

**Young Women's Christian Association
of Boston, Inc. and Affiliates**

Consolidated Financial Report
December 31, 2016

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Independent Auditor's Report

RSM US LLP

Boards of Directors
Young Women's Christian Association of Boston, Inc. and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Young Women's Christian Association of Boston, Inc. and Affiliates (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

RSM US LLP

Boston, Massachusetts
May 10, 2017

Young Women's Christian Association of Boston, Inc. and Affiliates

Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 868,803	\$ 1,158,275
Rent receivable	72,678	6,284
Pledges receivable	44,083	128,208
Other receivables	17,882	5,000
Prepaid expenses	47,166	43,934
Tenant security deposits	151,274	158,743
Escrow deposits	424,776	410,963
Total current assets	1,626,662	1,911,407
Property and equipment, net	31,527,400	32,429,050
Other assets:		
Investments	8,132,210	8,390,950
Non-current pledges receivable, net	15,149	9,890
Deferred costs, net	133,896	133,847
Beneficial interest in perpetual trust	33,386	-
Total other assets	8,314,641	8,534,687
Total assets	\$ 41,468,703	\$ 42,875,144
Liabilities and Net Assets/Members' Equity		
Current liabilities:		
Line of credit	\$ 300,000	\$ 150,000
Mortgage notes payable - current portion, net of deferred financing costs	363,261	337,262
Accounts payable and accrued expenses	517,988	545,346
Deferred revenue	72,061	491,665
Tenant security deposits	117,066	156,291
Total current liabilities	1,370,376	1,680,564
Long-term liabilities:		
Notes payable	2,750,000	2,750,000
Mortgage notes payable, net of current portion and deferred financing costs	17,571,034	17,920,270
Accrued interest payable	890,839	809,440
Fair value of interest rate swap contract	2,265,227	2,775,912
Total long-term liabilities	23,477,100	24,255,622
Total liabilities	24,847,476	25,936,186
Net assets/members' equity:		
Unrestricted/members' equity	13,345,517	14,192,981
Temporarily restricted	589,786	641,016
Permanently restricted	1,575,858	1,512,884
Total net assets/members' equity before non-controlling interest in affiliate	15,511,161	16,346,881
Non-controlling interest in affiliate	1,110,066	592,077
Total net assets/members' equity	16,621,227	16,938,958
Total liabilities and net assets/members' equity	\$ 41,468,703	\$ 42,875,144

See notes to consolidated financial statements.

Young Women's Christian Association of Boston, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Operating revenues and support:								
Contributions	\$ 741,513	\$ 47,624	\$ -	\$ 789,137	\$ 575,921	\$ 103,605	\$ -	\$ 679,526
Program revenue	244,757	-	-	244,757	126,170	-	-	126,170
United Way allocation	77,421	-	-	77,421	80,780	-	-	80,780
Investment return designated for operations	904,095	-	-	904,095	749,888	-	-	749,888
Donated services	53,032	-	-	53,032	-	-	-	-
Other revenue	-	-	-	-	60,424	-	-	60,424
Provision for uncollectible pledges	-	(23,890)	-	(23,890)	-	(11,200)	-	(11,200)
Net assets released from restrictions	107,801	(107,801)	-	-	84,445	(84,445)	-	-
Total operating revenues and support	2,128,619	(84,067)	-	2,044,552	1,677,628	7,960	-	1,685,588
Expenses:								
Program	1,696,274	-	-	1,696,274	1,545,822	-	-	1,545,822
Management, general and administrative	300,104	-	-	300,104	300,100	-	-	300,100
Fundraising	427,053	-	-	427,053	189,427	-	-	189,427
Total expenses	2,423,431	-	-	2,423,431	2,035,349	-	-	2,035,349
Rental/hotel activities:								
Rental/hotel income	7,934,297	-	-	7,934,297	7,394,201	-	-	7,394,201
Rental/hotel expense	(7,792,967)	-	-	(7,792,967)	(7,476,847)	-	-	(7,476,847)
Net rental activities	141,330	-	-	141,330	(82,646)	-	-	(82,646)
Operating gain (loss)	(153,482)	(84,067)	-	(237,549)	(440,367)	7,960	-	(432,407)
Non-operating revenues (losses):								
Investment income	195,004	26,064	19,828	240,896	254,636	33,724	25,656	314,016
Realized and unrealized gains (losses), net	387,927	6,773	9,760	404,460	(415,369)	(88,903)	(7,960)	(512,232)
Investment return designated for operations	(904,095)	-	-	(904,095)	(749,888)	-	-	(749,888)
Change in split interest agreement	-	-	749	749	-	-	-	-
Non-operating professional fees	(241,804)	-	-	(241,804)	(75,807)	-	-	(75,807)
Change in fair value of interest rate swap contract	510,685	-	-	510,685	257,381	-	-	257,381
Beneficial interest in perpetual trust	-	-	32,637	32,637	-	-	-	-
Total non-operating revenues (losses)	(52,283)	32,837	62,974	43,528	(729,047)	(55,179)	17,696	(766,530)
Changes in net assets/members' equity before non-controlling interest in net gain of affiliate	(205,765)	(51,230)	62,974	(194,021)	(1,169,414)	(47,219)	17,696	(1,198,937)
Non-controlling interest in net gain of affiliate	(517,989)	-	-	(517,989)	(32,643)	-	-	(32,643)
Change in net assets/members' equity	(723,754)	(51,230)	62,974	(712,010)	(1,202,057)	(47,219)	17,696	(1,231,580)
Net assets/members' equity at beginning of year	14,192,981	641,016	1,512,884	16,346,881	15,395,038	688,235	1,495,188	17,578,461
Distribution to investor member	(123,710)	-	-	(123,710)	-	-	-	-
Net assets/members' equity at end of year	\$ 13,345,517	\$ 589,786	\$ 1,575,858	\$ 15,511,161	\$ 14,192,981	\$ 641,016	\$ 1,512,884	\$ 16,346,881

See notes to consolidated financial statements.

Young Women's Christian Association of Boston, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Community Programs	Civic Engagement	Youth Programs	Total Program Services	Management, General and Administrative	Fundraising	Subtotal	Clarendon Residences, LLC Operations	Total
Salaries and related benefits	\$ 326,777	\$ 409,307	\$ 591,460	\$ 1,327,544	\$ 218,088	\$ 126,492	\$ 1,672,124	\$ 1,543,369	\$ 3,215,493
Professional services	33,209	55,901	117,711	206,821	34,871	78,356	320,048	664,725	984,773
Supplies	810	1,446	2,234	4,490	4,733	547	9,770	227,193	236,963
Occupancy	25,632	32,877	47,446	105,955	33,302	16,517	155,774	1,683,795	1,839,569
Communications	14,325	28,238	29,385	71,948	2,502	203,643	278,093	791,599	1,069,692
Travel	795	2,822	5,614	9,231	7,476	2,473	19,180	20,433	39,613
Equipment	300	383	554	1,237	7,010	193	8,440	1,369	9,809
Program	2,861	13,139	22,859	38,859	574	5,755	45,188	120,346	165,534
Other	4,639	6,308	8,751	19,698	5,117	6,486	31,301	-	31,301
Interest	-	-	-	-	5,289	-	5,289	1,463,692	1,468,981
Total expenses before depreciation and amortization	409,348	550,421	826,014	1,785,783	318,962	440,462	2,545,207	6,516,521	9,061,728
Depreciation and amortization	588	870	1,379	2,837	6,184	986	10,007	1,539,393	1,549,400
Total expenses before eliminations	409,936	551,291	827,393	1,788,620	325,146	441,448	2,555,214	8,055,914	10,611,128
Eliminations	(22,340)	(28,654)	(41,352)	(92,346)	(25,042)	(14,395)	(131,783)	(262,947)	(394,730)
Total expenses	\$ 387,596	\$ 522,637	\$ 786,041	\$ 1,696,274	\$ 300,104	\$ 427,053	\$ 2,423,431	\$ 7,792,967	\$ 10,216,398

See notes to consolidated financial statements.

