assets, end of the year	$ 110,840,860	$ 2,206,863	$ -	$ 113,047,723