YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

WITH INDEPENDENT AUDITORS' REPORT

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY
AND SUBSIDIARY
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DECEMBER 31, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
Young Men's Christian Association of Orange County and Subsidiary
Tustin, California

We have audited the accompanying consolidated financial statements of the Young Men's Christian Association of Orange County and subsidiary (collectively, the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statement of activities, functional expense, and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying financial statements of the Young Men's Christian Association of Orange County, which comprise the statement of financial position as of December 31, 2016, and the related statement of activities, functional expense, and cash flow for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 auditors' consider internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the 2017 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2016 financial statements present fairly, in all material respects, the financial position of the Young Men's Christian Association of Orange County as of December 31, 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audit was conducted for the purposes of forming an opinion on the financial statements as a whole. The consolidating information in Schedules I and II is presented for purposes of additional analysis, and it 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

White Nelson Diehl Evans LLP

Irvine, California
May 17, 2018

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017 Consolidated	2016
Current Assets:		
Cash and cash equivalents (Note 3)	$ 2,400,922	$ 4,400,288
Investments (Notes 4 and 8)	11,482,364	9,048,789
Receivables:		
Accounts receivable, net (Note 5)	738,633	857,456
Pledges receivable, net	25,392	29,629
Prepaid expenses and other current assets	497,227	697,960
Land held for resale	-	149,863
Total Current Assets	15,144,538	15,183,985
Property Held under Capital Leases, Net	184,980	326,452
Property and Equipment, Net (Note 6)	17,501,317	12,230,541
Other Assets:		
Deposits	60,200	81,459
Total Assets	$ 32,891,035	$ 27,822,437

LIABILITIES AND NET ASSETS

	2017 Consolidated	2016
Current Liabilities:		
Accounts payable	$ 584,594	$ 604,151
Accrued payroll and employee benefits	1,647,093	1,354,903
Program fees received in advance	522,028	464,162
Accrued expenses	488,571	345,138
Deferred Santa Ana project funding, current portion (Note 6)	250,000	250,000
Current maturities of obligations held under capital leases (Note 12a)	86,499	240,680
Notes payable, current portion (Note 9)	152,790	65,551
Total Current Liabilities	3,731,575	3,324,585
Long-Term Liabilities:		
Deposits payable	40,160	-
Deferred Santa Ana project funding, less current portion (Note 6)	500,000	750,000
Long-term portion of obligations held under capital leases (Note 12a)	76,252	36,602
Notes payable, less current portion (Note 9)	4,432,035	1,593,453
Total Long-Term Liabilities	5,048,447	2,380,055
Total Liabilities	8,780,022	5,704,640
Commitments and Contingencies (Note 12)	-	-
Net Assets (Note 11):		
Unrestricted net assets	23,050,015	21,717,126
Temporarily restricted	970,998	310,671
Permanently restricted	90,000	90,000
Total Net Assets	24,111,013	22,117,797
Total Liabilities and Net Assets	$ 32,891,035	$ 27,822,437

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Operations				
Support, Revenue, and Gains:				
Fundraising Support:				
Contributions	$ 1,141,402	$ 365,307	$ 776,095	$ -
Special events, net of direct costs	143,057	143,057	-	-
Total Fundraising Support	1,284,459	508,364	776,095	-
Program Revenue:				
Childcare fees	19,643,120	19,643,120	-	-
Membership fees	7,910,829	7,910,829	-	-
Health and fitness fees	2,962,377	2,962,377	-	-
Adventure guides fees	1,817,257	1,817,257	-	-
Government assistance	2,578,363	2,578,363	-	-
Donated use of facilities/land	944,898	944,898	-	-
Camp fees	1,281,156	1,281,156	-	-
Community programs fees	1,192,246	1,192,246	-	-
Facility fees	332,666	332,666	-	-
Total Program Revenue	38,662,912	38,662,912	-	-
Contribution from Pomona Valley YMCA	733,000	733,000	-	-
Other Income	195,204	195,204	-	-
Rental Income	49,202	49,202	-	-
Net Assets Released from Restrictions	-	115,768	(115,768)	-
Total Support, Revenue, and Gains	40,924,777	40,264,450	660,327	-
Operating Expenses:				
Program Services:				
Childcare	15,819,132	15,819,132	-	-
Health and fitness	12,483,175	12,483,175	-	-
Adventure guides activities	1,963,594	1,963,594	-	-
Camping	694,866	694,866	-	-
Other community services	3,077,438	3,077,438	-	-
Total Program Services	34,038,205	34,038,205	-	-
Supporting Services:				
Administration and general	6,485,150	6,485,150	-	-
Fundraising	403,863	403,863	-	-
Total Supporting Services	6,889,013	6,889,013	-	-
Tipper, LLC	123,090	123,090	-	-
Total Operating Expenses	41,050,308	41,050,308	-	-
Operating Margin	(125,531)	(785,858)	660,327	-
Nonoperating				
Investment Income, Net (Note 4)	1,394,630	1,394,630	-	-
Gain on Sale of Property Held for Resale	803,885	803,885	-	-
Loss on Disposal of Capital Assets	(79,768)	(79,768)	-	-
Total Nonoperating	2,118,747	2,118,747	-	-
Increase in Net Assets	1,993,216	1,332,889	660,327	-
Net Assets, Beginning of Year	22,117,797	21,717,126	310,671	90,000
Net Assets, End of Year	$ 24,111,013	$ 23,050,015	$ 970,998	$ 90,000