Young Women's Christian Association of Boston, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended December 31, 2015

	Community Programs	Civic Engagement	Youth Programs	Total Program Services	Management, General and Administrative	Fundraising	Subtotal	Clarendon Residences, LLC Operations	Total
Salaries and related benefits	\$ 254,477	\$ 379,976	\$ 501,894	\$ 1,136,347	\$ 249,821	\$ 142,651	\$ 1,528,819	\$ 1,318,119	\$ 2,846,938
Professional services	54,445	88,524	106,008	248,977	5,067	28,483	282,527	676,709	959,236
Supplies	868	1,339	2,289	4,496	4,046	601	9,143	167,558	176,701
Occupancy	23,900	30,656	44,241	98,797	32,346	15,401	146,544	1,852,243	1,998,787
Communications	19,331	28,320	36,357	84,008	1,477	6,810	92,295	600,598	692,893
Travel	573	3,216	2,518	6,307	5,050	847	12,204	32,023	44,227
Equipment	289	370	535	1,194	6,806	186	8,186	1,478	9,664
Program	3,991	12,574	12,611	29,176	-	2,244	31,420	122,449	153,869
Other	4,479	6,040	8,330	18,849	5,236	5,017	29,102	8,846	37,948
Interest	-	-	-	-	8,933	-	8,933	1,480,957	1,489,890
Total expenses before depreciation and amortization	362,353	551,015	714,783	1,628,151	318,782	202,240	2,149,173	6,260,980	8,410,153
Depreciation and amortization	669	989	1,251	2,909	4,433	474	7,816	1,479,596	1,487,412
Total expenses before eliminations	363,022	552,004	716,034	1,631,060	323,215	202,714	2,156,989	7,740,576	9,897,565
Eliminations	(20,621)	(26,450)	(38,167)	(85,238)	(23,115)	(13,287)	(121,640)	(263,729)	(385,369)
Total expenses	\$ 342,401	\$ 525,554	\$ 677,867	\$ 1,545,822	\$ 300,100	\$ 189,427	\$ 2,035,349	\$ 7,476,847	\$ 9,512,196

See notes to consolidated financial statements.

Young Women's Christian Association of Boston, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Changes in net assets/members' equity	\$ (712,010)	\$ (1,231,580)
Adjustments to reconcile changes in net assets/members' equity to net cash provided by operating activities:		
Depreciation and amortization	1,535,375	1,473,387
Amortization of deferred financing costs	14,025	14,025
Beneficial interest in perpetual trust	(32,637)	-
Net realized and unrealized (gains) losses on investments	(404,460)	512,232
Change in fair value of interest rate swap contract	(510,685)	(257,381)
Donated securities	(7,658)	(15,122)
Proceeds from sale of donated securities	7,658	15,122
Provision for contributions receivable	23,890	11,200
Change in beneficial interest in trust	(749)	-
Non-controlling interest in net gain of affiliate	517,989	32,643
Changes in operating assets and liabilities:		
Contributions receivable	54,976	(29,610)
Other receivables	(12,882)	1,550
Prepaid expenses	(3,232)	29,810
Rent receivable	(66,394)	38,828
Accounts payable and accrued expenses	(62,669)	65,977
Accrued interest payable	81,399	77,267
Deferred revenue	(419,604)	92,183
Net cash provided by operating activities	2,332	830,531
Cash flows from investing activities:		
Purchase of investments	(4,577,722)	(3,858,609)
Proceeds from sale of investments	5,240,922	4,294,480
Lease commission paid to third party	(18,876)	(60,637)
Acquisition of property and equipment	(579,587)	(551,375)
(Increase) decrease in escrow and security deposits	(45,569)	91,849
Net cash provided by (used in) investing activities	19,168	(84,292)
Cash flows from financing activities:		
Net proceeds from the line of credit	150,000	50,000
Payments on mortgage notes payable	(337,262)	(313,131)
Distributions to investing member	(123,710)	-
Net cash used in financing activities	(310,972)	(263,131)
Net change in cash and cash equivalents	(289,472)	483,108
Cash and cash equivalents, beginning of year	1,158,275	675,167
Cash and cash equivalents, end of year	\$ 868,803	\$ 1,158,275
Supplemental disclosures:		
Cash paid for interest	\$ 1,387,582	\$ 1,412,623
Unrealized gains (losses) on investments	\$ 345,163	\$ (372,461)
Noncash investing activities:		
Acquisitions of rental real estate in accruals	\$ 53,339	\$ 18,028

See notes to consolidated financial statements.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Young Women's Christian Association of Boston, Inc. (the "Association"), known today as YW Boston, was founded in 1866 by abolitionists and suffragists to serve the needs of women in Greater Boston. As the first YWCA in the nation, YW Boston has been at the forefront of advancing social equality for 150 years. YW Boston shares its mission statement with all other YWCA affiliates nationwide: to eliminate racism, empower women, and promote peace, justice, freedom, and dignity for all. Today, YW Boston works towards this mission through programs in social justice leadership, women's and girls' health and wellness, and dialogues that advance racial justice. All of YW Boston's programs employ an "Educate and Empower" approach to bring people together across racial, gender, class, and organizational lines to create lasting change.

YWCA Clarendon, Inc. was formed on June 27, 2003, and Clarendon Residences, LLC (a Massachusetts limited liability company, (the "Company") was formed on July 1, 2003. YWCA Clarendon, Inc. is owned 79% by the Association and 21% by an unrelated third party. The Company is owned .01% by YWCA Clarendon, Inc. and 99.99% by an unrelated investor member. YWCA Clarendon, Inc. acts as the managing member of the Company for the purpose of owning and operating the building at 140 Clarendon Street, Boston, Massachusetts (the "Project"). The building is composed of 79 qualifying low-income residential units and 105 market rate residential and transient units, including some units operated as hotel units, as well as commercial and retail space. Both the unrelated third party of YWCA Clarendon Inc. and the investor member of the Company are accounted for as minority interests in the consolidated financial statements.

The Organization follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-20, "Property and Equipment" regarding the accounting for sales of real estate. This requires the seller to treat a sales transaction as a financing, leasing, or profit sharing arrangement when the transaction is structured in such a way that the seller retains substantial risks or rewards of ownership. The Association is obligated to fund development cost overruns and operating deficits, holds the ground lease for the property, has the right to repurchase the investor's interest in the Company for a nominal amount after the end of the tax credit compliance period, and is a lessee in the building. When the Company began operations, the Association provided support to the Company through loans and deferral of the development fee, and for ground lease and management fee payments. The Company has begun making payments to the Association on these obligations based on available cash flow in accordance with the partnership agreement. Due to the integral nature of the relationship between the Association and the Company, the Company is consolidated with the Association in these financial statements.

