

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
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INDEPENDENT AUDITORS' REPORT

Audit Committee
The Young Men's Christian Association
of Metropolitan Minneapolis
Minneapolis, Minnesota

We have audited the accompanying consolidated statements of financial position of The Young Men's Christian Association of Metropolitan Minneapolis (the Association) as of December 31, 2008 and 2007, and the related consolidated statements of activities, functional expenses, functional expenses – program services, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
May 13, 2009



**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
ASSETS				
Cash and Cash Equivalents	\$ 6,496,176	\$ 1,942,784	\$ 351	\$ 8,439,311
Cash Held for Others	-	204,283	-	204,283
Accounts Receivable, Net	754,763	500	5,000	760,263
Pledges Receivable, Net	270,608	20,656,215	242,527	21,169,350
Receivable on Sale - Leaseback Transaction	3,000,000	-	-	3,000,000
Leverage Loan Receivable	8,396,400	-	-	8,396,400
Investments	14,315,733	9,678,961	13,668,465	37,663,159
Prepaid Expenses and Other Assets	1,854,958	-	-	1,854,958
Beneficial Interest in Perpetual Trust	-	-	618,340	618,340
Funds Held in Escrow	6,175,638	-	-	6,175,638
Land, Building and Equipment, Net	81,964,330	-	-	81,964,330
Total Assets	\$ 123,228,606	\$ 32,482,743	\$ 14,534,683	\$ 170,246,032
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts Payable	\$ 6,263,163	\$ -	\$ -	\$ 6,263,163
Cash Held for Others	-	204,283	-	204,283
Accrued Expenses	2,530,615	-	-	2,530,615
Annuity Obligations	-	869,147	98,049	967,196
Bonds and Notes Payable	25,392,049	-	-	25,392,049
Capital Lease Payable	21,619,703	-	-	21,619,703
Deferred Gain on Sale - Leaseback Transaction	10,207,704	-	-	10,207,704
Deferred Revenue	1,199,103	-	-	1,199,103
Total Liabilities	67,212,337	1,073,430	98,049	68,383,816
Net Assets	56,016,269	31,409,313	14,436,634	101,862,216
Total Liabilities and Net Assets	\$ 123,228,606	\$ 32,482,743	\$ 14,534,683	\$ 170,246,032

See accompanying Notes to Consolidated Financial Statements.

2007

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 3,359,976	\$ 744,222	\$ 243,712	\$ 4,347,910
-	383,441	-	383,441
470,634	-	6,000	476,634
49,494	17,536,565	437,678	18,023,737
-	-	-	-
-	-	-	-
19,961,336	11,511,170	13,195,655	44,668,161
1,127,240	-	-	1,127,240
-	-	834,147	834,147
-	-	-	-
55,468,677	-	-	55,468,677
<u>\$ 80,437,357</u>	<u>\$ 30,175,398</u>	<u>\$ 14,717,192</u>	<u>\$ 125,329,947</u>
\$ 1,935,538	\$ -	\$ -	\$ 1,935,538
-	383,441	-	383,441
2,200,304	-	-	2,200,304
-	1,048,928	163,509	1,212,437
11,904,761	-	-	11,904,761
9,630,291	-	-	9,630,291
-	-	-	-
1,168,757	-	-	1,168,757
26,839,651	1,432,369	163,509	28,435,529
53,597,706	28,743,029	14,553,683	96,894,418
<u>\$ 80,437,357</u>	<u>\$ 30,175,398</u>	<u>\$ 14,717,192</u>	<u>\$ 125,329,947</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING SUPPORT AND REVENUE				
Public Support:				
Contributions	\$ 1,956,346	\$ 12,579,278	\$ 163,869	\$ 14,699,493
United Way	1,575,808	7,000	-	1,582,808
Government and Foundation Grants	272,564	2,301,631	-	2,574,195
Affiliated Organizations	-	-	-	-
Total Public Support	<u>3,804,718</u>	<u>14,887,909</u>	<u>163,869</u>	<u>18,856,496</u>
Revenue:				
Membership Fees	22,729,022	-	-	22,729,022
Less: Specific Assistance to Individuals	(1,689,491)	-	-	(1,689,491)
Program Service Fees	18,716,777	-	-	18,716,777
Less: Specific Assistance to Individuals	(772,633)	-	-	(772,633)
Sale of Supplies	662,751	-	-	662,751
Investment Return Designated for Current Operations	1,204,733	615,398	-	1,820,131
Miscellaneous	640,657	-	-	640,657
Total Revenue	<u>41,491,816</u>	<u>615,398</u>	<u>-</u>	<u>42,107,214</u>
Net Assets Released from Restrictions - Program	4,875,160	(4,875,160)	-	-
Total Operating Support and Revenue	<u>50,171,694</u>	<u>10,628,147</u>	<u>163,869</u>	<u>60,963,710</u>
OPERATING EXPENSES				
Program Services:				
Health Enhancement	22,173,960	-	-	22,173,960
Camping	5,387,632	-	-	5,387,632
Family Life	7,986,962	-	-	7,986,962
Community Social Programs	6,334,655	-	-	6,334,655
Total Program Services	<u>41,883,209</u>	<u>-</u>	<u>-</u>	<u>41,883,209</u>
Support Services:				
Management and General	7,797,009	-	-	7,797,009
Fund Raising	2,371,164	-	-	2,371,164
Total Support Services	<u>10,168,173</u>	<u>-</u>	<u>-</u>	<u>10,168,173</u>
Total Operating Expenses	<u>52,051,382</u>	<u>-</u>	<u>-</u>	<u>52,051,382</u>
EXCESS (DEFICIT) OF OPERATING SUPPORT AND REVENUE OVER OPERATING EXPENSES	(1,879,688)	10,628,147	163,869	8,912,328
OTHER CHANGES				
Investment Return Greater (Less) than Amounts Designated for Current Operations	(7,635,415)	(574,926)	(106,025)	(8,316,366)
Decrease in Value of Split-Interest Agreements	-	99,669	40,914	140,583
Change in Value of Perpetual Trust	-	-	(215,807)	(215,807)
Rental Activity, Net of Expenses of \$180,275 and \$181,459	(58,976)	-	-	(58,976)
Urban YMCA, LLC - Financing Expense	(62,312)	-	-	(62,312)
Gain on Asset Retirement Obligation	73,889	-	-	73,889
Gain on Sale of Fixed Assets - Non-Operating	4,494,459	-	-	4,494,459
Net Assets Released from Restrictions - Capital Reclassification - Adoption of FSP 117-1	7,861,736	(7,861,736)	-	-
	<u>(375,130)</u>	<u>375,130</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	2,418,563	2,666,284	(117,049)	4,967,798
Net Assets - Beginning of Year	<u>53,597,706</u>	<u>28,743,029</u>	<u>14,553,683</u>	<u>96,894,418</u>
NET ASSETS - END OF YEAR	<u>\$ 56,016,269</u>	<u>\$ 31,409,313</u>	<u>\$ 14,436,634</u>	<u>\$ 101,862,216</u>

See accompanying Notes to Consolidated Financial Statements.