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Operations				
Support, Revenue, and Gains:				
Fundraising Support:				
Contributions	$ 1,287,583	$ 1,100,389	$ 187,194	$ -
Special events, net of direct costs	137,393	137,393	-	-
Total Fundraising Support	1,424,976	1,237,782	187,194	-
Program Revenue:				
Childcare fees	18,618,583	18,618,583	-	-
Membership fees	7,585,631	7,585,631	-	-
Health and fitness fees	2,697,442	2,697,442	-	-
Adventure guides fees	1,756,809	1,756,809	-	-
Government assistance	1,885,620	1,885,620	-	-
Donated use of facilities/land	944,898	944,898	-	-
Camp fees	1,291,790	1,291,790	-	-
Community programs fees	1,281,921	1,281,921	-	-
Facility fees	338,551	338,551	-	-
Total Program Revenue	36,401,245	36,401,245	-	-
Contribution from San Gabriel Valley YMCA	223,240	223,240	-	-
Other Income	130,997	130,997	-	-
Net Assets Released from Restrictions	-	117,644	(117,644)	-
Total Support, Revenue, and Gains	38,180,458	38,110,908	69,550	-
Operating Expenses:				
Program Services:				
Childcare	13,264,535	13,264,535	-	-
Health and fitness	11,590,979	11,590,979	-	-
Adventure guides activities	1,676,343	1,676,343	-	-
Camping	985,728	985,728	-	-
Other community services	3,220,967	3,220,967	-	-
Total Program Services	30,738,552	30,738,552	-	-
Supporting Services:				
Administration and general	5,687,057	5,687,057	-	-
Fundraising	498,432	498,432	-	-
Total Supporting Services	6,185,489	6,185,489	-	-
Total Operating Expenses	36,924,041	36,924,041	-	-
Operating Margin	1,256,417	1,186,867	69,550	-
Nonoperating				
Investment Income, Net (Note 4)	470,472	470,472	-	-
Increase in Fair Value of Interest Rate Swap	10,898	10,898	-	-
Loss on Disposal of Capital Assets	(14,361)	(14,361)	-	-
Total Nonoperating	467,009	467,009	-	-
Increase in Net Assets	1,723,426	1,653,876	69,550	-
Net Assets, Beginning of Year	20,394,371	20,063,250	241,121	90,000
Net Assets, End of Year	$ 22,117,797	$ 21,717,126	$ 310,671	$ 90,000

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services					
	Childcare	Health and Fitness	Adventure Guides Activities	Camping	Other Community Services	Subtotal
Salaries and wages	$ 8,971,136	$ 5,584,923	$ 203,087	$ 275,530	$ 1,715,667	$ 16,750,343
Employee benefits	1,101,194	505,394	27,820	23,378	152,462	1,810,248
Payroll taxes	732,456	463,309	16,833	21,907	144,354	1,378,859
Professional fees	106,383	76,923	3,741	19,144	11,402	217,593
Supplies	130,331	159,104	2,753	22,305	10,967	325,460
Telephone	251,053	83,101	10,593	14,416	52,221	411,384
Postage	6,713	3,740	914	686	1,558	13,611
Occupancy	761,215	3,022,589	48,535	70,754	72,047	3,975,140
Insurance	165,053	96,240	15,045	2,982	20,611	299,931
Depreciation	228,073	1,376,035	355	66,750	9,876	1,681,089
Equipment	678,092	133,879	6,112	4,513	16,290	838,886
Printing and promotion	309,152	142,878	5,911	4,416	4,935	467,292
Fundraising campaign	29,659	2,543	408	141	642	33,393
Employee and travel expense	30,722	20,103	3,196	4,153	14,347	72,521
Meetings, training, and conferences	107,796	66,975	22,480	10,303	13,535	221,089
Program costs	1,450,244	354,137	1,537,203	139,833	674,445	4,155,862
Vehicle expense	198,483	121	19	5,059	84,424	288,106
Credit card and bank fees	308,215	205,084	32,257	5,932	48,864	600,352
Fair share	234,329	134,921	5,058	2,139	26,461	402,908
Recruitment and relocation	29	106	-	-	98	233
Bad debt expense	18,804	38,827	21,274	525	2,232	81,662
Interest	-	12,243	-	-	-	12,243
Miscellaneous expense	-	-	-	-	-	-
Total Functional Expenses	$ 15,819,132	$ 12,483,175	$ 1,963,594	$ 694,866	$ 3,077,438	$ 34,038,205

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

	Supporting Services				
	Administrative and General	Fundraising	Subtotal	Tipper, LLC	Total
Salaries and wages	$ 2,732,825	$ 167,056	$ 2,899,881	$ -	$ 19,650,224
Employee benefits	361,476	27,688	389,164	-	2,199,412
Payroll taxes	186,985	13,790	200,775	-	1,579,634
Professional fees	1,763,422	14,058	1,777,480	9,186	2,004,259
Supplies	31,199	676	31,875	104	357,439
Telephone	72,079	3,673	75,752	1,419	488,555
Postage	10,702	4,295	14,997	-	28,608
Occupancy	238,042	178	238,220	47,479	4,260,839
Insurance	155,185	-	155,185	-	455,116
Depreciation	131,922	-	131,922	30,336	1,843,347
Equipment	200,013	236	200,249	-	1,039,135
Printing and promotion	5,234	26,872	32,106	-	499,398
Fundraising campaign	-	73,347	73,347	-	106,740
Employee and travel expense	9,441	1,098	10,539	-	83,060
Meetings, training, and			-		-
conferences	166,640	25,846	192,486	-	413,575
Program costs	-	29,583	29,583	-	4,185,445
Vehicle expense	17,041	-	17,041	-	305,147
Credit card and bank fees	148,956	1,200	150,156	30	750,538
Fair share	-	10,501	10,501	-	413,409
Recruitment and relocation	191,329	-	191,329	-	191,562
Bad debt expense	-	3,766	3,766	-	85,428
Interest	62,659	-	62,659	30,733	105,635
Miscellaneous expense	-	-	-	3,803	3,803
Total Functional Expenses	$ 6,485,150	$ 403,863	$ 6,889,013	$ 123,090	$ 41,050,308