In the accompanying consolidated financial statements, the Company and YWCA Clarendon, Inc. are referred to as the "Affiliates".

Basis of consolidation: The consolidated financial statements include the accounts of the Association, the Company and YWCA Clarendon, Inc., collectively referred to in the accompanying consolidated financial statements as the "Organization". All inter-company balances and transactions eliminate in the accompanying consolidated financial statements. The non-controlling interest in affiliates includes the interests of the investor member of the Company and the third-party shareholder of YWCA Clarendon, Inc.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Classification and reporting of net assets: The Organization's financial statement presentation follows the requirements of FASB ASC 958, "Financial Statements of Not-for Profit Organizations". Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset classes follows:

- Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the Organization, as well as funds invested in plant, including buildings and equipment.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets also include, pursuant to Massachusetts law, cumulative appreciation and investment income earned on permanently restricted net assets, which has not been appropriated by the Board of Directors.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Contributions: Contributions received, including unconditional pledges, are initially recognized at fair value as revenue when donors make unconditional commitments. Pledges made and collected in the same reporting period are recorded in the appropriate net asset category when they are received. Unconditional pledges receivable in future periods are included in the financial statements as pledges receivable. Unconditional pledges receivable are recognized at the estimated net present value of such pledges, net of an allowance for uncollectible amounts. Conditional promises are recorded when donor stipulations are substantially met.

The Organization reports gifts of cash and other assets as temporarily restricted support if they are unconditionally received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Donor restricted contributions received and satisfied in the same period are included in unrestricted net assets.

The Organization reports contributions of land, building and equipment as unrestricted support, unless the donor places restrictions on their use. Contributions of cash or other assets used to acquire or construct long-lived assets are reported as unrestricted support to the extent the funds have been expended for the stipulated acquisition or construction; otherwise, the contributions are reported as temporarily restricted support.

During the year ended December 31, 2016, the Organization celebrated its 150th anniversary with a gala. The revenue related to this event is reported as contribution revenue and the related expenses as fundraising expense on the consolidated statement of activities.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Donated goods and services: Volunteers and other organizations contribute goods and services to the Organization in support of various aspects of its programs. Donated goods are reflected in the accompanying consolidated financial statements based upon the fair market value assigned to them by the donating agencies or by management. During the year ended December 31, 2016, the Organization received \$53,032 of donated services. There were no donated services received during the year ended December 31, 2015 by the Organization. The Organization receives services from volunteers in various aspects of its programs. The value of these services are not reflected in the accompanying consolidated financial statements as the value assigned to these services by volunteers is not ascertainable and does not meet the recognition criteria under generally accepted accounting principles ("GAAP").

Revenue recognition: Revenues from program activities and government grants and contracts are recorded as services are performed. Program revenue received in advance of services provided is recorded as deferred revenue in the accompanying consolidated statements of financial position. Under GAAP, rental income from multi-year operating leases is recognized on a straight-line basis over the life of the lease agreements. The excess of rents recognized over amounts contractually due, pursuant to the underlying leases, would be deferred and included in prepaid expenses and other assets. Revenue is recognized as earned under the lease terms, which is not materially different from GAAP. Payments for functions, events or extended room rentals received in advance are recorded as deferred until earned. Income from providing services is recognized as earned. All other revenue is recorded when earned.

Operating activities: The statements of activities reflect a subtotal for operating gain (loss). This subtotal reflects revenues that the Organization received for operating purposes. Non-operating activity reflects all other activity, including but not limited to investment income, realized gain (loss) on investments, net, investment return designated for operations, change in split interest agreements, beneficial interest in perpetual trust, change in fair value of interest rate swap contract, and non-operating professional fees.

Cash and cash equivalents: For the purposes of the reporting of cash flows, the Organization defines cash equivalents as highly liquid investments with maturities of three months or less.

Operating reserve: Under the terms of the Company's operating agreement, the Company is required to fund an operating reserve in the amount of \$880,000. The cash reserve at December 31, 2016 and 2015 was \$181,871 and \$180,960, respectively. A \$700,000 letter of credit is in effect to meet the remainder of this requirement. The Operating Reserve cash deposit balances are included in escrows on the consolidated statements of financial position.

Allowance for bad debts: Rent receivable, pledges receivable, and other receivables are reported as the outstanding balance less an allowance for doubtful accounts. An allowance for doubtful accounts is provided for those receivables considered to be uncollectible based upon historical experience and management's evaluation of outstanding receivables at the end of the year. At December 31, 2016 and 2015, an allowance for doubtful accounts of \$5,909 and \$9,081 respectively was recorded for pledges receivable.

Beneficial interest in perpetual trust: The Association is the income beneficiary of a charitable trust (the "trust") under an irrevocable agreement, the assets of which are held by a bank with the trustee having responsibility for both its administration and investment. The trust is restricted in perpetuity.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Property, equipment and depreciation: Property and equipment are recorded at cost when purchased or at fair value at the time of donation. Renewals and betterments are capitalized while repairs and maintenance are charged to operations as incurred.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives and consists of the following:

	<u>Estimated Useful Lives</u>
Buildings and improvements	10-40 years
Equipment, furniture and fixtures	5 years

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to \$1,516,548 and \$1,462,512, respectively.

Impairment of long-lived assets: The Organization has given consideration to the FASB ASC 360-10-15, *Accounting for Impairment or Disposal of Long-Lived Assets* in its presentation of these financial statements. The Organization reviews long lived assets for impairment whenever events of circumstances indicate the carrying amount may not be recoverable. If facts or circumstances support the possibility of impairment, the Organization will prepare a projection of the undiscounted future cash flows. In cases when the Organization does not expect to recover its carrying value, an impairment loss will be recognized. As of December 31, 2016 and 2015, no impairment indicators were identified and the Organization has not recognized any reduction in the carrying value of its fixed assets.

Asset retirement obligation: The Organization follows FASB ASC 410, *Asset Retirement and Environmental Obligations*. This standard requires a liability be recorded at fair value specific to certain legal environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of December 31, 2016 and 2015, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which it becomes aware of such liability and sufficient information is available to reasonably estimate the fair value.

Endowment and investments: Investments in marketable securities, primarily mutual funds, are stated at fair value as established by major securities markets and are pooled for investment purposes. Interest, dividends, and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred or based on market value changes during the period.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investments. Investment income and net unrealized and realized gains or losses earned on donor restricted endowment funds are recorded as temporarily restricted in accordance with state law or in some cases permanently restricted where donors have made such stipulations. Investment income and net unrealized and realized gains and losses earned on the unrestricted investment portfolio are recorded in the unrestricted net asset class. When a donor restriction exists, investment income and net unrealized and realized gains are allocated based on the total balance of pooled investments applicable to the respective asset totals.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The Board has interpreted Massachusetts General Law as requiring realized and unrealized gains of permanently restricted net assets and interest and dividends earned to be retained in a restricted net asset classification until appropriated by the Board and expended. Massachusetts General Law allows the Board to appropriate for expenditure or accumulate so much of an endowment fund as is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making a determination whether to appropriate or accumulate, the Organization shall act on good faith, with the care that an ordinary person in a like position would exercise under similar circumstances, and shall consider the following factors: the duration and preservation of the endowment fund; the purposes of the Organization and the endowment Fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Organization; and the investment policy of the Organization.