2007

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,104,884	\$ 8,102,613	\$ 1,102,771	\$ 10,310,268
1,575,789	-	-	1,575,789
174,773	1,880,023	-	2,054,796
2,640	-	-	2,640
<u>2,858,086</u>	<u>9,982,636</u>	<u>1,102,771</u>	<u>13,943,493</u>
23,714,942	-	-	23,714,942
(1,672,954)	-	-	(1,672,954)
17,725,812	-	-	17,725,812
(747,986)	-	-	(747,986)
657,188	-	-	657,188
1,191,887	847,707	-	2,039,594
554,366	-	-	554,366
<u>41,423,255</u>	<u>847,707</u>	<u>-</u>	<u>42,270,962</u>
4,518,414	(4,518,414)	-	-
<u>48,799,755</u>	<u>6,311,929</u>	<u>1,102,771</u>	<u>56,214,455</u>
20,811,199	-	-	20,811,199
5,414,362	-	-	5,414,362
7,781,203	-	-	7,781,203
6,015,833	-	-	6,015,833
<u>40,022,597</u>	<u>-</u>	<u>-</u>	<u>40,022,597</u>
6,507,565	-	-	6,507,565
2,227,073	-	-	2,227,073
<u>8,734,638</u>	<u>-</u>	<u>-</u>	<u>8,734,638</u>
<u>48,757,235</u>	<u>-</u>	<u>-</u>	<u>48,757,235</u>
42,520	6,311,929	1,102,771	7,457,220
1,053,554	14,779	16,119	1,084,452
-	(135,087)	15,445	(119,642)
-	-	-	-
(86,264)	-	-	(86,264)
-	-	-	-
12,896	-	-	12,896
-	-	-	-
1,296,342	(1,296,342)	-	-
-	-	-	-
<u>2,319,048</u>	<u>4,895,279</u>	<u>1,134,335</u>	<u>8,348,662</u>
<u>51,278,658</u>	<u>23,847,750</u>	<u>13,419,348</u>	<u>88,545,756</u>
<u>\$ 53,597,706</u>	<u>\$ 28,743,029</u>	<u>\$ 14,553,683</u>	<u>\$ 96,894,418</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008**

2008

	Support Services				Total Support Services	Subtotal	Administrative and Training Center	Urban YMCA LLC (NMTC)	Total
	Program Services	Building Maintenance	Management and General	Fund Raising					
EXPENSES									
Salaries and Wages	\$ 16,692,069	\$ 2,392,378	\$ 4,309,284	\$ 1,303,601	\$ 8,005,263	\$ 24,697,332	\$ -	\$ -	\$ 24,697,332
Employee Benefits and Payroll Taxes	3,250,926	699,710	941,168	294,804	1,935,682	5,186,608	-	-	5,186,608
Professional Fees and Contract Services	951,433	283,961	651,926	143,614	1,079,501	2,030,934	-	-	2,030,934
Supplies	3,544,342	3,616	76,620	13,259	93,495	3,637,837	-	-	3,637,837
Telephone	230,499	19,589	208,286	5,268	233,143	463,642	-	-	463,642
Postage and Shipping	219,345	11	29,897	33,350	63,258	282,603	-	-	282,603
Occupancy	659,379	3,713,729	23,879	-	3,737,608	4,396,987	96,077	-	4,493,064
Expendable Equipment	1,277,735	72,291	75,541	1,790	149,622	1,427,357	-	-	1,427,357
Printing, Publications and Promotions	541,716	-	471,190	480,138	951,328	1,493,044	-	-	1,493,044
Travel and Employee Expense Conferences, Conventions and Meetings	740,921	51,748	122,763	47,880	222,391	963,312	-	-	963,312
Membership Dues	66,270	-	14,696	17,325	32,021	98,291	-	-	98,291
Awards and Grants	311,543	280	19,086	3,745	23,111	334,654	-	-	334,654
Financing	463,820	382	-	-	382	464,202	-	-	464,202
Insurance	1,204,212	-	6,954	-	6,954	1,211,166	26,526	62,312	1,300,004
Miscellaneous	404,571	-	19,921	-	19,921	424,492	-	-	424,492
Building Maintenance	507,880	910	45,516	4,480	50,906	558,786	-	-	558,786
	6,876,675	(7,238,605)	361,930	-	(6,876,675)	-	-	-	-
TOTAL EXPENSES BEFORE DEPRECIATION	37,943,336	-	7,378,657	2,349,254	9,727,911	47,671,247	122,603	62,312	47,856,162
DEPRECIATION OF BUILDINGS AND EQUIPMENT	3,939,873	-	418,352	21,910	440,262	4,380,135	57,672	-	4,437,807
	<u>\$ 41,883,209</u>	<u>\$ -</u>	<u>\$ 7,797,009</u>	<u>\$ 2,371,164</u>	<u>\$ 10,168,173</u>	<u>\$ 52,051,382</u>	<u>\$ 180,275</u>	<u>\$ 62,312</u>	<u>\$ 52,293,969</u>

See accompanying Notes to Consolidated Financial Statements.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2007**

	2007							
	Program Services	Support Services			Total Support Services	Subtotal	Administrative and Training Center	Total
Building Maintenance		Management and General	Fund Raising					
EXPENSES								
Salaries and Wages	\$ 16,021,263	\$ 2,325,178	\$ 3,927,189	\$ 1,330,324	\$ 7,582,691	\$ 23,603,954	\$ -	\$ 23,603,954
Employee Benefits and Payroll Taxes	3,739,288	655,115	397,382	149,783	1,202,280	4,941,568	-	4,941,568
Professional Fees and Contract Services	935,211	220,560	460,865	189,713	871,138	1,806,349	-	1,806,349
Supplies	3,566,016	7,891	35,521	12,217	55,629	3,621,645	-	3,621,645
Telephone	191,819	18,136	180,394	4,570	203,100	394,919	-	394,919
Postage and Shipping	219,725	49	19,647	51,186	70,882	290,607	-	290,607
Occupancy	600,282	3,541,177	22,114	-	3,563,291	4,163,573	96,944	4,260,517
Expendable Equipment	1,002,846	56,323	58,689	5,989	121,001	1,123,847	-	1,123,847
Printing, Publications and Promotions	562,627	-	483,909	352,371	836,280	1,398,907	-	1,398,907
Travel and Employee Expense	690,878	40,331	80,082	48,195	168,608	859,486	-	859,486
Conferences, Conventions and Meetings	81,634	391	21,263	15,388	37,042	118,676	-	118,676
Membership Dues	279,066	729	21,807	2,737	25,273	304,339	-	304,339
Awards and Grants	336,420	-	-	-	-	336,420	-	336,420
Financing	962,029	-	7,712	-	7,712	969,741	29,418	999,159
Insurance	418,403	-	20,615	-	20,615	439,018	-	439,018
Miscellaneous	323,886	561	66,982	4,998	72,541	396,427	-	396,427
Building Maintenance	6,523,119	(6,866,441)	343,322	-	(6,523,119)	-	-	-
TOTAL EXPENSES BEFORE DEPRECIATION	36,454,512	-	6,147,493	2,167,471	8,314,964	44,769,476	126,362	44,895,838
DEPRECIATION OF BUILDINGS AND EQUIPMENT	3,568,085	-	360,072	59,602	419,674	3,987,759	55,097	4,042,856
	\$ 40,022,597	\$ -	\$ 6,507,565	\$ 2,227,073	\$ 8,734,638	\$ 48,757,235	\$ 181,459	\$ 48,938,694