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services					
	Childcare	Health and Fitness	Adventure Guides Activities	Camping	Other Community Services	Subtotal
Salaries and wages	$ 7,632,670	$ 4,971,820	$ 158,788	$ 332,401	$ 1,856,213	$ 14,951,892
Employee benefits	1,117,559	441,440	21,089	18,757	180,451	1,779,296
Payroll taxes	620,087	409,502	13,275	26,687	153,349	1,222,900
Professional fees	27,716	-	-	59,792	7,115	94,623
Supplies	114,788	138,651	817	16,784	9,773	280,813
Telephone	239,433	45,385	5,471	16,880	48,011	355,180
Postage	4,542	1,205	276	9,627	180	15,830
Occupancy	799,433	3,028,376	53,595	163,036	66,639	4,111,079
Insurance	73,219	179,854	6,977	846	10,853	271,749
Depreciation	217,348	1,266,783	165	44,541	9,743	1,538,580
Equipment	128,431	146,091	165	81,008	10,823	366,518
Printing and promotion	341,101	130,265	-	1,948	3,881	477,195
Fundraising campaign	-	-	-	-	-	-
Employee and travel expense	29,507	14,169	3,262	10,750	11,685	69,373
Meetings, training, and conferences	72,561	57,904	10,055	16,572	12,152	169,244
Program costs	1,127,078	354,911	1,362,067	154,126	659,222	3,657,404
Vehicle expense	165,089	-	-	19,290	72,181	256,560
Credit card and bank fees	279,820	195,500	34,515	4,970	7,667	522,472
Fair share	215,138	123,686	5,357	2,455	23,104	369,740
Recruitment and relocation	35,415	11,130	89	5,258	20,449	72,341
Bad debt expense	23,600	55,903	380	-	57,476	137,359
Interest	-	18,404	-	-	-	18,404
Total Functional Expenses	$ 13,264,535	$ 11,590,979	$ 1,676,343	$ 985,728	$ 3,220,967	$ 30,738,552

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016

	Supporting Services			
	Administrative and General	Fundraising	Subtotal	Total
Salaries and wages	$ 2,426,592	$ 235,718	$ 2,662,310	$ 17,614,202
Employee benefits	375,888	33,670	409,558	2,188,854
Payroll taxes	171,792	19,127	190,919	1,413,819
Professional fees	1,463,890	454	1,464,344	1,558,967
Supplies	23,607	2,901	26,508	307,321
Telephone	69,869	2,859	72,728	427,908
Postage	12,248	3,264	15,512	31,342
Occupancy	283,875	-	283,875	4,394,954
Insurance	107,906	-	107,906	379,655
Depreciation	110,390	-	110,390	1,648,970
Equipment	79,024	16,333	95,357	461,875
Printing and promotion	3,975	27,479	31,454	508,649
Fundraising campaign	-	96,858	96,858	96,858
Employee and travel expense	17,027	2,095	19,122	88,495
Meetings, training, and conferences	166,054	37,390	203,444	372,688
Program costs	157,913	6,581	164,494	3,821,898
Vehicle expense	21,834	-	21,834	278,394
Credit card and bank fees	92,290	2,108	94,398	616,870
Fair share	-	11,595	11,595	381,335
Recruitment and relocation	39,590	-	39,590	111,931
Bad debt expense	-	-	-	137,359
Interest	63,293	-	63,293	81,697
Total Functional Expenses	$ 5,687,057	$ 498,432	$ 6,185,489	$ 36,924,041

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017 Consolidated	2016
Cash Flows from Operating Activities:		
Increase in Net Assets	$ 1,993,216	$ 1,723,426
Noncash Reconciling Items:		
Depreciation	1,843,347	1,648,970
Amortization of deferred financing costs	196	-
Realized and unrealized gain on investments	(1,227,643)	(327,439)
Loss on disposal of property and equipment	79,768	14,361
Gain on sale of property held for resale	(803,885)	-
Increase on fair value of interest rate swap	-	(10,898)
Deferred Santa Ana project funding	(250,000)	(250,000)
Allowance for doubtful accounts	13,689	-
Changes in:		
Accounts receivable	108,900	203,332
Pledges receivable	471	(19,454)
Prepaid expenses and other current assets	200,733	42,113
Deposits	21,259	-
Accounts payable	(19,557)	(113,742)
Accrued payroll and employee benefits	292,190	140,554
Deposits payable	40,160	(3,044)
Program fees received in advance	57,866	(47,388)
Accrued expenses	143,433	60,297
Net Cash and Cash Equivalents Provided by Operating Activities	2,494,143	3,061,088
Cash Flows from Investing Activities:		
Purchases of property and equipment	(2,223,805)	(1,136,076)
Proceeds from sale of property and equipment	13,500	30,648
Proceeds from sale of land held for resale	953,748	-
Sales of investments	1,760,251	1,854,811
Purchases of investments	(2,966,183)	(2,133,235)
Net Cash and Cash Equivalents Used in Investing Activities	(2,462,489)	(1,383,852)
Cash Flows from Financing Activities:		
Principal payments on capital leases	(276,645)	(258,701)
Principal payments on notes payable	(1,742,634)	(113,053)
Cash paid for deferred financing costs	(11,741)	-
Net Cash and Cash Equivalents Used in Financing Activities	(2,031,020)	(371,754)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,999,366)	1,305,482
Cash and Cash Equivalents, Beginning of Year	4,400,288	3,094,806
Cash and Cash Equivalents, End of Year	$ 2,400,922	$ 4,400,288

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017 Consolidated	2016
Supplemental Disclosure:		
Interest paid	$ 105,635	$ 81,697
Noncash Investing and Financing Activities for the Years Ended December 31, 2017 and 2016:		
Equipment acquired through capital lease	$ 162,114	$ -
Property acquired through debt financing	$ 4,680,000	$ -

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

Note 1: Organization and Nature of Services

Organization

The Young Men's Christian Association of Orange County (the "YMCA" or "Y") is a charitable organization that puts Christian principles into practice through programs that build spirit, mind, and body for all. The Y has been active in Orange County since 1922. At the Y, strengthening community is our cause! With a focus on youth development, healthy living and social responsibility, the Y serves Orange County, along with Riverside County, San Gabriel Valley, and Pomona Valley through eight (8) Health & Wellness locations (Laguna Niguel, Newport Beach, Mission Viejo, Fullerton, Huntington Beach, Murrieta, Diamond Bar and Santa Ana). With an additional 150 afterschool programs, summer camps, sports & swim programs, Adventure Guides parent/child groups, and programs for youth and adults with special needs, YMCAOC is committed to serving our growing and diverse community needs.

