

YWCA USA, Inc.

**Financial Statements
and Independent Auditor's Report**

**August 31, 2017
(With August 31, 2016 summarized comparative
financial information)**

YWCA USA, Inc.

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Independent Auditor's Report

To the Board of Directors
YWCA USA, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of YWCA USA, Inc. ("YWCA USA"), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and change in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of 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 YWCA USA as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2016 Summarized Comparative Information

We have previously audited YWCA USA's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Bethesda, Maryland
January 12, 2018

YWCA USA, Inc.

Statement of Financial Position
 August 31, 2017
 (with Summarized Comparative Financial Information for 2016)

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 1,945,750	\$ 3,946,799
Accounts receivable	224,314	154,576
Pledges receivable	539,810	67,151
Prepaid expenses	59,061	61,428
Total current assets	<u>2,768,935</u>	<u>4,229,954</u>
Investments	61,655,149	56,951,324
Property and equipment, net	2,792,763	2,786,721
Pledges receivable, net of current portion	336,435	-
Deposits	<u>18,313</u>	<u>21,000</u>
	<u>\$ 67,571,595</u>	<u>\$ 63,988,999</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable and accrued expenses	\$ 297,829	\$ 409,609
Payable to beneficiaries	162,543	184,824
Deferred rent	6,265	214
Deferred rental income, current portion	129,750	160,000
Deferred revenue	6,770	3,830
Total current liabilities	<u>603,157</u>	<u>758,477</u>
Long-term liabilities		
Deferred rental income, net of current portion	<u>118,938</u>	<u>248,688</u>
Total liabilities	722,095	1,007,165
Net assets		
Unrestricted	56,190,245	53,595,205
Temporarily restricted	4,058,696	2,786,070
Permanently restricted	<u>6,600,559</u>	<u>6,600,559</u>
Total net assets	<u>66,849,500</u>	<u>62,981,834</u>
	<u>\$ 67,571,595</u>	<u>\$ 63,988,999</u>

See Notes to Financial Statements.

YWCA USA, Inc.

**Statement of Activities and Change in Net Assets
Year Ended August 31, 2017
(with Summarized Comparative Financial Information for 2016)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
Support and revenue					
Contributions and bequests	\$ 497,718	\$ 1,056,264	\$ -	\$ 1,553,982	\$ 974,451
Interest and dividends	1,117,957	169,294	-	1,287,251	1,477,054
Realized and unrealized gains on investments	4,665,333	691,996	-	5,357,329	2,770,458
Support fees	2,488,856	-	-	2,488,856	2,640,717
Leadership development center rental loss, net of expenses of \$193,535 in 2017 and \$194,488 in 2016	(33,535)	-	-	(33,535)	(31,738)
Change in value of split-interest agreements	-	(40,334)	-	(40,334)	22,722
Donated services	50,925	-	-	50,925	96,758
Sponsorship and registration income	172,240	20,000	-	192,240	125,785
Other income	16,306	-	-	16,306	13,761
Net assets released from restrictions	624,594	(624,594)	-	-	-
Total support and revenue	9,600,394	1,272,626	-	10,873,020	8,089,968
Expenses					
Program services:					
Advocacy	895,098	-	-	895,098	686,394
Communications	751,839	-	-	751,839	1,263,218
Local initiatives	4,052,789	-	-	4,052,789	3,251,075
Global initiatives	364,716	-	-	364,716	386,666
Total program services	6,064,442	-	-	6,064,442	5,587,353
Supporting services:					
Management and general administrative	227,428	-	-	227,428	174,163
Fundraising	713,484	-	-	713,484	500,995
Total supporting services	940,912	-	-	940,912	675,158
Total expenses	7,005,354	-	-	7,005,354	6,262,511
Change in net assets	2,595,040	1,272,626	-	3,867,666	1,827,457
Net assets, beginning of year	53,595,205	2,786,070	6,600,559	62,981,834	61,154,377
Net assets, end of year	\$ 56,190,245	\$ 4,058,696	\$ 6,600,559	\$ 66,849,500	\$ 62,981,834

See Notes to Financial Statements.

YWCA USA, Inc.

Statement of Cash Flows
Year Ended August 31, 2017
(with Summarized Comparative Financial Information for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 3,867,666	\$ 1,827,457
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized gains on investments	(5,357,329)	(2,770,458)
Depreciation and amortization - operating	47,237	31,835
Depreciation and amortization - leadership development center	193,535	194,488
Change in value of split-interest agreements	40,334	(22,722)
Amortization of discount on pledges receivable	1,065	-
Bad debt expense	5,000	-
Change in:		
Accounts receivable	(74,738)	(12,014)
Pledges receivable	(810,159)	162,368
Prepaid expenses	2,367	71,884
Deposits	2,687	-
Accounts payable and accrued expenses	(152,114)	114,898
Payable to beneficiaries	(22,281)	(5,490)
Deferred rent	6,051	-
Deferred rental income	(160,000)	(162,749)
Deferred revenue	2,940	592
Net cash used in operating activities	(2,407,739)	(569,911)
Cash flows from investing activities		
Purchases of property and equipment	(246,814)	(42,904)
Purchases of investments	(19,438,116)	(19,097,458)
Proceeds from sale/maturity of investments	20,091,620	21,087,403
Net cash provided by investing activities	406,690	1,947,041
Net increase (decrease) in cash and cash equivalents	(2,001,049)	1,377,130
Cash and cash equivalents, beginning of year	3,946,799	2,569,669
Cash and cash equivalents, end of year	\$ 1,945,750	\$ 3,946,799

See Notes to Financial Statements.