See accompanying Notes to Consolidated Financial Statements.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES – PROGRAM SERVICES
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008				
	Health Enhancement	Camping	Family Life	Community Social Programs	Total
EXPENSES					
Salaries and Wages	\$ 8,475,695	\$ 1,859,033	\$ 3,791,264	\$ 2,566,077	\$ 16,692,069
Employee Benefits and Payroll Taxes	1,581,760	306,986	764,010	598,170	3,250,926
Professional Fees and Contract Services	326,863	148,895	158,497	317,178	951,433
Supplies	446,824	1,192,463	993,621	911,434	3,544,342
Telephone	86,899	32,580	55,816	55,204	230,499
Postage and Shipping	96,391	33,421	48,757	40,776	219,345
Occupancy	236,693	120,296	277,981	24,409	659,379
Expendable Equipment	794,723	249,384	110,236	123,392	1,277,735
Printing, Publications and Promotions	394,165	98,122	37,466	11,963	541,716
Travel and Employee Expense	289,574	89,941	151,539	209,867	740,921
Conferences, Conventions and Meetings	14,311	4,153	6,333	41,473	66,270
Membership Dues	133,708	55,897	64,311	57,627	311,543
Awards and Grants	52,355	92,560	27,241	291,664	463,820
Financing	537,847	178,302	271,854	216,209	1,204,212
Insurance	169,050	81,367	85,446	68,708	404,571
Miscellaneous	238,876	56,558	169,100	43,346	507,880
Building Maintenance	5,288,163	488,244	618,901	481,367	6,876,675
TOTAL EXPENSES BEFORE DEPRECIATION	19,163,897	5,088,202	7,632,373	6,058,864	37,943,336
DEPRECIATION OF BUILDINGS AND EQUIPMENT	3,010,063	299,430	354,589	275,791	3,939,873
	<u>\$ 22,173,960</u>	<u>\$ 5,387,632</u>	<u>\$ 7,986,962</u>	<u>\$ 6,334,655</u>	<u>\$ 41,883,209</u>

See accompanying Notes to Consolidated Financial Statements.

2007

Health Enhancement	Camping	Family Life	Community Social Programs	Total
\$ 7,961,172	\$ 1,956,843	\$ 3,727,551	\$ 2,375,697	\$ 16,021,263
1,784,786	424,846	857,903	671,753	3,739,288
323,144	175,765	158,640	277,662	935,211
444,396	1,152,498	1,000,597	968,525	3,566,016
68,531	27,590	50,421	45,277	191,819
94,220	33,961	49,607	41,937	219,725
191,679	109,139	280,535	18,929	600,282
643,333	213,436	61,499	84,578	1,002,846
363,501	136,410	45,220	17,496	562,627
274,870	95,882	149,305	170,821	690,878
15,075	4,774	6,490	55,295	81,634
118,073	49,097	59,622	52,274	279,066
34,588	23,706	19,184	258,942	336,420
420,049	150,422	220,906	170,652	962,029
171,018	87,196	89,939	70,250	418,403
160,468	38,482	95,575	29,361	323,886
<u>5,016,279</u>	<u>463,141</u>	<u>587,081</u>	<u>456,618</u>	<u>6,523,119</u>
18,085,182	5,143,188	7,460,075	5,766,067	36,454,512
<u>2,726,017</u>	<u>271,174</u>	<u>321,128</u>	<u>249,766</u>	<u>3,568,085</u>
<u>\$ 20,811,199</u>	<u>\$ 5,414,362</u>	<u>\$ 7,781,203</u>	<u>\$ 6,015,833</u>	<u>\$ 40,022,597</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,967,798	\$ 8,348,662
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,437,807	4,042,856
Permanently Restricted Contributions	(163,869)	(268,624)
(Gain) Loss on Sale of Land, Building and Equipment	(4,495,659)	157,016
Non-Cash Donation of Land, Building and Equipment	-	(29,126)
Deferred Debt Related to Andover	215,348	451,034
Net Realized and Unrealized (Gains) Losses on Investments	7,755,301	(1,674,843)
Change in Cash Surrender Value of Life Insurance Policies	(15,602)	(11,214)
Non-Cash Donation of Long-Term Facility Use	(8,000,000)	-
Change in Beneficial Interest in Perpetual Trust	215,807	(834,147)
(Increase) Decrease in Current Assets:		
Accounts Receivable	(283,629)	(61,264)
Pledges Receivable	4,152,530	(1,570,711)
Prepaid Expenses and Other Assets	(727,718)	(162,423)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	4,327,625	(419,348)
Accrued Expenses	330,311	300,515
Annuity Obligations	(54,568)	168,501
Deferred Revenue	30,346	86,025
Net Cash Provided by Operating Activities	12,691,828	8,522,909
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(19,305,718)	(3,338,370)
(Increase) Decrease in Funds Held in Escrow	(6,175,638)	1,311,360
Advance of Leverage Loan	(8,396,400)	-
Proceeds from Sale of Investments	51,055,066	76,963,816
Purchases of Investments	(51,789,763)	(80,846,263)
Proceeds from Sale of Land, Building and Equipment	12,075,621	4,735
Net Cash Used by Investing Activities	(22,536,832)	(5,904,722)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Long-Term Purposes	506,706	(99,614)
Proceeds from Permanently Restricted Contributions	359,020	372,048
Payments of Annuity Obligations	(190,673)	(189,656)
Payments on Capital Lease	(10,588)	(62,246)
Proceeds from Bonds and Notes Payable	14,400,000	-
Payments on Bonds and Notes Payable	(1,128,060)	(1,084,821)
Net Cash Provided (Used) by Financing Activities	13,936,405	(1,064,289)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,091,401	1,553,898
Cash and Cash Equivalent - Beginning of Year	4,347,910	2,794,012
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,439,311	\$ 4,347,910
SUPPLEMENTAL DATA		
Interest Paid	\$ 1,262,299	\$ 996,471
Assets Acquired Through Capital Lease	\$ 12,000,000	\$ -
Contribution of Perpetual Trust	\$ -	\$ 834,147

See accompanying Notes to Consolidated Financial Statements.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Young Men's Christian Association of Metropolitan Minneapolis (the Association) is dedicated to community service and has committed its resources to build strong kids, strong families, and strong communities. The Association's programs are designed to promote positive values and to build a better society through growth in spirit, mind, and body. The Association's program areas are health enhancement, camping, family life, and community social programs.