Tipper, LLC ("Tipper") is a wholly owned subsidiary of the YMCA operated exclusively to further the charitable purposes of the Y. The activities of the limited liability company shall be limited to acquiring and holding title to property, collecting income therefrom, and remitting the entire amount of net income from such property to the member, within the meaning of Section 23701b of the California Revenue and Taxation Code and in furtherance of the charitable purposes of the member.

The consolidated financial statements include the accounts of the YMCA and its wholly owned subsidiary, Tipper, which are collectively referred to as the "Organization." Interorganization transactions and balances have been eliminated in consolidation.

Nature of Services

The Y provides services for the following program areas:

- Childcare:. YMCA before and after school care provides opportunities for your child to learn, grow, and thrive as they make their way from K-8th grade. We provide daily physical and educational activities like sports & recreation, homework support, arts, and technology that allow students to engage in the learning process and have fun with friends at the same time! With 50+ locations on school campuses throughout Orange County, the Y is a convenient and affordable choice for your family. The Y offers year-round, licensed child care including full-day summer camps and full-day care during school holidays.

Note 1: Organization and Nature of Services (Continued)

Nature of Services (Continued)

- Health and Fitness: The Y provides health and wellness programming to youth and adults to increase the positive impact on the health of children and families in Orange, Los Angeles and Riverside Counties through programs and partnerships that promote healthier decisions and provide opportunities to get involved, give back, and get connected. Being healthy means more than simply being physically active. It's about maintaining a balanced spirit mind and body. The Y is a place where everyone can work toward that balance by challenging themselves to learn a new skill or hobby, fostering connections with friends through lifelong learning programs, and bringing loved ones closer together through family-centered activities. At the Y, it's not about the activity as much as it is about the benefits of living healthier.

- Adventure Guides Activities: The Y provides Adventure Guides participants with a family-oriented program providing an opportunity for parents and children to spend quality one-on-one time together to help strengthen family relationships and create memories that will last a lifetime. The Y's core values of caring, honesty, respect, and responsibility provide direction as parent's guide children on their journey. These four values provide guidance in helping children select activities, make decisions, and choose appropriate courses of action both in the program and in their lives. Along the way, adults model, teach, and demonstrate these values, as well as give children many opportunities to practice and celebrate with them.

- Camping: Y camps have a rich tradition dating back to as early as 1909. The Y offers both residential and day camps that are designed to help children learn to appreciate and respect nature and each other. Through the Y's core values of caring, honesty, respect, and responsibility, character development is nurtured. Y camping programs are educational and experiential; they promote cognitive development, physical well-being, social growth, character development, leadership skills, and a respect for the environment. Through a variety of engaging activities and the use of natural surroundings, YMCA camping programs encourage participants to explore and develop their interests and abilities in a safe and nurturing environment.

Note 1: Organization and Nature of Services (Continued)

Nature of Services (Continued)

- Other Community Services: Y youth and teen programs give kids good role models to help them develop self-esteem and good values, including cooperation, respect for the body, good citizenship, and a strong work ethic. The Y provides a multitude of community service programs providing safe and structured activities within a variety of services targeted toward high-risk youth and at-risk populations. New Horizons is a program for adults with developmental disabilities and special needs ages 18 and up. The New Horizons program provides safe and supervised recreational outings in the community that offer social interaction, skill building, and life-long friendships. While participants are having fun, their full-time caregivers are provided with the "time-off" they need to better care for their loved ones. The YMCA Inclusion program can be utilized for all children with special needs and/or challenging behaviors. We provide services to children with developmental and learning disabilities, sensory challenges, epilepsy, autism, ADHD, emotional disturbance, as well as assist with self-care (diapering, feeding, etc.) if needed. The Organization provides unique styles of programming to impact the growing epidemic of youth obesity through school-based fitness and nutrition programs. These services enhance the lives of youth their families and provide enrichment to the community.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Presentation of Financial Statements*, the Organization's resources are classified for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. Accordingly, the net assets of the Organization are classified and reported as follows:

- *Unrestricted Net Assets* - Unrestricted net assets are net assets that are not subject to donor-imposed stipulations and revenue generated from providing services and interest on investments.

Note 2: Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

- *Temporarily Restricted Net Assets* - Temporarily restricted net assets are net assets subject to donor-imposed stipulations that can be fulfilled by the actions of the Organization pursuant to those stipulations or that expire by the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted.

- *Permanently Restricted Net Assets* - Permanently restricted net assets are net assets that are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in investment income in the Organization's accompanying statements of activities.

Accounts Receivable

The Organization's accounts receivable are primarily fees for services provided and rent that is due. Accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. The allowance for doubtful accounts is determined on the basis of loss experience, economic conditions in the industry, and the financial stability of customers.

Land Held for Resale

The Organization owned certain land in Huntington Beach that was originally purchased to build a facility for YMCA programs. Due to zoning restrictions, it became difficult to build the facility originally intended. The Organization sold the property on March 3, 2017, for $1,009,660, resulting in a gain of $803,885.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation if purchased or at the estimated fair value if donated. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 10 to 40 years for buildings and improvements, 3 to 10 years for furniture and equipment, and 3 to 7 years for vehicles.

Note 2: Summary of Significant Accounting Policies (Continued)

Long-Lived Assets and Asset Impairment

The Organization accounts for impairment and disposition of long-lived assets in accordance with the FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. For the years ended December 31, 2017 and 2016, there was no impairment of the value of such assets.

Donated Materials, Services, and Facilities

Donated materials and other noncash contributions are reflected in the accompanying financial statements at their estimated fair market value at the date of receipt.

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteer services that do not meet these criteria are not recognized in the financial statements, as there is no objective basis of deriving their value.