The Organization has adopted a policy for endowment assets and non-endowment investments of appropriating for distribution each year 5 percent of the average market value of the investments based on the prior 20 rolling quarters ending September each year. The Organization has adopted investment and spending policies for invested funds that attempt to provide a predictable stream of funding for operations while seeking to maintain the assets.

Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the permanently restricted assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its permanently restricted funds, over time, to provide an average rate of return of approximately 7 percent. Actual returns in any given year may vary from this amount.

Based on the Organization's spending guidelines, \$454,095 and \$399,888 was utilized for operations for the years ended December 31, 2016 and 2015 and appropriated from the unrestricted investment portfolio. In addition, the Board voted to appropriate an additional \$450,000 and \$350,000 from the unrestricted investment portfolio to fund operations during the year ended December 31, 2016 and 2015, respectively. Therefore a total of \$904,095 and \$749,888 was appropriated from the investment portfolio for the year ended December 31, 2016 and 2015, respectively.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Deferred costs and amortization: Deferred financing costs are being amortized over the life of related loans using the straight-line method and are presented in the consolidated statements of financial position as a direct deduction from the loans. Accumulated amortization totaled \$147,847 and \$133,822 at December 31, 2016 and 2015, respectively. Amortization expense for the years ended December 31, 2016 and 2015 amounted to \$14,025 per year. Estimated annual amortization for the next five years amounts to \$14,025 per year.

Deferred leasing costs are being amortized over the life of commercial leases using the straight-line method. Deferred leasing costs at December 31, 2016 and 2015 were \$176,445 and \$157,569, respectively. Accumulated amortization as of December 31, 2016 and 2015 was \$42,549 and \$23,723, respectively. Amortization expense for the years ended December 31, 2016 and 2015 amounted to \$18,827 and \$10,876 respectively.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Derivative financial instruments: All derivative financial instruments are recognized as assets or liabilities at their fair value on the balance sheet with the changes in the fair value reported in non-operating revenues or losses. These instruments are classified on the consolidated statements of financial position as "Fair value of interest rate swap contract" and the change in the fair value is recorded on the consolidated statements of activities in "Change in fair value of interest rate swap contract." For the years ended December 31, 2016 and 2015, the Organization recognized a gain of \$510,685 and \$257,381, respectively, on these instruments.

Historic tax credit: The Project qualified in 2005 for \$8,636,952 in historic tax credits related to qualified rehabilitation costs as designated by the United States Department of the Interior, National Park Service, pursuant to Section 47 of the Internal Revenue Code. Provisions of the enabling legislation provide for recapture of a portion of the credit in a declining scale if the property is held less than five years. For income tax depreciation purposes, the basis of the building has been reduced by the amount of the historic tax credit.

Low income housing tax credits: Section 42 of the Internal Revenue Code provides for low-income housing tax credits for qualified expenditures in connection with the acquisition and construction/rehabilitation of low-income housing. The Company has received an allocation of credits from the state allocating agency (the "Agency"), calculated at 3.43% and 8.01% of qualified acquisition and rehabilitation costs, respectively. The annual credit is \$1,000,000 and was prorated in 2005, the first year.

Provisions of Section 42 of the Internal Revenue Code regulate the use of the Project as to occupancy eligibility and unit gross rent, among other requirements. Recapture of low income housing tax credits could result in a required repayment of a portion of the credits if these provisions are not met.

Additionally, the Company has entered into an Extended Use Housing Agreement with the Agency. This agreement requires the Project to maintain the provisions of Section 42 of the Internal Revenue Code for a minimum of 30 years, and to set aside 79 residential apartment units for low-income occupants.

Functional allocation of expenses: Expenses directly related to a program are distributed to that program while other expenses are allocated based upon management's estimate of the percentage attributable to each program, using employee hours and utilized square footage.

Advertising costs: The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2016 and 2015 totaled \$57,661 and \$38,867 respectively.

Income taxes: The Association is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Association is also exempt from state income taxes. Donors may deduct contributions made to the Association pursuant to Internal Revenue Code regulations.

The Company, a for-profit entity, is a limited liability company treated as a partnership for income tax purposes and, therefore, does not pay federal or state income taxes on its taxable income. Instead, those members who are subject to taxation are liable for federal and state income taxes on the Company's taxable income.

YWCA Clarendon, Inc., a for profit entity, is treated as a C-corporation for income tax purposes. Should it have taxable income, a provision for income taxes would be included in the accompanying consolidated financial statements.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Uncertainty of income taxes: The Organization follows the FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the consolidated financial statements. The Organization recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization has no material uncertainties in income taxes as of December 31, 2016 and 2015.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification: Certain reclassifications have been made to the 2015 consolidated financial statements in order to conform to the 2016 presentation. The reclassifications did not result in a change in previously reported net income.

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (FASB ASC 606)* ("ASU 2014-09"). This standard outlines a single comprehensive model for companies to use in accounting for revenues arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenues are recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards as it is considered in current guidance. The Organization will also need to apply new guidance to determine whether revenues should be recognized over time or at a point in time. The FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year. This standard will be effective for annual reporting periods beginning after December 15, 2018 using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The FASB also issued ASU 2016-10 and 2016-12, which make various changes to technical guidance included in ASU 2014-09. The Organization has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Organization for fiscal years beginning after December 15, 2018. The Organization has elected to early adopt the amendment that no longer requires disclosure of fair value financial instruments that are not measured at fair value and as such, these disclosures are not included herein..

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASC 2016-02"). The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of its pending adoption of the new standard on the consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2019, and will require the adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Organization is currently evaluating the impact of this ASU on the consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities* ("ASU 2016-14"). The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Early application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year the ASU is first applied. The Organization has not yet evaluated the impact of this ASU on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2016-18"), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Organization for fiscal years beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

In January 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity* ("ASU 2017-02"). ASU 2017-02 amends the consolidation guidance in Subtopic 958-810, Not-for-Profit Entities-Consolidation, to clarify when a not-for-profit entity (NFP) that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in ASU 2015-02 become effective. ASU 2017-02 maintains how NFP general partners currently apply the consolidation guidance and adds general guidance on when NFP limited partners should consolidate a limited partnership. ASU 2017-02 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The adoption of ASU 2017-02 is not expected to have a material impact on the consolidated financial statements.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2. Related Party Transactions

YWCA Fina House, LLC was created by the YWCA of Greater Lawrence to develop 24 units of affordable housing in Lawrence, Massachusetts. During 2005, the Association purchased a 21% interest in YWCA Fina House, Inc., the managing member of YWCA Fina House, LLC. As of December 31, 2016 and 2015, the Association holds 21 shares of common stock at a value of \$1 per share.

Note 3. Capital Contributions

The Investor Member of the Company has contributed \$16,261,158 in return for 99.99% of the profits, losses and tax credits and as of December 31, 2010, has no further capital obligation. During the year ended December 31, 2016 the Company made a distribution of \$123,710 to the Investor Member in accordance with the Amended and Restated Operating Agreement. The remaining .01% is allocated to the Managing Member (YWCA Clarendon, Inc.) which has contributed \$132,264 to the Company in addition to \$1,115,383 in building and improvements.