Health enhancement provides a healthy lifestyle through fitness, aquatics and cardiovascular programs. Camping provides a transformational experience in an outdoor setting. Family life provides counseling, intervention, and child care programs. Community social programs provides after school programs, youth employment, recreational, and educational programs.

The consolidated financial statements of the Association include Twin Cities YMCA Partners, LLC and Urban YMCA, LLC. All significant intercompany transactions have been eliminated.

Financial Statement Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted – Those resources over which the board of directors has discretionary control. The Board designated amounts represent those revenues which the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Association or the passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Association. The donors of these resources permit the Association to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Measure of Operations

In its consolidated statement of activities, the Association includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Non-operating activity consists primarily of investment returns above the amounts designated for operation, net joint rental activity, change in value of split interest agreements, and capital releases from restrictions.

Liquidity

Assets are presented in the accompanying consolidated statement of financial position according to nearness to conversion to cash and liabilities according to the nearness of maturity and resulting use of cash.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, contributions receivable, marketable securities, interest in beneficiary trusts, due from property manager, accounts payable, and notes payable. The recorded values of cash and cash equivalents, accounts receivable, due from property manager, and accounts payable approximate their fair values based on their short-term nature. The fair value of contributions receivable, which is based on discounted cash flows using current interest rates, approximates the carrying value at December 31, 2008 and 2007. Fair values of marketable securities and interest in beneficiary trusts are based on quoted market prices as of December 31, 2008 and 2007. The fair value of the Association's bonds, notes payable, and capital leases are estimated based on the current rates offered to the Association for debt of similar terms and maturities. Under this method, the Association's fair value of long-term debt was approximately \$80,000 less than the carrying value at December 31, 2008 while the fair value of long-term debt was approximately \$7,000 less than the carrying value at December 31, 2007.

Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less with the exception of cash designated for investment purposes.

Cash Held for Others

Cash held for others consist of resources received in which the Association is acting as a fiscal agent.

Accounts Receivable

The Association provides an allowance for bad debts using the allowance method. Services are sold on an unsecured basis. Accounts past due more than 60 days are analyzed for collectibility. Accounts are written off after collection activities are exhausted. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. At December 31, 2008 and 2007, the allowance was \$156,471 and \$107,704, respectively.

Pledges Receivable

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Funds Held in Escrow

Funds Held in Escrow represent bond proceeds held by the Association and used for capital projects. Funds Held in Escrow consist of cash and equivalents valued using Level 1 inputs.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are stated at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 3 inputs include alternative investments which are valued using inputs provided by the investment manager and evaluated by an independent reporting service on a monthly basis.

The Association invests in various securities, including U.S. Government securities, corporate debt securities and equities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future consolidated statement of activities. Subsequent to year-end, there were material declines in fair market values of investment holdings.

Land, Building and Equipment

Land, building and equipment acquisitions are recorded at cost. Donated items are recorded at fair value on the date of the contribution. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. Depreciation is computed using the straight-line method based upon the following estimated useful lives:

Buildings	30 Years
Improvements	15 Years
Equipment	7 Years
Technology	3 Years

Split Interest Agreements

The Association has full or partial interest in irrevocable split-interest agreements, primarily charitable remainder trusts (the Trusts) as well as cash surrender value of life insurance policies. The trust agreements specify that an annuity is to be paid to a donor-identified annuitant until such annuitant's death. The annuity obligation is measured at the present value of the expected future payments to be made to the beneficiary. The investments held in the Trusts are carried at market value. The changes in the market values of the investments and the annuity obligation are reflected in the consolidated statements of activities as a change in value of split-interest agreements. The Trusts and annuity obligation are classified based upon the donor's stipulation as to the use of the funds after the death of the donor/annuitant. The assets are included in investments on the consolidated statement of financial position.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Perpetual Trusts

The Association is the sole beneficiary of a perpetual trust which is not in the possession of the Association. Under the terms of the trust, the Association has the irrevocable right to receive the income generated by the trust in perpetuity. The beneficial interest in the perpetual trust is recorded based on the Association's percentage interest in the fair value of the trust assets, and accordingly, is classified using Level 3 inputs. The underlying assets in the trust are marketable securities valued using quoted market prices. The beneficial interest is shown as permanently restricted as these assets are currently unavailable for distribution. Market value fluctuations in the trust are reflected on the consolidated statements of activities as a change in permanently restricted net assets.

Deferred Revenue

Deferred revenue consists of membership fees and other advance fees received for future periods.

The Association, during 2008, sold approximately 86 acres of land and simultaneously entered into a ground lease on the same property to continue to provide services to youth. The lease term is a minimum of ten years and a maximum of 25 years at a rate of one dollar per year. The Association incurred a gain on sale of \$11,341,893, which is being amortized over the minimum lease term. At December 31, 2008, the unamortized portion of the gain was \$10,207,704.

Membership and Program Revenue Recognition

Revenue from Association membership dues is recognized ratably over the life of the membership. Any cash amounts received in advance are deferred until earned. Revenue from Association programs is recognized over the duration of the offered programs.

Advertising Expenses

Advertising costs are expensed when incurred. Advertising costs were \$419,266 and \$431,526 for the years ended December 31, 2008 and 2007, respectively.

Functional Expenses

The costs of providing the various programs and other activities of the Association have been summarized on a functional basis in the consolidated statements of functional expenses. Building maintenance and depreciation expenses are allocated among the programs and supporting services benefited.

Tax Status

The Association is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota statutes. The Association is not considered a private foundation and contributions to the Association are considered tax deductible. Twin Cities YMCA Partners, LLC and Urban YMCA, LLC are wholly owned limited liability corporations of the Association and all activities are included in the filings with the Association.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status (Continued)

Effective January 1, 2007, the Association adopted the provisions of FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109*, ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's consolidated financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of FIN 48 had no impact on the Association's consolidated financial statements.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The vast majority of contributions and receivables are located in the St. Paul/Minneapolis area and its surrounding suburbs as well as those in which the Association has a camp presence.

The Association holds cash at several institutions. The amounts on hand may at times exceed federally insured limits.

Fair Value Measurements

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. The Association accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Association accounts for certain assets and liabilities under various accounting literature, including SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. The Association also accounts for certain assets at fair value under applicable industry guidance.

Fair Value Hierarchy

In accordance with SFAS No. 157, the Association has categorized its financial instruments based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy (Continued)

Financial assets recorded on the consolidated statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Association has the ability to access (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities, and derivatives).

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, long-term promises to give, split-interest agreements, and long-term grants payable).