Donated use of facilities/land during the years ended December 31, 2017 and 2016, included 3.57 acres of land from the US Army, a 20,455 square-foot building, and 23,655 square feet of land from the City of Laguna Niguel. In addition, the Organization occupies 4 acres of land, as well as a 27,327 square-foot building donated by the City of Mission Viejo. Donated use of facilities/land is considered an exchange transaction and recorded as revenue and occupancy expense in the accompanying financial statements at their estimated fair market value. The Organization recognized fair value of $944,898 for donated use of these facilities for the years ended December 31, 2017 and 2016. The methodology to estimate the fair value of the donated use of facilities is the market approach. The market approach uses comparable available buildings and actual completed transactions to determine values. Thus, the market approach provides a good estimate of what the property would sell or lease for if it were vacant and available for a buyer/tenant to occupy.

Accrued Vacation

As of December 31, 2017 and 2016, the accrued vacation liability was $522,190 and $493,945, respectively, and is included as a component of accrued payroll and employee benefits in the accompanying financial statements.

Note 2: Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Amounts received from grants and contracts are not reported as revenue until the resources are expended for the purpose specified or until a stipulated time restriction ends.

In accordance with FASB ASC 958-605, *Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services by a method that best measures the relative degree of benefit. Program services are direct costs, and supporting services are indirect costs. Additionally, the costs of the subsidiary, Tipper, LLC, have been summarized on a functional basis in the consolidated statement of functional expenses.

Use of Estimates

The process of preparing financial statements in accordance with US GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Income Taxes

The YMCA is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code as a charitable organization whereby only unrelated business income is subject to income tax. The YMCA had no unrelated business income during the years ended December 31, 2017 and 2016. Accordingly, there is no provision for income taxes in the accompanying financial statements.

Note 2: Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

In accordance with FASB ASC 740-10-25, *Income Taxes*, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The YMCA does not believe there are any material uncertain tax positions, and accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties at December 31, 2017 and 2016. The YMCA's tax years from 2015 to 2017 are open to review for federal tax purposes, and tax years from 2014 to 2017 are open to review for state income tax purposes.

Tipper is taxed as a partnership for federal tax purposes and accordingly pays no federal taxes. For California purposes, Tipper pays a minimum state of California tax of $800 plus a fee based on its total revenue.

Tipper accounts for uncertain tax positions by making subjective assumptions and judgments regarding its income tax exposures. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and often ambiguous. Interpretations and guidance surrounding income tax laws and regulations change over time. As such, changes in Tipper's subjective assumptions and judgments can materially affect amounts recognized in the statements of financial position and the statements of activities.

Tipper's policy is to recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. No interest or penalties were accrued as of December 31, 2017.

Tipper files income tax returns in US federal and California state jurisdictions. There are currently no open years subject to US federal or state income tax examination.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606).* The ASU establishes new revenue recognition guidance ("ASC 606"), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted, but no earlier than periods beginning after December 15, 2016. The Organization is currently evaluating the impact of the provisions of ASC 606 on the presentation of its financial statements.

Note 2: Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019; however, early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326).* ASU 2016-13 requires that credit losses on most financial assets measured at amortized cost and certain other instruments be measured using an expected credit loss model (referred to as the current expected credit loss model). The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale debt securities. For nonpublic entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960-965 on plan accounting, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact of the provisions of ASU 2016-13 on the presentation of its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958).* ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU requires amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

Note 3: Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31, 2017 and 2016:

	2017	2016
Petty cash	$ 3,000	$ 2,750
Demand deposits	1,913,984	3,841,187
Money market accounts	464,700	556,351
Trust account	19,238	-
Total Cash and Cash Equivalents	$ 2,400,922	$ 4,400,288

The Organization maintains cash and cash equivalent balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation for up to $250,000. The Organization has deposits with banks in excess of federally insured limits of $1,766,265 and $3,680,287 at December 31, 2017 and 2016, respectively.

The Organization's money market accounts are considered Level 1 fair value measurements, as more fully described in Note 8.

Tipper engaged Reliant Real Estate Management, Inc. ("REMM"), a property management company, to manage rental lease contracts and building maintenance. As part of the agreement, REMM established a trust account to which Tipper is the beneficiary.

Included in cash and cash equivalents are certain funds that are restricted for long-term purposes, including the endowment fund balance. Restricted balances totaled $90,000 as of December 31, 2017 and 2016.

Note 4: Investments

The fair value of investments at December 31, 2017 and 2016, is as follows:

	2017	2016
Equity securities	$ 2,562,371	$ 1,939,577
Municipal bonds	101,756	151,893
Corporate bonds	153,554	153,827
Mutual funds	7,205,849	5,624,902
Exchange traded products	1,458,834	1,178,590
Total Investments	$ 11,482,364	$ 9,048,789

Note 4: Investments (Continued)

Investment income, net consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Interest and dividend income	$ 244,746	$ 210,411
Net realized (losses) gains	93,933	(61,618)
Net unrealized gains	1,133,710	389,057
Less: Management fees	(77,759)	(67,378)
Investment Income, Net	$ 1,394,630	$ 470,472

Note 5: Accounts Receivable

Accounts receivable are composed of the following at December 31, 2017 and 2016:

	2017	2016
Grants (governmental/foundation)	$ 338,653	$ 283,172
Program	345,818	272,892
Other	64,085	301,392
Less: Allowance for doubtful accounts	(9,923)	-
Total Accounts Receivable	$ 738,633	$ 857,456

Note 6: Property and Equipment

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

	2017	2016
Land	$ 4,923,743	$ 3,377,403
Buildings and improvements	21,110,763	16,965,164
Furniture and equipment	4,235,168	4,204,471
Vehicles	421,399	326,748
	30,691,073	24,873,786
Less: Accumulated depreciation	(13,807,197)	(12,755,101)
Construction in progress	617,441	111,856
Property and Equipment, Net	$ 17,501,317	$ 12,230,541

Depreciation expense for the years ended December 31, 2017 and 2016, was $1,522,696 and $1,391,854, respectively.