Note 4. Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. The pledges are due in various payment streams and have been recorded at their net present value, discounted using a rate commensurate with the risk involved that ranges from 1.72%-5%. The following is a summary as of December 31:

	2016	2015
Pledges receivable, gross	\$ 65,141	\$ 147,649
Less allowance for uncollectible pledges	(5,909)	(9,081)
Less unamortized discount	-	(470)
Net unconditional promises to give	<u>\$ 59,232</u>	<u>\$ 138,098</u>
Amounts due in:		
Less than one year	\$ 54,641	\$ 128,208
One to five years	10,500	19,441
	<u>\$ 65,141</u>	<u>\$ 147,649</u>

As of December 31, 2016, one donor accounted for 46% of the gross pledge balance recorded. As of December 31, 2015, two donors accounted for 55% of the gross pledge balance recorded.

Note 5. Property and Equipment

Property and equipment consist of the following at December 31:

	2016	2015
Land	\$ 175,000	\$ 175,000
Buildings and improvements	51,099,325	50,716,535
Equipment, furniture and fixtures	3,081,448	2,849,340
	<u>54,355,773</u>	<u>53,740,875</u>
Less accumulated depreciation	(22,828,373)	(21,311,825)
	<u>\$ 31,527,400</u>	<u>\$ 32,429,050</u>

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6. Investments

The Organization records investments at fair value. The following are summaries of the investment portfolio as of December 31:

	2016		
	Cost	Fair Value	Unrealized Gain
Cash equivalents	\$ 153,368	\$ 153,368	\$ -
International equity mutual funds	2,906,792	3,015,123	108,331
Domestic equity mutual funds	4,308,823	4,963,719	654,896
	<u>\$ 7,368,983</u>	<u>\$ 8,132,210</u>	<u>\$ 763,227</u>

	2015		
	Cost	Fair Value	Unrealized Gain (Loss)
Cash equivalents	\$ 298,123	\$ 298,123	\$ -
International equity mutual funds	3,226,212	3,187,252	(38,960)
Domestic equity mutual funds	4,448,549	4,905,575	457,026
	<u>\$ 7,972,884</u>	<u>\$ 8,390,950</u>	<u>\$ 418,066</u>

The following schedule summarizes the investment return and its classification in the consolidated statement of activities and changes in net assets.

	2016	2015
Endowment return (loss):		
Interest and dividends	\$ 45,892	\$ 59,380
Realized gains (losses)	20,533	(16,747)
Unrealized gains (losses)	5,237	(70,432)
Less investment fees	(9,237)	(9,684)
Total endowment return (loss)	<u>\$ 62,425</u>	<u>\$ (37,483)</u>
Non-endowment return (loss):		
Interest and dividends	\$ 195,004	\$ 254,636
Realized gains (losses)	87,250	(71,811)
Unrealized gains (losses)	339,926	(302,029)
Less investment fees	(39,249)	(41,529)
	<u>582,931</u>	<u>(160,733)</u>
Less investment return designated for operations:		
Appropriation to support operations based on spending guidelines	(454,095)	(399,888)
Additional appropriation to support operations	(450,000)	(350,000)
Investment return in deficit of appropriation	<u>\$ (321,164)</u>	<u>\$ (910,621)</u>

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 7. Beneficial Interest in Perpetual Trusts

The Organization has a beneficial interest in a charitable trust managed by a third party trustee. An independent custodian invests the funds related to the trust. Due to the permanent nature of the trust, the Organization recognizes its interest in the fair value of the trust assets on the consolidated statement of financial position as beneficial interest in perpetual trust and it is included in permanently restricted net assets.

Income earned on the beneficial interest is paid to the Association each year in accordance with the trust document. Income received during the year ended December 31, 2016 totaled \$1,372 and is included within unrestricted contributions on the consolidated statement of activities. The net change in the value of the asset is recorded as change in split interest agreement on the consolidated statement of activities and totaled \$749 for the year ended December 31, 2016.

Note 8. Fair Value Measurements

Under the FASB's authoritative guidance on fair value measurements, fair value is 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. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair value. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1:** Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

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 estimate of fair value at the reporting date.

During the years ended December 31, 2016 and 2015, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its statement of financial position or changes in net assets/members' equity.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for instruments measured at fair value:

Cash equivalents: The carrying value of cash equivalents approximates fair value because the maturities are less than three months.

International equity mutual funds and domestic equity securities: The fair value of international equity mutual funds and domestic equity securities is the market value based on quoted market prices.

Derivative Instrument: Derivatives are fair valued according to their classification as over-the-counter ("OTC"). OTC derivatives consist of interest rate swaps. These derivatives are fair valued under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or the Organization as appropriate to the total expected exposure of the derivative.

Beneficial interest in perpetual trust: The fair value of the beneficial interest in perpetual trust is based on quoted market prices of underlying investments and present value techniques. An independent third party trustee manages the assets held in trust, and the Organization has no authority over investment decisions. Thus, they are classified as Level 3 within the fair value hierarchy levels.

The following table summarizes the Organization's assets and liabilities measured at fair value on a recurring basis by level, within the fair value hierarchy at December 31:

Description	2016			Total
	Level 1	Level 2	Level 3	
Investments (Note 6):				
Cash equivalents	\$ 153,368	\$ -	\$ -	\$ 153,368
International equity mutual funds	3,015,123	-	-	3,015,123
Domestic equity mutual funds	4,963,719	-	-	4,963,719
Total investments	8,132,210	-	-	8,132,210
Beneficial Interest in perpetual trust (Note 7)	-	-	33,386	33,386
	<u>\$ 8,132,210</u>	<u>\$ -</u>	<u>\$ 33,386</u>	<u>\$ 8,165,596</u>
Interest rate swap contract (Note 11)	\$ -	\$ (2,265,227)	\$ -	\$ (2,265,227)
Description	2015			Total
	Level 1	Level 2	Level 3	
Investments (Note 6):				
Cash equivalents	\$ 298,123	\$ -	\$ -	\$ 298,123
International equity mutual funds	3,187,252	-	-	3,187,252
Domestic equity mutual funds	4,905,575	-	-	4,905,575
Total investments	\$ 8,390,950	\$ -	\$ -	\$ 8,390,950
Interest rate swap contract (Note 11)	\$ -	\$ (2,775,912)	\$ -	\$ (2,775,912)

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

The changes in assets measured at fair value for which the Organization has used Level 3 inputs to determine fair value are as follows:

	Beneficial Interest
Balance, December 31, 2015	\$ -
Contributions	32,637
Change in split interest agreement	749
Balance, December 31, 2016	<u>\$ 33,386</u>

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements at December 31, 2016:

	2016 Fair Value	2015 Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Beneficial interest in trusts	\$ 33,386	\$ -	Market approach based on underlying securities	None	N/A

Note 9. Notes Payable

DHCD: The Department of Housing and Community Development ("DHCD") has provided financing to the Company in the form of a \$750,000 HOME Loan. This note bears interest at the greater of 5.12% or the Applicable Federal Rate ("AFR"). As of December 31, 2016 and 2015, the interest rate was 5.12%. Interest began accruing on the date of the first draw and compounds annually. All interest and principal are due on the maturity date, December 2033. As of December 31, 2016 and 2015, \$750,000 has been drawn against the note, and \$630,815 and \$563,561 of interest has been accrued, respectively. Interest expense totaled \$67,254 and \$63,979 at December 31, 2016 and 2015, respectively. This note is secured by all business assets of the Company.