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 PLEDGES RECEIVABLE

The Association's pledges represent contributions for facilities and equipment and to support the ongoing operations of the Association. Outstanding pledge contributions from various corporations, foundations, and individuals were discounted at rates between 1% and 7% based on imputed interest rates applicable to the year in which the promise was received and were as follows at December 31, 2008 and 2007:

	2008			Total
	Capital	Ongoing Operations	Endowment	
Pledges Due:				
In Less Than One Year	\$ 3,579,311	\$ 1,646,313	\$ 123,856	\$ 5,349,480
In One to Five Years	6,250,055	34,250	163,183	6,447,488
In More Than Five Years	6,886,668	3,947,040	-	10,833,708
Total	<u>\$ 16,716,034</u>	<u>\$ 5,627,603</u>	<u>\$ 287,039</u>	<u>22,630,676</u>
Less: Allowance for Uncollectible Pledges				(681,729)
Less: Unamortized Discount				(779,597)
Total Pledges Receivable, Net				<u>\$ 21,169,350</u>

	2007			Total
	Capital	Ongoing Operations	Endowment	
Pledges Due:				
In Less Than One Year	\$ 6,888,333	\$ 1,360,292	\$ 161,408	\$ 8,410,033
In One to Five Years	6,637,739	105,441	270,813	7,013,993
In More Than Five Years	-	4,390,217	50,000	4,440,217
Total	<u>\$ 13,526,072</u>	<u>\$ 5,855,950</u>	<u>\$ 482,221</u>	<u>19,864,243</u>
Less: Allowance for Uncollectible Pledges				(502,276)
Less: Unamortized Discount				(1,338,230)
Total Pledges Receivable, Net				<u>\$ 18,023,737</u>

At December 31, 2008 and 2007, net contribution receivables of \$216,257 and \$710,296, respectively, relating to charitable remainder trusts held by outside trustees for the benefit of the Association are recorded within pledges receivable.

At December 31, 2008 and 2007, pledges receivable from voting board members totaled \$616,437 and \$696,447, respectively.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 3 INVESTMENTS

Investments in securities are stated at fair value, which is based on quoted market prices. At December 31, 2008 and 2007, the fair value of certain venture capital investments was determined by the investment manager when no quoted market price was available. The alternative investments may include derivative instruments embedded in the fund that could expose the Association to potential investment risk.

A majority of the restricted and unrestricted investments are invested in a combined investment pool. Interest income and realized and unrealized gains and losses are allocated using the market value method.

The Association and the donors distributed funds from the board-designated investments and endowment (restricted net assets) investments to support operations. This amount is based on a percentage of market value of the board-designated and endowment investments and was \$1,060,951 and \$892,585 for the years ended December 31, 2008 and 2007, respectively. The 2008 total investment return designated for current operations of \$1,820,131 includes \$674,938 of interest income earned on cash and cash equivalents. The 2007 total investment return designated for current operations of \$2,039,594 includes \$1,122,182 of interest income earned on cash and cash equivalents.

The following is a summary of the Association's investments at December 31:

	<u>2008</u>	<u>2007</u>
Cash and Cash Equivalents	\$ 19,639,081	\$ 20,640,910
U.S. Government and Corporate Bonds	5,525,410	5,150,480
Common and Preferred Stocks	10,136,097	15,589,743
Alternative Investments	2,362,571	3,287,028
	<u>\$ 37,663,159</u>	<u>\$ 44,668,161</u>

The following schedule summarizes the investment return for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Investment Income	\$ 1,365,766	\$ 1,583,705
Realized and Unrealized Gains (Losses)	(7,755,301)	1,674,843
Subtotal	(6,389,535)	3,258,548
Less: Investment Fees	(106,700)	(134,502)
Total Investment Income (Loss)	<u>\$ (6,496,235)</u>	<u>\$ 3,124,046</u>
Investment Return Designated for Current Operations	\$ 1,820,131	\$ 2,039,594
Investment Return Greater (Less) Than Amounts Designated for Current Operations	(8,316,366)	1,084,452
	<u>\$ (6,496,235)</u>	<u>\$ 3,124,046</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 4 LAND, BUILDING AND EQUIPMENT

A summary of land, building and equipment at December 31 follows:

	<u>2008</u>	<u>2007</u>
Land and Land Improvements	\$ 9,456,109	\$ 8,604,990
Buildings	89,991,103	75,678,089
Equipment	14,810,688	14,328,332
Property Held for Future Use	454,000	454,000
Construction-in-Progress	<u>15,331,473</u>	<u>1,495,138</u>
	130,043,373	100,560,549
Less: Accumulated Depreciation	<u>(48,079,043)</u>	<u>(45,091,872)</u>
	<u>\$ 81,964,330</u>	<u>\$ 55,468,677</u>

Property held for future use consists of an intangible asset for airspace rights at a branch location, allowing the Association to expand the branch in the future if necessary.

Construction-in-progress consists of building modifications and improvements currently in progress, which are being financed through contributions, operations or debt financing.

Property held for future use and construction-in-progress are not subject to depreciation.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 5 BONDS AND NOTES PAYABLE

A summary of bonds and notes payable at December 31 is as follows:

<u>Description</u>	<u>2008</u>	<u>2007</u>
City of Minneapolis, Minnesota Revenue Note, interest fixed at 5.76%, principal and interest due in semi-annual installments of \$27,470 through May 22, 2013	\$ 215,083	\$ 255,864
City of Minneapolis, Minnesota Revenue Note, interest fixed at 4.412%, principal and interest due in semi-annual installments of \$43,665 through May 22, 2013	352,929	422,382
Minnesota Agriculture and Development Board, Variable Rate Revenue Bond, interest at 1.18% at December 31, 2008, with principal payments due annually starting December 1, 2013 through December 1, 2033	3,000,000	-
MMCDC New Markets Fund X, LLC, Construction and Term Loan, interest fixed at 1.46%, quarterly interest payments, principal payments quarterly starting April 1, 2015 through February 28, 2038	11,400,000	-
City of Burnsville, Variable Rate Revenue Bond, interest at 1.08% at December 31, 2008, with principal payments due annually through August 1, 2016	5,480,000	6,050,000
Minneapolis Community Development Agency, Minnesota Revenue Note, interest fixed at 4.15%, principal and interest due in semi-annual installments of \$307,827 through October 1, 2015	3,707,039	4,154,865
City of Andover, non-interest bearing, principal balance due in 2034	1,236,998	1,021,650
Total	<u>\$ 25,392,049</u>	<u>\$ 11,904,761</u>

The summary of annual future maturities of principal on bonds and notes payable as of December 31, 2008 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 1,177,318
2010	1,227,641
2011	1,279,077
2012	1,331,674
2013	1,314,349
Thereafter	19,061,990
Total	<u>\$ 25,392,049</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 5 BONDS AND NOTES PAYABLE (CONTINUED)

Line of Credit

The Association has an unsecured line of credit of \$1,000,000 with interest payable at the prime rate. The line of credit expires on September 30, 2009 and can be extended for one-year terms. At December 31, 2008 and 2007, there were no borrowings under this line of credit.