Note 6: Property and Equipment (Continued)

The Organization completed a project in Santa Ana in November 2010, which was the site of a new YMCA facility. The project included two recreational pools, a soccer arena, sports field, a health and nutrition modular facility, and an office modular, along with an Olympic-size pool with lockers and shower facilities on the Segerstrom High School campus that is adjacent to the YMCA site. The majority of the project was funded by the Children and Families Commission of Orange County (the "Commission"). The grant is considered to be an exchange transaction pursuant to the YMCA contract with the Commission to provide certain community services at the site over a specified 10-year period. Accordingly, the Commission funding is not recognized as revenue upon incurrence of the related construction costs. Funding from the Commission is recorded as deferred revenue to be recognized ratably over the 10-year service period stipulated in the contract with the Commission. Revenue recognition commenced January 2012 and continues through December 2020 at a rate of $250,000 per year. Deferred Santa Ana project funding as of December 31, 2017 and 2016, was $750,000 and $1,000,000, respectively.

Note 7: Lease Rental Income

Tipper leases office space to various tenants under rental lease agreements expiring in years through 2020.

Minimum future lease payments to be received as of December 31, 2017, are as follows:

2018	$ 175,733
2019	83,751
2020	19,383
Total	$ 278,967

Note 8: Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides 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 prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Note 8: Fair Value Measurements (Continued)

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

Equity Securities and Exchange-Traded Products: Valued at the closing price reported on the active market on which the individual securities are traded.

Municipal and Corporate Bonds: Valued at prices obtained from independent pricing services, without adjustment.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by a retirement plan are deemed to be actively traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 8: Fair Value Measurements (Continued)

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities:				
Consumer discretionary	$ 351,103	$ 351,103	$ -	$ -
Consumer goods	242,290	242,290	-	-
Energy	163,938	163,938	-	-
Financials	403,879	403,879	-	-
Health care	322,974	322,974	-	-
Industrials	238,717	238,717	-	-
Information technology	658,667	658,667	-	-
International stock	60,426	60,426	-	-
Materials	61,741	61,741	-	-
Utilities	58,637	58,637	-	-
Municipal Bonds	101,756	-	101,756	-
Corporate Bonds	153,554	-	153,554	-
Mutual Funds:				
Domestic	5,732,581	5,732,581	-	-
Foreign	1,473,267	1,473,267	-	-
Exchange-Traded Products	1,458,834	1,458,834	-	-
Total	$ 11,482,364	$ 11,227,054	$ 255,310	$ -

Note 8: Fair Value Measurements (Continued)

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities:				
Consumer discretionary	$ 284,313	$ 284,313	$ -	$ -
Consumer goods	218,781	218,781	-	-
Energy	90,180	90,180	-	-
Financials	298,472	298,472	-	-
Health care	261,888	261,888	-	-
Industrials	179,784	179,784	-	-
Information technology	444,445	444,445	-	-
International stock	45,818	45,818	-	-
Materials	39,263	39,263	-	-
Utilities	76,633	76,633	-	-
Municipal Bonds	151,893	-	151,893	-
Corporate Bonds	153,827	-	153,827	-
Mutual Funds:				
Domestic	4,588,018	4,588,018	-	-
Foreign	1,036,884	1,036,884	-	-
Exchange-Traded Products	1,178,590	1,178,590	-	-
Total	$ 9,048,789	$ 8,743,069	$ 305,720	$ -

Note 9: Notes Payable

In September 2011, the YMCA entered into a $2,300,000 note with a variable interest rate, payable to Bank of America, N.A. in monthly principal and interest installments. The variable interest rate at December 31, 2016, was 2.98 percent. The final payment was due on January 29, 2017. The note was refinanced with Bank of America, N.A. in January 2017 to a fixed interest rate of 4.43 percent due on February 1, 2022, with a new principal balance of $1,680,000. This note is secured by the Fullerton Family YMCA facility. The outstanding balance as of December 31, 2017 and 2016, is $1,614,021 and $1,659,004, respectively.

In September 2017, Tipper entered into a note payable of $3,000,000 with HomeStreet Bank. The note payable bears a fixed interest rate of 4.08 percent, with monthly payments of $16,063 due through maturity with an estimated $2,167,201 balloon payment due at maturity on October 1, 2027. The note is guaranteed by the YMCA and is secured by the Tustin building. The outstanding balance as of December 31, 2017, is $2,982,349.

Note 9: Notes Payable (Continued)

The following table represents the maturities of the notes payable for succeeding years ending December 31:

	Principal Payments	Deferred Finance Costs	Total
2018	$ 153,965	$ (1,175)	$ 152,790
2019	160,750	(1,175)	159,575
2020	167,668	(1,175)	166,493
2021	175,255	(1,175)	174,080
2022	1,339,821	(1,175)	1,338,646
Thereafter	2,598,911	(5,670)	2,593,241
Total	$ 4,596,370	$ (11,545)	$ 4,584,825

Note 10: Net Assets Released from Restrictions

Net assets released from restrictions consist of the following at December 31, 2017 and 2016:

	2017	2016
Satisfaction of time restriction	$ 69,311	$ 69,000
Satisfaction of purpose restriction	46,457	48,644
Total Net Assets Released from Restrictions	$ 115,768	$ 117,644

Note 11: Net Assets

Net assets consist of the following at December 31, 2017 and 2016:

	2017	2016
Unrestricted Net Assets:		
Investment in property and equipment, net of related debt	$ 12,938,721	$ 10,620,707
Available for operations	10,111,294	11,096,419
Total unrestricted net assets	23,050,015	21,717,126

Note 11: Net Assets (Continued)

	2017	2016
Temporarily Restricted Net Assets:		
Restricted for:		
Subsequent years' programs	$ 890,904	$ 241,360
Annual partners' campaign	80,094	69,311
Total temporality restricted net assets	970,998	310,671
Permanently Restricted Net Assets:		
Restricted for:		
Chick Hearn Foundation Endowment	90,000	90,000
Total permanently restricted net assets	90,000	90,000
Total Net Assets	$ 24,111,013	$ 22,117,797

Note 12: Commitments and Contingencies

a) Obligations Held under Capital Leases

The Organization is the lessee of various equipment under capital leases expiring in years through 2020. The assets and liabilities held under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of the related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for the years ended December 31, 2017 and 2016.