CEDAC: The Community Economic Development Assistance Corporation ("CEDAC") has provided financing to the Company in the form of a \$750,000 HIF Loan. As of December 31, 2016 and 2015, \$750,000 has been drawn against the note. On September 5, 2007, the Company signed an amendment to reduce the interest rate to 0%, and retroactively reduce the interest to zero to the date the note was assigned (January 1, 2006). Payments are due annually to the extent Gross Cash Receipts exceeds 105% of Gross Cash Expenditures, as those terms are defined. Unpaid principal and interest accrued are due on the maturity date, December 2033. As of December 31, 2016 and 2015, \$39,733 of interest has been accrued for years prior to the 2007 amendment. This note is secured by all business assets of the Company.

DND: The City of Boston Department of Neighborhood Development ("DND") has provided additional financing to the Company through two loans in the amounts of \$1,000,000 and \$250,000. As of December 31, 2016 and 2015, \$1,250,000 has been drawn against the notes. These notes bear simple interest at 1% per annum. Interest began accruing on the date of the first draw and totaled \$153,547 and \$141,047, respectively, as of December 31, 2016 and 2015. Payments of principal and interest were deferred to July 2007, at which time annual payments are due from 50% of cash flow, as defined. Unpaid principal and interest are due on the maturity date, August 2036. Interest expense totaled \$12,500 for the years ended December 31, 2016 and 2015. This note is secured by all business assets of the Company.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 9. Notes Payable (Continued)

Principal and interest payments on all of the above notes payable are subject to available cash flow from the Company's operations or are deferred until maturity.

Future maturities of notes payable are as follows for the years ending December 31:

2017	\$	-
2018		-
2019		-
2020		-
2021		-
Thereafter		2,750,000
		<u>\$ 2,750,000</u>

Note 10. Mortgage Notes Payable

Permanent financing with the Massachusetts Housing Partnership ("MHP") in the original amount of \$20,550,000 is evidenced by three promissory notes. These notes are secured by all business assets of the Company.

The first note, in the amount of \$9,000,000, bears a 6.95% annual interest rate. Payments of principal and interest are due monthly, and began in June 2007. Payments based on a 30-year amortization schedule of principal and interest are due through July 2022, at which time a balloon payment will be due.

The second note, in an amount of \$5,775,000, bears interest at the one month LIBOR rate plus one hundred seventy-five basis points (2.47% and 2.11% at December 31, 2016 and 2015, respectively) per annum, subject to the swap agreement, which is discussed in Note 11. Payments of interest only were due monthly through June 15, 2006. Payments based on a 30-year amortization schedule of principal and interest are due through July 2022, at which time a balloon payment will be due.

The third note, also in an amount of \$5,775,000, bears interest at the one month LIBOR rate plus one hundred seventy-five basis points (2.47% and 2.11% at December 31, 2016 and 2015) per annum, subject to the swap agreement, which is discussed in Note 11. Payments of interest only were due monthly through June 15, 2006. Payments based on a 30-year amortization schedule of principal and interest are due through July 2022, at which time a balloon payment will be due.

The notes are payable in monthly installments of approximately \$92,529 for principal and interest. The notes also require monthly deposits to the reserve for replacement in the amount of \$10,153 (\$9,670 during the year ended December 31, 2015). In addition, monthly deposits of \$36,794 (\$35,844 during the year ended December 31, 2015) were made to escrow real estate taxes and sewer and water charges.

Under the amended terms of the permanent financing with MHP, the Company is required to maintain a debt coverage ratio for the loan of at least 1.20 and a debt coverage ratio of 1.05 for all debt and a loan to value ratio of 75% or less. The loan to value ratio is tested from time to time at lenders' discretion at the Company's cost. The Company is also required to provide for an irrevocable letter of credit that combined with operating reserve will equal \$880,000.

As of December 31, 2016 and 2015, principal of \$18,010,846 and \$18,348,108, respectively, remains unpaid. Interest expense for 2016 and 2015 was \$1,367,705 and \$1,388,548 respectively, of which \$66,743 and \$65,099, respectively, is accrued at year-end.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 10. Mortgage Notes Payable (Continued)

Future maturities of mortgages payable are as follows for the years ending December 31:

	Long-Term Debt	Deferred Financing Costs	Net
2017	\$ 363,261	\$ (14,025)	\$ 349,236
2018	391,276	(14,025)	377,251
2019	421,462	(14,025)	407,437
2020	453,990	(14,025)	439,965
2021	489,041	(14,025)	475,016
Thereafter	15,891,816	(6,426)	15,885,390
	<u>\$ 18,010,846</u>	<u>\$ (76,551)</u>	<u>\$ 17,934,295</u>

Note 11. Interest Rate Swap Contract

The Company has entered into an Interest Rate Swap ("SWAP") agreement to reduce the impact of interest rate fluctuations on its variable rate borrowings. The SWAP is not held for trading or other speculative purposes, became effective as of December 19, 2003, and matures on July 19, 2022. The value of the swap instrument represents the estimated cost to the Company to cancel the agreement at the reporting date, which is based on pricing models that consider risks and market factors.

By using derivative financial instruments to manage changes in interest rates, the Company exposes itself to credit risk and market risk. The credit risk is the risk of a counterparty not performing under the terms of the SWAP. The counterparty to the SWAP is a major financial institution, which has a B+ or better credit rating by Standard & Poor's Ratings Group. The Company monitors the credit rating of the counterparty periodically and the amount of the Company's debt subject to the SWAP agreement with any one party. Therefore, the Company believes the likelihood of realizing material losses from counterparty non-performance is remote.

Market-risk is the adverse effect of the value of the financial instrument that results from a change in interest rates. The market-risk associated with interest-rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree to market risk that may be undertaken. These risks are managed by the Company's management, and it is management's intent to hold all derivative agreements to term.

The Company has an interest rate swap agreement relating to the second and third notes (Note 9), that effectively converts the Company's variable interest rate to a fixed rate of 7.79%. This swap is utilized to manage interest rate exposure. The differential to be paid or received on the swap agreement is accrued as interest rates change and is recognized over the life of the agreement in interest expense. The notional amount is \$10,372,199 and \$10,532,186 as of December 31, 2016 and 2015, respectively.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 11. Interest Rate Swap Contract (Continued)

Fair Value of Derivative Instruments not Designated as Hedging Instruments
on the Consolidated Statements of Financial Position as of December 31, 2016 and 2015

Derivative	Statement of Financial Position Location	Fair Value 2016	Statement of Financial Position Location	Fair Value 2015
Interest rate contract	Long-term liabilities	<u>\$ 2,265,227</u>	Long-term liabilities	<u>\$ 2,775,912</u>

The Effect of Derivative Instruments on the Consolidated Statement of Activities
for the Years Ended December 31, 2016 and 2015

Derivative	Location of Gain Recognized in Unrestricted Non-Operating Income	Amount of Gain Recognized in Unrestricted Non-Operating Income	
		2016	2015
Interest rate contract	Change in fair value of interest rate swap contract	<u>\$ 510,685</u>	<u>\$ 257,381</u>

Note 12. Line of Credit

The Organization has a \$500,000 line of credit agreement with a bank that bears interest at 4.00%. The line must be paid to zero over a period of no less than 30 consecutive days in each successive annual period. The line is subject to an annual review and renewal on July 31 each year. There was an outstanding balance of \$300,000 and \$150,000 as of December 31, 2016 and 2015 respectively.

Note 13. Operating Leases

The Organization leases equipment under various non-cancelable operating leases that are effective through calendar year 2020. Rent expense incurred by the Organization under these lease agreements was \$8,438 and \$8,186, respectively, for the years ended December 31, 2016 and 2015.