The Association has another unsecured line of credit of \$60,556 with interest payable at the prime rate. The line of credit expires on November 30, 2009. At December 31, 2008 and 2007, there were no borrowings under this line of credit.

Revenue Bond

During 1996, the City of Burnsville issued \$10,300,000 of Variable Rate Demand Revenue Bonds, Series 1996, on behalf of the Association. The interest rate of the bonds at December 31, 2008 and 2007 was 1.08% and 3.37%, respectively. The bonds are the sole responsibility of the Association and are secured through a \$5,553,304 letter of credit. On March 5, 2009, the letter of credit was extended to expire on August 1, 2010 and can be extended for one-year terms. However, it is subject to non-renewal with a 90-day advance written notice from the bank.

Upon certain circumstances, the interest rate may be converted to a fixed rate. As long as the bonds carry a variable interest rate, they can be redeemed at the option of the bondholders. The Association has entered into an agreement that provides for the remarketing, to the extent possible, of the bonds in the event of redemption. The bonds are remarketed every seven days. In the event remarketing is unsuccessful, the letter of credit will be drawn upon to pay the trustee. The letter of credit is due the earlier of its expiration date or 366 days from the date of draw.

The Association has entered into a reimbursement agreement that provides for payments to the bank for draws, if any, that may be made upon the letter of credit. The reimbursement agreement contains covenants that restrict the Association's ability, among other things, to issue additional debt; the Association must also maintain a market value of the board-designated endowment investments of at least \$3,600,000 and meet certain other financial ratios. The Association is in compliance with these financial covenants as of December 31, 2008. The Association had board-designated endowment investments of \$4,393,329 at December 31, 2008. Additionally, the Association has pledged land, buildings and equipment with a book value of \$6,296,708 and \$7,078,756 at December 31, 2008 and 2007, respectively, as collateral for the debt.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 5 BONDS AND NOTES PAYABLE (CONTINUED)

Revenue Bond (Continued)

During 2008, the Minnesota Agriculture and Development Board issued \$35 million of variable rate demand revenue bonds, series 2008 on behalf of the Association. The interest rate at December 31, 2008 was 1.18%. The bonds are the sole responsibility of the Association and are secured through a letter of credit which is based on the total bonds outstanding plus 45 days of interest at 10%. At December 31, 2008, \$3 million of bonds were outstanding resulting in a \$3,036,986 letter of credit.

Upon certain circumstances, the interest rate may be converted to a fixed rate. As long as the bonds carry a variable interest rate, they can be redeemed at the option of the bondholders. The Association has entered into an agreement that provides for remarketing, to the extent possible, of the bonds in the event of redemption. The bonds are remarketed every seven days. In the event remarketing is unsuccessful, the letter of credit will be drawn upon to pay the trustee. The letter of credit is due the earlier of its expiration or 366 days from the date of draw.

The Association has entered into a reimbursement agreement that provides for payments to the bank for draws, if any, that may be made upon the letter of credit. The agreement contains covenants that restrict the Association's ability, among other things, to issue additional debt; the Association must also meet certain financial ratios. The Association is in compliance with these financial covenants as of December 31, 2008. Additionally, the Association has pledged land, buildings and equipment with a book value of \$25,049,707 as collateral for the debt.

New Market Tax Credit Financing

In 2008, MMCDC New Market Tax Credit Fund X, LLC, a Delaware limited liability company (the "CDE"), made a new market tax credit enhanced mortgage loan of \$11,400,000 to Urban YMCA LLC, a Minnesota limited liability company and wholly owned subsidiary of The Young Men's Christian Association of Metropolitan Minneapolis, to finance project costs of the North Community and Blaisdell branches (the "NMTC Loan"). The CDE received an allocation of new market tax credit ("NMTC") pursuant to Section 45D of the Code in order to assist eligible businesses in making new investments in certain communities. The availability of the NMTC allowed U.S. Bancorp Community Development Corporation, a Missouri limited liability company, to invest \$3,603,600 in Minneapolis Y Investment Fund, LLC (the "Investment Fund"), a Missouri limited liability company. The Association committed \$8,396,400 to its subsidiary Twin Cities YMCA Partners, LLC, in order for it to make a loan of \$8,396,400 to the Investment Fund (the "Leverage Loan"). Additionally, the Association has pledged land and buildings with a book value of \$12,191,636 and \$0 at December 31, 2008 and 2007, respectively, as collateral for the debt.

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
OF METROPOLITAN MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 BONDS AND NOTES PAYABLE (CONTINUED)

New Market Tax Credit Financing (Continued)

The Investment Fund contributed the combined \$12,000,000 to the CDE as a capital contribution, which in turn made the NMTC Loan to Urban YMCA LLC, a Minnesota limited liability company. The structure of this NMTC transaction is standard for the NMTC industry. The completion of this transaction provided a significant cash benefit to the Association.

Future Transactions: After the seven-year NMTC period expires, it is anticipated the CDE will liquidate and distribute its assets to the Investment Fund. It is also anticipated that Twin Cities YMCA Partners, LLC will acquire all the interests in the Investment Fund for a predetermined amount, and that the Investment Fund will be liquidated. After the "exit" transactions are completed, Twin Cities YMCA Partners, LLC will be the holder of the NMTC Loan, and such loan will be eliminated for reporting purposes because such loan will be owed by the Association to its subsidiary. One other effect of the "exit" transactions is that the Twin Cities YMCA Partners, LLC would be both lender and borrower of Leverage Loan and, therefore, such debt will be eliminated.

Loan Terms: The NMTC Loan, dated February 29, 2008, stipulates the Urban YMCA LLC pay interest at a rate of 1.46% per quarter payable in arrears on the first day of April, July, October and January until April 1, 2038 (Maturity Date). Interest costs associated with the Loan amounted to \$42,624 for the year ended December 31, 2008. The Note calls for a principal payment of \$240,000 on February 28, 2015, with outstanding balance due and payable on the Maturity Date. The Loan is not eligible for prepayment until February 28, 2015.