The following is a summary of property held under capital leases at December 31, 2017 and 2016:

	2017	2016
Machinery and equipment	$ 950,527	$ 771,348
Vehicle	-	20,890
Less: Accumulated depreciation	(765,547)	(465,786)
Property Held under Capital Leases, Net	$ 184,980	$ 326,452

Depreciation of assets held under capital leases charged to expense for the years ended December 31, 2017 and 2016, totaled $320,651 and $257,116, respectively.

Note 12: Commitments and Contingencies (Continued)

a) Obligations Held under Capital Leases (Continued)

Minimum future lease payments under capital leases as of December 31, 2017, are as follows:

2018	$ 104,739
2019	60,803
2020	27,240
Total minimum lease payments	192,782
Less: Amount representing interest	(30,031)
Present value of net minimum lease payments	162,751
Current maturities of obligations held under capital leases	(86,499)
Long-Term Portion of Obligations Held under Capital Leases	$ 76,252

Interest rates on capitalized leases vary from 3.63 percent to 6.68 percent and are based on the lessor's implicit rate of return.

b) Operating Leases

The Organization leases various facilities and equipment pursuant to lease agreements that expire through 2022. The Organization's facility leases provide for annual escalations, common area maintenance charges, and renewal options. The Organization is liable for insurance for both the facilities and equipment leases.

Future minimum payments under noncancelable operating leases with an initial term of one year or more are as follows for years ending December 31:

	Facility	Equipment	Total
2018	$ 839,076	$ 219,541	$ 1,058,617
2019	473,352	114,411	587,763
2020	464,774	46,014	510,788
2021	440,084	32,977	473,061
2022	349,399	28,737	378,136
Total	$ 2,566,685	$ 441,680	$ 3,008,365

Total rental expense for the operating leases described above was $1,497,384 and $1,212,728 for the years ended December 31, 2017 and 2016, respectively.

Note 12: Commitments and Contingencies (Continued)

c) Litigation

The Organization experiences litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

Note 13: Related-Party Transactions

The Organization is a member of the National Council of Young Men's Christian Association of the United States of America ("National Council"). The Organization must meet annual certification requirements to remain a member. Support related to the National Council totaled $415,289 and $381,335, respectively, for the years ended December 31, 2017 and 2016.

The Organization participates in a defined contribution, individual account, and money purchase retirement plan, which is administered by the Young Men's Christian Association Retirement Fund ("Retirement Fund"), a separate corporation. The Retirement Fund is for the benefit of all eligible employees of the Organization who qualify under participation requirements.

In accordance with the Retirement Fund agreement, a percentage of the participating employee's qualified compensation is paid for by the Organization and is to be remitted to the Retirement Fund monthly. Total contributions made by the Organization that are charged to retirement costs for the years ended December 31, 2017 and 2016, aggregated $1,035,824 and $1,010,844, respectively. Unpaid contributions were $137,035 and $74,610, respectively, at December 31, 2017 and 2016, which represent December contributions.

The Retirement Fund is operated as a church pension plan and is a nonprofit, tax-exempt New York State corporation, which was established in 1922. Participation is available to all duly organized and reorganized YMCAs in the United States. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligation.

In addition, the Organization has a bank account and note payable with HomeStreet Bank at December 31, 2017. There is a board member that is an employee of HomeStreet Bank. This board member abstains from decisions made concerning matters that would be a conflict of interest.

Note 13: Related-Party Transactions (Continued)

In June 2015, the Organization paid $5,500 to become a member of Y Purchasing Group, LLC ("YPG"). Membership in YPG requires the Organization to make certain purchases of supplies and equipment through YPG. The Organization's chief executive officer is a board member of YPG. In June 2015, the Organization guaranteed a line of credit for YPG. As of December 31, 2017, the outstanding balance on the line of credit was $496,375 and the total amount of credit available is $500,000.

Note 14: Special Events

The YMCA has nine operating branches, each of which organizes its own special event activities. Special events held by the various branches for the year ended December 31, 2017, were as follows:

	Gross Revenue	Direct Expenses	Net Revenue
Dinners/breakfast	$ 72,875	$ (21,733)	$ 51,142
Golf tournaments	125,984	(52,244)	73,740
5/10k runs	57,034	(38,859)	18,175
Total	$ 255,893	$ (112,836)	$ 143,057

Special events held by the various branches for the year ended December 31, 2016, were as follows:

	Gross Revenue	Direct Expenses	Net Revenue
Dinners/breakfast	$ 86,630	$ (34,455)	$ 52,175
Golf tournaments	103,485	(34,890)	68,595
5/10k runs	54,215	(37,592)	16,623
Total	$ 244,330	$ (106,937)	$ 137,393

Note 15: Concentration of Risk

For the years ended December 31, 2017 and 2016, the Organization received approximately 37 percent and 38 percent, respectively, of its total support and revenues (excluding capital campaign, endowment, and other) from childcare fees associated with childcare services performed on the premises of facilities owned by the Capistrano Unified School District ("CUSD"). The Organization relies heavily upon these childcare fees to continue the related childcare programs. If the Organization's relationship with CUSD were to be terminated, it would likely cause a significant reduction in the Organization's operations.

Note 16: Beneficial Interest in Trust

In 2013, the Organization received documentation of being named in a trust. The trust has two components: one that is revocable and one that is irrevocable. The irrevocable trust component includes the value of an estate, including real and personal property, insurance contracts, retirement investments, and other investments. The revocable trust must first be liquidated prior to the funds being available for the irrevocable trust component. The irrevocable trust requires certain payments to four beneficiaries. The remaining trust assets will then be distributed, of which 15 percent will be distributed to the Organization. At this time, no trust assets have been distributed to the Organization and the beneficiary interest in the trust is not recorded in the accompanying financial statements because fair value cannot be estimated.

Note 17: Pomona Valley YMCA

On March 9, 2017, the Organization entered into an asset transfer agreement with the Young Men's Christian Association of Pomona Valley ("YMCA Pomona"). Under the terms of the agreement, YMCA Pomona agreed to transfer rights of certain assets, and proceeds from future sales of other assets, to the Organization and granted the Organization rights to operate in YMCA Pomona's service area.