Future minimum rental payments over the next five years and in the aggregate under non-cancelable operating leases having remaining terms in excess of one year are as follows for the years ending December 31:

2017	\$ 8,441
2018	3,388
2019	1,704
2020	1,278
	<u>\$ 14,811</u>

Note 14. Rental Income

The Company leases space to commercial tenants for various lengths of time through 2025. These leases provide for specific monthly payments plus reimbursement for certain operating costs. Additionally, many of these leases call for renewal at the option of the lessee. These renewals are generally at favorable rates. For the years ending December 31, 2016 and 2015, revenue related to these leases totaled \$1,102,270 and \$1,023,605, respectively.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 14. Rental Income (Continued)

The following is a summary of minimum future rentals under non-cancelable operating leases for the year ending December 31:

2017	\$ 1,038,575
2018	764,568
2019	608,813
2020	616,044
2021	627,957
Thereafter	1,431,447
	<u>\$ 5,087,404</u>

Four tenants represented greater than 10% each and 78.7% and 65% in the aggregate, respectively, of total commercial rental revenue in 2016 and 2015.

The Company also leases residential units through short term lease agreements. For the years ending December 31, 2016 and 2015, revenue related to these leases totaled \$1,971,899 and \$2,324,004, respectively.

Note 15. Pension Plan

The Association is a participating employer-sponsor of the YWCA Retirement Fund, Inc. (the "Fund"), a multiple employer cash balance defined benefit plan. The plan annually elects to contribute up to 10% of eligible employees' annual compensation. For the years ended December 31, 2016 and 2015, 3% was elected. Employees are eligible when they provide 1,000 hours of service each year for two years. Optional payments by employees are allowed up to 10% of annual compensation, which vest immediately. The Association's contributions are fully vested immediately. The actuarial present value of the benefit obligation and fair value of plan assets are not available separately for each employer that participates in the plan.

The Association's policy is to fund pension costs as they are incurred. Pension expense was \$25,123 and \$23,330, respectively, at December 31, 2016 and 2015. This expense is included in salaries, wages and benefits in the accompanying consolidated financial statements. As a participating employer sponsor, the only obligation of the Association is to make contributions on behalf of its employees. All other obligations associated with this plan are the responsibility of the national association.

Note 16. Temporarily Restricted Net Assets

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

	2016	2015
Time	\$ 520,590	\$ 598,826
Purpose	-	5,831
Cumulative investment earnings on endowment	69,196	36,359
	<u>\$ 589,786</u>	<u>\$ 641,016</u>

During the years ended December 31, 2016 and 2015, \$107,801 and \$84,445, respectively, of net assets were released from restriction by satisfying the restricted purpose or by the passage of time.

Young Women's Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 17. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at December 31:

	2016	2015
Donor restricted endowment funds	\$ 1,542,472	\$ 1,512,884
Beneficial interest in perpetual trust	33,386	-
Total permanently restricted net assets	<u>\$ 1,575,858</u>	<u>\$ 1,512,884</u>

Note 18. Concentration of Credit Risk

The Organization maintains its cash and cash equivalent balances in various Massachusetts banks, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts, and monitors the credit-worthiness of the financial institutions with it conduct business. Management believes the Organization is not exposed to any significant credit risk with respect to its cash balances.

Note 19. Contingencies

The Organization is subject to a variety of suits and proceedings arising in the ordinary course of business. In the opinion of management, no litigation, individually or in the aggregate, currently pending or, to the knowledge of the Organization, threatened against it will result in a material adverse effect on its financial condition.

Note 20. Endowment Net Assets

The following is a summary of endowment net asset composition by type of fund at December 31:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor restricted endowment funds	\$ -	\$ 69,196	\$ 1,542,472	\$ 1,611,668

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor restricted endowment funds	\$ -	\$ 36,359	\$ 1,512,884	\$ 1,549,243

Young Women’s Christian Association of Boston, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 20. Endowment Net Assets (Continued)

The following is a summary of changes in the endowment net assets for the year ended December 31:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Endowment net assets, beginning of year	\$ -	\$ 36,359	\$ 1,512,884	\$ 1,549,243
Investment return:				
Investment income	-	26,064	19,828	45,892
Realized and unrealized gains, net of fees	-	6,773	9,760	16,533
Total investment return	-	32,837	29,588	62,425
Endowment net assets, end of year	\$ -	\$ 69,196	\$ 1,542,472	\$ 1,611,668

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Endowment net assets, beginning of year	\$ -	\$ 91,538	\$ 1,495,188	\$ 1,586,726
Investment return:				
Investment income	-	33,724	25,656	59,380
Realized and unrealized losses, net of fees	-	(88,903)	(7,960)	(96,863)
Total investment return	-	(55,179)	17,696	37,483
Endowment net assets, end of year	\$ -	\$ 36,359	\$ 1,512,884	\$ 1,549,243

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. The aggregate deficiency between the fair value of investments of the endowment fund at December 31, 2016 and 2015 and the level required by donor stipulation is approximately \$1,300 and \$61,000, respectively. During the year ended December 31, 2016, a gain of \$60,520 on permanently restricted funds has been recorded as unrestricted to restore losses recorded in unrestricted net assets in prior years.

Note 21. Subsequent Events

The Organization evaluated subsequent events through May 10, 2017, when the financial statements were available to be issued.

Independent Auditor's Report on the Supplementary Information

Boards of Directors
Young Women's Christian Association of Boston, Inc. and Affiliates

We have audited the financial statements of Young Women's Christian Association of Boston, Inc. and Affiliates as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon, dated May 10, 2017, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Boston, Massachusetts
May 10, 2017