NOTE 6 NET ASSETS

Net assets as of December 31, 2008 are available for the following purposes or periods:

	2008		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Capital Related	\$ 40,199,742	\$ 16,928,831	\$ -
Available Only Upon Death of Donor/ Annuitant	-	3,049,092	216,637
Program and Time Restrictions or Board Designations	12,218,697	11,431,390	13,601,657
Perpetual Trust Interest	-	-	618,340
Undesignated	3,597,830	-	-
	<u>\$ 56,016,269</u>	<u>\$ 31,409,313</u>	<u>\$ 14,436,634</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
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NOTE 6 NET ASSETS (CONTINUED)

Net assets as of December 31, 2007 are available for the following purposes or periods:

	2007		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Capital Related	\$ 35,323,045	\$ 20,371,787	\$ -
Available Only Upon Death of Donor/ Annuitant	-	1,640,265	348,293
Program and Time Restrictions or Board Designations	11,395,949	6,730,977	13,371,243
Perpetual Trust Interest	-	-	834,147
Undesignated	6,878,712	-	-
	<u>\$ 53,597,706</u>	<u>\$ 28,743,029</u>	<u>\$ 14,553,683</u>

Net assets released from restriction for the years ended December 31 are as follows:

	2008	2007
Capital Releases	\$ 7,861,736	\$ 1,296,342
Time and Purpose Releases	4,875,160	4,518,414
Total Releases from Restriction	<u>\$ 12,736,896</u>	<u>\$ 5,814,756</u>

NOTE 7 ENDOWMENT

Board Designated and Donor Restricted Endowments

The Association has board designated and donor restricted endowment funds established for the purpose of securing the Association's long-term financial viability and continuing to meet the needs of children and families in the community. As required by U.S. generally accepted accounting principles, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Association has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as maintaining the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

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NOTE 7 ENDOWMENT (CONTINUED)

Board Designated and Donor Restricted Endowments (Continued)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$856,345 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations in the endowment fund's investments and continued appropriations that were deemed prudent by the board of directors. There were no such deficiencies as of December 31, 2007.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a portfolio containing 53% Russell 3000, 20% MSCI EAFE (net) and 27% Lehman Brothers Aggregate while assuming a moderate level of investment risk. The Association expects its endowment funds, over time, to provide an average rate of return of approximately 5% more than the consumer price index. Actual returns in any given year may vary from this amount.

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

The Association has a policy of targeting for distribution each year an average of 4.5% of the endowment's market value calculated as of the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long term, the Association expects the current spending policy to allow its endowment to grow at an average of 4.5% annually. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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NOTE 7 ENDOWMENT (CONTINUED)

Board Designated and Donor Restricted Endowments (Continued)

The composition of endowment funds by type of fund are as follows:

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted Endowment Funds	\$ (856,345)	\$ 375,130	\$ 13,972,119	\$ 13,490,904
Board Designated Endowment Funds	4,393,329	-	-	4,393,329
Total Endowment Funds	<u>\$ 3,536,984</u>	<u>\$ 375,130</u>	<u>\$ 13,972,119</u>	<u>\$ 17,884,233</u>

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted Endowment Funds	\$ 5,200,868	\$ -	\$ 13,832,366	\$ 19,033,234
Board Designated Endowment Funds	6,199,363	-	-	6,199,363
Total Endowment Funds	<u>\$ 11,400,231</u>	<u>\$ -</u>	<u>\$ 13,832,366</u>	<u>\$ 25,232,597</u>

The summary of changes in endowment net assets are as follows:

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, December 31, 2007	\$ 11,400,231	\$ -	\$ 13,832,366	\$ 25,232,597
Change in Value of Perpetual Trusts	-	-	(215,807)	(215,807)
Contributions	143,000	-	355,560	498,560
Earnings and Expenses:				
Investment Income	274,337	310,860	-	585,197
Investment Expenses	(39,092)	(44,496)	-	(83,588)
Realized Gains	65,940	74,710	-	140,650
Unrealized Losses	(3,402,810)	(3,859,615)	-	(7,262,425)
Total Earnings and Expenses	<u>(3,101,625)</u>	<u>(3,518,541)</u>	<u>-</u>	<u>(6,620,166)</u>
Transfer of Temporarily Restricted Earnings and Expenses to Unrestricted	(4,066,155)	4,066,155	-	-
Appropriations	(463,337)	(547,614)	-	(1,010,951)
Transfers to Temporarily Restricted Due to Adoption of UPMIFA and FSP 117-1	<u>(375,130)</u>	<u>375,130</u>	<u>-</u>	<u>-</u>
Endowment Fund Balance, December 31, 2008	<u>\$ 3,536,984</u>	<u>\$ 375,130</u>	<u>\$ 13,972,119</u>	<u>\$ 17,884,233</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
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NOTE 7 ENDOWMENT (CONTINUED)

Board Designated and Donor Restricted Endowments (Continued)

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, December 31, 2006	\$ 10,346,673	\$ -	\$ 12,478,886	\$ 22,825,559
Change in Value of Perpetual Trusts	-	-	834,147	834,147
Contributions	-	-	519,333	519,333
Earnings and Expenses:				
Investment Income	206,109	250,451	-	456,560
Investment Expenses	(50,041)	(60,835)	-	(110,876)
Realized Gains	2,019,140	2,449,729	-	4,468,869
Unrealized Losses	(1,326,600)	(1,614,070)	-	(2,940,670)
Total Earnings and Expenses	<u>848,608</u>	<u>1,025,275</u>	-	<u>1,873,883</u>
Transfer of Temporarily Restricted Earnings and Expenses to Unrestricted	555,618	(555,618)	-	-
Appropriations	<u>(350,668)</u>	<u>(469,657)</u>	-	<u>(820,325)</u>
Endowment Fund Balance, December 31, 2007	<u>\$ 11,400,231</u>	<u>\$ -</u>	<u>\$ 13,832,366</u>	<u>\$ 25,232,597</u>

NOTE 8 LEASES

The Association leases various pieces of equipment and facilities under operating lease agreements which expire on various dates. Rent expense for the years ended December 31, 2008 and 2007 totaled \$2,042,605 and \$2,002,525, respectively.

The future minimum operating lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 472,915
2010	291,552
2011	107,452
2012	58,088
Total	<u>\$ 930,007</u>

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION
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NOTE 8 LEASES (CONTINUED)

In 2004, the Association entered into a long-term lease for a new facility. The lease has an initial term of 30 years with 6 optional renewal periods of 10 years each and a final renewal term of 9 years. The lease is accounted for as a capital lease. The maximum lease payment in any year of the lease term is \$635,000 including both principal and interest. Interest expense was \$490,356 and \$489,926 for the years ended December 31, 2008 and 2007, respectively. The cost of the building recorded under the capital lease was \$9,672,643. Accumulated depreciation was \$1,120,569 and \$800,021 at December 31, 2008 and 2007, respectively. As part of the lease agreement the City of Andover donated the use of the land for the project. The value of the land was valued at \$317,643 and is amortized over the initial 30-year lease period. Accumulated amortization was \$52,941 and \$42,352 as of December 31, 2008 and 2007, respectively. The amortization is included with depreciation expense.