Note 18: Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order to conform to the current-year presentation. These reclassifications had no effect on the reported results of operations.

Note 19: Subsequent Events

Events occurring after December 31, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of May 17, 2018, which is the date the financial statements were available to be issued.

CONSOLIDATING INFORMATION

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

	YMCA	Tipper, LLC	Eliminations	Total
Current Assets:				
Cash and cash equivalents (Note 3)	$ 2,328,969	$ 71,953	$ -	$ 2,400,922
Investments (Notes 4 and 8)	11,482,364	-	-	11,482,364
Receivables:				
Accounts receivable, net (Note 5)	725,613	13,020	-	738,633
Pledges receivable, net	25,392	-	-	25,392
Prepaid expense and other current assets	477,125	20,102	-	497,227
Total Current Assets	15,039,463	105,075	-	15,144,538
Property Held under Capital Leases, Net	184,980	-	-	184,980
Property and Equipment, Net (Note 6)	12,334,803	5,166,514	-	17,501,317
Other Assets:				
Deposits	60,200	-	-	60,200
Investment in subsidiary	8,609	-	(8,609)	-
Due from YMCA	2,247,614	(2,247,614)	-	-
Total Other Assets	2,316,423	(2,247,614)	(8,609)	60,200
Total Assets	$ 29,875,669	$ 3,023,975	$ (8,609)	$ 32,891,035

LIABILITIES AND NET ASSETS

	YMCA	Tipper, LLC	Eliminations	Total
Current Liabilities:				
Accounts payable	$ 580,192	$ 4,402	$ -	$ 584,594
Accrued payroll and employee benefits	1,647,093	-	-	1,647,093
Program fees received in advance	522,028	-	-	522,028
Accrued expenses	488,571	-	-	488,571
Deferred Santa Ana project funding, current portion (Note 6)	250,000	-	-	250,000
Current maturities of obligations held under capital leases (Note 12a)	86,499	-	-	86,499
Notes payable, current portion (Note 9)	83,481	69,309	-	152,790
Total Current Liabilities	3,657,864	73,711	-	3,731,575
Long-Term Liabilities:				
Deposits payable	-	40,160	-	40,160
Deferred Santa Ana project funding, less current portion (Note 6)	500,000	-	-	500,000
Long-term portion of obligations held under capital leases (Note 12a)	76,252	-	-	76,252
Notes payable, less current portion (Note 9)	1,530,540	2,901,495	-	4,432,035
Total Long-Term Liabilities	2,106,792	2,941,655	-	5,048,447
Total Liabilities	5,764,656	3,015,366	-	8,780,022
Commitments and Contingencies (Note 12)	-	-	-	-
Net Assets (Note 11):				
Unrestricted net assets	23,050,015	8,609	(8,609)	23,050,015
Temporarily restricted	970,998	-	-	970,998
Permanently restricted	90,000	-	-	90,000
Total Net Assets	24,111,013	8,609	(8,609)	24,111,013
Total Liabilities and Net Assets	$ 29,875,669	$ 3,023,975	$ (8,609)	$ 32,891,035

See accompanying independent auditors' report.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY AND SUBSIDIARY
SCHEDULE II - CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN MEMBER'S EQUITY
YEAR ENDED DECEMBER 31, 2017

	YMCA	Tipper, LLC	Eliminations	Total
Operations				
Support, Revenue, and Gains:				
Fundraising Support:				
Contributions	$ 1,141,402	$ -	$ -	$ 1,141,402
Special events, net of direct costs	143,057	-	-	143,057
Total Fundraising Support	1,284,459	-	-	1,284,459
Program Revenue:				
Childcare fees	19,643,120	-	-	19,643,120
Membership fees	7,910,829	-	-	7,910,829
Health and fitness fees	2,962,377	-	-	2,962,377
Adventure guides fees	1,817,257	-	-	1,817,257
Government assistance	2,578,363	-	-	2,578,363
Donated use of facilities/land	944,898	-	-	944,898
Camp fees	1,281,156	-	-	1,281,156
Community programs fees	1,192,246	-	-	1,192,246
Facility fees	332,666	-	-	332,666
Total Program Revenue	38,662,912	-	-	38,662,912
Contribution from Pomona Valley YMCA	733,000	-	-	733,000
Other Income	197,666	-	(2,462)	195,204
Rental Income	-	124,161	(74,959)	49,202
Total Support, Revenue, and Gains	40,878,037	124,161	(77,421)	40,924,777
Operating Expenses:				
Program Services:				
Childcare	15,819,132	-	-	15,819,132
Health and fitness	12,483,175	-	-	12,483,175
Adventure guides activities	1,963,594	-	-	1,963,594
Camping	694,866	-	-	694,866
Other community services	3,077,438	-	-	3,077,438
Total Program Services	34,038,205	-	-	34,038,205
Supporting Services:				
Administration and general	6,560,109	-	(74,959)	6,485,150
Fundraising	403,863	-	-	403,863
Tipper, LLC	-	125,552	(2,462)	123,090
Total Supporting Services	6,963,972	125,552	(77,421)	7,012,103
Total Operating Expenses	41,002,177	125,552	(77,421)	41,050,308
Operating Margin	(124,140)	(1,391)	-	(125,531)
Nonoperating				
Investment Income	1,393,239	-	1,391	1,394,630
Gain on Sale of Property Held for Resale	803,885	-	-	803,885
Loss on Disposal of Capital Assets	(79,768)	-	-	(79,768)
Total Nonoperating	2,117,356	-	1,391	2,118,747
Increase (Decrease) in Net Assets	1,993,216	(1,391)	1,391	1,993,216
Net Assets, Beginning of Year	22,117,797	-	-	22,117,797
Member Contributions	-	10,000	(10,000)	-
Net Assets, End of Year	$ 24,111,013	$ 8,609	$ (8,609)	$ 24,111,013

See accompanying independent auditors' report.