Young Women's Christian Association of Boston, Inc. and Affiliates

Consolidating Statement of Financial Position
December 31, 2016

	YWCA Boston, Inc.	Clarendon Residences, LLC	YWCA Clarendon, Inc.	Consolidated Totals before Eliminations	Eliminations	Consolidated Totals
Assets						
Current assets:						
Cash and equivalents	\$ 139,908	\$ 728,895	\$ -	\$ 868,803	\$ -	\$ 868,803
Rent receivables	-	72,678	-	72,678	-	72,678
Due from affiliate	-	320,095	-	320,095	(320,095)	-
Pledges receivable	49,446	-	-	49,446	(5,363)	44,083
Other receivable	17,882	-	-	17,882	-	17,882
Prepaid expenses	6,128	41,038	-	47,166	-	47,166
Tenant security deposits	-	151,274	-	151,274	-	151,274
Escrow deposits	-	424,776	-	424,776	-	424,776
Total current assets	213,364	1,738,756	-	1,952,120	(325,458)	1,626,662
Property and equipment, net	198,702	31,328,698	-	31,527,400	-	31,527,400
Other assets:						
Investments	8,132,210	-	-	8,132,210	-	8,132,210
Investment in affiliates	1,246,160	-	1,246,160	2,492,320	(2,492,320)	-
Sponsor notes and accrued interest receivable	3,676,967	-	-	3,676,967	(3,676,967)	-
Development fee receivable	2,682,136	-	-	2,682,136	(2,682,136)	-
Ground lease and accrued interest receivable	125,802	-	-	125,802	(125,802)	-
Management fee receivable	14,215	-	-	14,215	(14,215)	-
Non-current pledges receivable, net of discount	9,786	-	-	9,786	5,363	15,149
Deferred costs, net	-	133,896	-	133,896	-	133,896
Beneficial interest in perpetual trust	33,386	-	-	33,386	-	33,386
Total other assets	15,920,662	133,896	1,246,160	17,300,718	(8,986,077)	8,314,641
Total assets	\$ 16,332,728	\$ 33,201,350	\$ 1,246,160	\$ 50,780,238	\$ (9,311,535)	\$ 41,468,703
Liabilities and Net Assets/Members' Equity						
Current liabilities:						
Line of credit	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -	\$ 300,000
Due to affiliate	320,095	-	-	320,095	(320,095)	-
Mortgage notes payable - current portion, net of deferred financing costs	-	349,236	-	349,236	14,025	363,261
Accounts payable and accrued expenses	168,266	349,722	-	517,988	-	517,988
Deferred revenue	33,206	38,855	-	72,061	-	72,061
Tenant security deposits	-	117,066	-	117,066	-	117,066
Total current liabilities	821,567	854,879	-	1,676,446	(306,070)	1,370,376
Long-term liabilities:						
Notes payable	-	2,750,000	-	2,750,000	-	2,750,000
Mortgage notes payable, net of current portion and deferred financing costs	-	17,585,059	-	17,585,059	(14,025)	17,571,034
Sponsor note and accrued interest payable	-	3,676,967	-	3,676,967	(3,676,967)	-
Development fee payable	-	2,682,136	-	2,682,136	(2,682,136)	-
Ground lease and accrued interest payable	-	125,802	-	125,802	(125,802)	-
Management fee payable	-	14,215	-	14,215	(14,215)	-
Accrued interest payable	-	890,839	-	890,839	-	890,839
Fair value interest rate swap contract	-	2,265,227	-	2,265,227	-	2,265,227
Total long-term liabilities	-	29,990,245	-	29,990,245	(6,513,145)	23,477,100
Total liabilities	821,567	30,845,124	-	31,666,691	(6,819,215)	24,847,476
Net assets/members' equity:						
Unrestricted/members' equity	13,345,517	1,246,160	1,246,160	15,837,837	(2,492,320)	13,345,517
Temporarily restricted	589,786	-	-	589,786	-	589,786
Permanently restricted	1,575,858	-	-	1,575,858	-	1,575,858
Total net assets/members' equity before non-controlling interest in affiliate	15,511,161	1,246,160	1,246,160	18,003,481	(2,492,320)	15,511,161
Non-controlling interest in affiliate	-	1,110,066	-	1,110,066	-	1,110,066
Total net assets/members' equity	15,511,161	2,356,226	1,246,160	19,113,547	(2,492,320)	16,621,227
Total liabilities and net assets/members' equity	\$ 16,332,728	\$ 33,201,350	\$ 1,246,160	\$ 50,780,238	\$ (9,311,535)	\$ 41,468,703

Young Women's Christian Association of Boston, Inc. and Affiliates

Consolidating Statement of Activities
Year Ended December 31, 2016

	YWCA Boston, Inc.				Clarendon Residences, LLC	YWCA Clarendon,	Eliminating Entries	Totals			Consolidated Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals				Unrestricted/ Members' Equity	Temporarily Restricted	Permanently Restricted	
Operating revenues and support:											
Contributions	\$ 741,513	\$ 47,624	\$ -	\$ 789,137	\$ -	\$ -	\$ -	\$ 741,513	\$ 47,624	\$ -	\$ 789,137
Program revenue	244,757	-	-	244,757	-	-	-	244,757	-	-	244,757
United Way allocation	77,421	-	-	77,421	-	-	-	77,421	-	-	77,421
Investment return designated for operations	904,095	-	-	904,095	-	-	-	904,095	-	-	904,095
Donated services	53,032	-	-	53,032	-	-	-	53,032	-	-	53,032
Provision for uncollectible pledges	-	(23,890)	-	(23,890)	-	-	-	-	(23,890)	-	(23,890)
Rental activities: ground lease and management fee income	246,715	-	-	246,715	-	-	(246,715)	-	-	-	-
Net assets released from restrictions	107,801	(107,801)	-	-	-	-	-	107,801	(107,801)	-	-
Total operating revenues and support	2,375,334	(84,067)	-	2,291,267	-	-	(246,715)	2,128,619	(84,067)	-	2,044,552
Expenses:											
Program	1,788,620	-	-	1,788,620	-	-	(92,346)	1,696,274	-	-	1,696,274
Management, general and administrative	325,146	-	-	325,146	-	-	(25,042)	300,104	-	-	300,104
Fundraising	441,448	-	-	441,448	-	-	(14,395)	427,053	-	-	427,053
Total expenses	2,555,214	-	-	2,555,214	-	-	(131,783)	2,423,431	-	-	2,423,431
Rental/hotel activities:											
Rental/hotel income	-	-	-	-	8,066,080	-	(131,783)	7,934,297	-	-	7,934,297
Rental/hotel expense	(120,912)	-	-	(120,912)	(7,935,002)	-	262,947	(7,792,967)	-	-	(7,792,967)
Net rental activities	(120,912)	-	-	(120,912)	131,078	-	131,164	141,330	-	-	141,330
Operating gain (loss)	(300,792)	(84,067)	-	(384,859)	131,078	-	16,232	(153,482)	(84,067)	-	(237,549)
Non-operating revenues (losses):											
Investment income	195,004	26,064	19,828	240,896	-	-	-	195,004	26,064	19,828	240,896
Realized and unrealized gains (losses), net	387,991	6,773	9,760	404,524	-	64	(128)	387,927	6,773	9,760	404,460
Investment return designated for operations	(904,095)	-	-	(904,095)	-	-	-	(904,095)	-	-	(904,095)
Change in split interest agreement	-	-	749	749	-	-	-	-	-	749	749
Non-operating professional fees	(241,804)	-	-	(241,804)	-	-	-	(241,804)	-	-	(241,804)
Change in fair value on interest rate swap contract	-	-	-	-	510,685	-	-	510,685	-	-	510,685
Interest on related party receivables	16,232	-	-	16,232	-	-	(16,232)	-	-	-	-
Beneficial interest in perpetual trust	-	-	32,637	32,637	-	-	-	-	-	32,637	32,637
Total non-operating revenues (losses)	(546,672)	32,837	62,974	(450,861)	510,685	64	(16,360)	(52,283)	32,837	62,974	43,528
Changes in net assets/members' equity before non-controlling interest in net gain of affiliate	(847,464)	(51,230)	62,974	(835,720)	641,763	64	(128)	(205,765)	(51,230)	62,974	(194,021)
Non-controlling interest in net gain of affiliate	-	-	-	-	(517,989)	-	-	(517,989)	-	-	(517,989)
Change in net assets/members' equity	(847,464)	(51,230)	62,974	(835,720)	123,774	64	(128)	(723,754)	(51,230)	62,974	(712,010)
Net assets/members' equity at beginning of year	14,192,981	641,016	1,512,884	16,346,881	1,246,096	1,246,096	(2,492,192)	14,192,981	641,016	1,512,884	16,346,881
Distribution to investor member	-	-	-	-	(123,710)	-	-	(123,710)	-	-	(123,710)
Net assets/members' equity at end of year	\$ 13,345,517	\$ 589,786	\$ 1,575,858	\$ 15,511,161	\$ 1,246,160	\$ 1,246,160	\$ (2,492,320)	\$ 13,345,517	\$ 589,786	\$ 1,575,858	\$ 15,511,161