On August 20, 2007, the Association entered into a lease agreement with the Economic Development Authority for the City of Elk River, Minnesota (EDA). The EDA built an approximately 55,000 square foot facility and the Association will provide health, wellness and youth programs in the facility. The initial lease term is thirty-one years with an evergreen provision up to a maximum of 99 years. The Association's lease payment is equal to one-third of the interest and principal on two separate debt issuances – a 25 year \$10 million issuance on November 8, 2007 and a 7 year \$2 million dollar issuance on February 20, 2008. The debt payments began August 1, 2008 and cease February 1, 2033. The agreement obligates the city to re-pay two-thirds of the debt and interest, while the Association is obligated for one-third of the debt and interest. For 2008, no principal payments on the debt were made. \$220,005 was paid in interest by the City of Elk River and shown on the books as contribution while the Association's interest cost paid in 2008 was \$110,002. The facility went into service in the fall, 2008 with construction costs at December 31, 2008 of \$12,886,246. Accumulated depreciation was \$338,089 in 2008.

Future minimum capital lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 868,034
2010	878,611
2011	878,907
2012	880,729
2013	880,743
Thereafter	18,524,997
Total Capital Lease Payments	<u>22,912,021</u>
Less: Interest Expense	9,292,318
Non-Cash Donation of Long-Term Facility Use	8,000,000
Total Minimum Capital Lease Payments	<u><u>\$ 21,619,703</u></u>

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NOTE 9 RETIREMENT BENEFITS

The Association participates in a defined contribution, individual account, money purchase retirement plan, which is administered by The Young Men's Christian Association Retirement Fund (the Retirement Fund). This plan is for the benefit of substantially all full-time professional and support staff of the Association. The Retirement fund is operated as a church pension plan and is a not-for-profit, tax-exempt New York state corporation. Participation is available to all duly organized or reorganized YMCAs in the United States. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligations.

In accordance with the agreement with the Retirement Fund, contributions made by the Association are a percentage of the participating employees' salaries and are remitted to the Retirement Fund monthly. Contribution expense was \$1,440,891 and \$1,407,690 in 2008 and 2007, respectively.

NOTE 10 CONTINGENCIES AND COMMITMENTS

The Association receives fees and grants from various federal, state and city government agencies for services performed under contracts. Such contracts are subject to governmental compliance audits and may, from time to time, result in adjustments to fees and grants received. In the opinion of the Association's management, the disposition of all such matters should not have a material adverse effect on the Association's financial position or changes in net assets.

The Association is involved in certain legal claims incidental to the normal course of its activities. As a result, the Association maintains liability insurance coverage. Although the ultimate outcome of these claims cannot be determined, management believes based on their current assessment, that the final disposition of these claims will not have a material adverse effect on the financial position of the Association.

During 2007 and 2008, the Association has entered into contract agreements for construction on two existing facilities. The Association is committed to approximately \$11.4 million for the performance of these contracts. As of December 31, 2008, approximately \$8.4 million of the costs for the facilities has been incurred.

NOTE 11 SHARED SERVICES

The Association shares certain services including information technology, human resources, public relations, marketing, risk and insurance management, business support services, and purchasing with the YMCA of Greater St. Paul (St. Paul). The Association and St. Paul share expenses equally.

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NOTE 11 SHARED SERVICES (CONTINUED)

In 2003, the Association and the YMCA of Greater St. Paul entered into a joint operating agreement for the operation of the YMCA Administrative and Training Center. Space that is unused by the YMCA is rented to unrelated third parties. Each YMCA owns 50% of the building being rented and is liable for 50% of the debt associated with the building. The total cost of the land and building was \$435,000 and \$1,740,000, respectively. The Association capitalized 50% of these costs as land and building in its consolidated financial statements. The building is depreciated over a useful life of 30 years.

As of December 31, 2008 and 2007, the total outstanding debt related to the purchase of the joint operating agreement land and building was \$1,136,025 and \$1,356,492, respectively. The Association recorded 50% of the outstanding debt as a liability in its consolidated financial statements as further disclosed in Note 5.

Related to their participation in the joint operating agreement with YMCA of Greater Saint Paul, the YMCA of Greater Saint Paul and The Young Men's Christian Association of Metropolitan Minneapolis entered into an agreement to cross guarantee each others portion of the City of Minneapolis Revenue Notes related to the building. Due to the off-setting nature of these guarantees, no asset or liability is recorded for the guarantees in either entity's consolidated financial statements. As of December 31, 2008 and 2007, the amount guaranteed by each entity was \$568,013 and \$678,246, respectively.

The revenue and expenses of the building rented to outside parties is considered a peripheral activity. The revenue and expenses are reported as a non-operating net rental activity in the consolidated statement of activities. Rental revenue and expense for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Rental Revenue	\$ 121,299	\$ 95,195
Expense	180,275	181,459
Rental Activity, Net of Expense	<u>\$ (58,976)</u>	<u>\$ (86,264)</u>

Due from property manager represents the Association's proportional share of the non-depreciable assets and liabilities of the joint rental activity. The amount due from the property manager at December 31, 2008 and 2007 was \$7,441 and \$10,964, respectively.

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NOTE 12 ASSET RETIREMENT OBLIGATION

The Association owns three buildings that contain asbestos in various forms. At this time, the Association has plans to renovate these buildings in 2008 and 2009. In accordance with Financial Accounting Standards Board Interpretation 47 (FIN 47), management estimated the cost of the obligation to remove asbestos. The Association used a future value rate assumption of 3% and discounted the estimate to present value using a risk-free rate of return of 5%. The potential environmental remediation liability is \$59,450 and \$133,339 at December 31, 2008 and 2007, respectively, and is included in accounts payable on the consolidated statement of financial position.

NOTE 13 FAIR VALUE MEASUREMENTS

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Association measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

Assets Measured at Fair Value on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 35,300,588	\$ -	\$ 2,362,571	\$ 37,663,159
Funds Held in Escrow	6,175,638	-	-	6,175,638
Beneficial Interest in Perpetual Trusts	-	-	618,340	618,340
Total	<u>\$ 41,476,226</u>	<u>\$ -</u>	<u>\$ 2,980,911</u>	<u>\$ 44,457,137</u>

Assets Measured at Fair Value on a Non-Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges Receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,364,602</u>	<u>\$ 9,364,602</u>

Liabilities Measured at Fair Value on a Non-Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Annuity Obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,704</u>	<u>\$ 78,704</u>

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NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets

The following table provides a summary of changes in fair value of the Association's Level 3 financial assets for the year ended December 31, 2008:

	<u>Investments</u>	<u>Beneficial Interest in Perpetual Trusts</u>	<u>Total</u>
Balances as of January 1, 2008	\$ 3,287,028	\$ 834,147	\$ 4,121,175
Change in Value of Beneficial Interest in Perpetual Trusts Net Realized and Unrealized Loss on Investment	-	(215,807)	(215,807)
Purchases of Investments	(924,457)	-	(924,457)
Proceeds from Sale of Investments	3,280,522	-	3,280,522
	<u>(3,280,522)</u>	<u>-</u>	<u>(3,280,522)</u>
Balances as of December 31, 2008	<u>\$ 2,362,571</u>	<u>\$ 618,340</u>	<u>\$ 2,980,911</u>