YWCA USA, Inc.

**Statement of Functional Expenses
Year Ended August 31, 2017
(with Summarized Comparative Financial Information for 2016)**

	Program Services					Support Services			Totals	
	Advocacy	Communications	Local Initiatives	Global Initiatives	Total	Management and General Administrative	Fundraising	Total	2017	2016
Salaries and benefits	\$ 489,826	\$ 376,081	\$ 1,753,530	\$ -	\$ 2,619,437	\$ 359,977	\$ 392,862	\$ 752,839	\$ 3,372,276	\$ 2,861,173
Meetings	4,815	5,107	412,061	26,938	448,921	56,354	2,676	59,030	507,951	231,453
Professional fees	9,176	75,075	161,912	652	246,815	1,147,143	11,426	1,158,569	1,405,384	1,463,884
Stipends	-	-	123,000	-	123,000	-	-	-	123,000	333,750
Printing and printed materials	3,737	14,324	20,059	390	38,510	4,191	315	4,506	43,016	22,730
Communications	3,328	2,266	5,155	-	10,749	37,648	865	38,513	49,262	40,639
Office supplies and postage	591	13	3,154	568	4,326	20,813	1,080	21,893	26,219	15,954
Rent and utilities	-	-	-	-	-	220,347	-	220,347	220,347	347,524
Insurance	-	-	-	-	-	23,664	-	23,664	23,664	49,670
Travel	27,995	3,743	62,861	15,832	110,431	66,598	4,249	70,847	181,278	215,359
Computer, equipment and maintenance	11,942	9,045	84,778	-	105,765	190,660	8,792	199,452	305,217	203,693
Membership and support	10,798	-	-	-	10,798	19,972	5,859	25,831	36,629	36,059
Awards and grants	-	-	243,250	88,847	332,097	-	-	-	332,097	84,000
World YWCA allocation	-	-	-	231,279	231,279	-	-	-	231,279	204,563
Miscellaneous	4,542	10,505	10,564	210	25,821	58,391	16,286	74,677	100,498	120,225
Depreciation and amortization	-	-	-	-	-	47,237	-	47,237	47,237	31,835
General and administrative allocation	328,348	255,680	1,172,465	-	1,756,493	(2,025,567)	269,074	(1,756,493)	-	-
Total expenses	\$ 895,098	\$ 751,839	\$ 4,052,789	\$ 364,716	\$ 6,064,442	\$ 227,428	\$ 713,484	\$ 940,912	\$ 7,005,354	\$ 6,262,511

See Notes to Financial Statements.

YWCA USA, Inc.

**Notes to Financial Statements
August 31, 2017**

Note 1 - Organization and summary of significant accounting policies

Organization

YWCA USA, Inc. ("YWCA USA") (formerly Young Women's Christian Association of the United States of America, Inc.) was incorporated in 1907 under the laws of the State of New York as a nonprofit corporation to carry out the mission of providing support for the empowerment of women and the elimination of racism. YWCA USA's name change was effective December 15, 2015.

The major programs of YWCA USA are as follows:

Advocacy: Identifies, educates and mobilizes members and supporters on critical legislative and public policy issues and government funding to ensure the interests of YWCA USA are represented before Congress, the White House and government agencies.

Communications: Builds unified corporate identity and visibility. Conveys mission, programs and services of YWCA USA with intentional and coordinated efforts.

Local Initiatives: Provides support to local YWCA associations to further mission impact and business vitality, including: capacity-building training, services and resources; conferences and regular networking; organizational sustainability and growth initiatives; signature outcomes and model programs, and fund- and friend-raising collaborations and opportunities.

Global Initiatives: Promotes partnerships and relationship-building with the World YWCA and other YWCAs worldwide and advocates international public policies consistent with mission.

Basis of accounting

The financial statements of YWCA USA are presented on the accrual basis of accounting and, accordingly, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

Use of estimates

Management uses estimates and assumptions in preparing these financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Income taxes

YWCA USA is exempt from income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Similar to other tax-exempt organizations, YWCA USA is subject to tax on any net unrelated business income.

YWCA USA believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. YWCA USA recognizes interest and penalties related to unrecognized tax benefits, if any, in management and general administrative expenses on the statements of activities and change in net assets.

During the years ended August 31, 2017 and 2016, YWCA USA did not have net taxable income from unrelated business activity; therefore, there is no provision in these financial statements for income taxes or interest and penalties related to unrecognized tax benefits. Tax years prior to 2013 are no longer subject to examination by the IRS or the tax jurisdiction of the District of Columbia.

YWCA USA, Inc.

**Notes to Financial Statements
August 31, 2017**

Cash and cash equivalents

YWCA USA considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash, deposits and money market funds held in investment accounts with investment institutions are classified as cash and cash equivalents on the statements of financial position.

Concentration of risk

YWCA USA maintains balances of cash and cash equivalents in excess of Federal Deposit Insurance Corporation ("FDIC") coverage. The amount of uninsured deposits at August 31, 2017 was approximately \$681,000.

Accounts receivable

YWCA USA records accounts receivable net of allowances for doubtful accounts when necessary. Accounts receivable were \$140,854 and \$69,877 at August 31, 2017 and 2016, respectively. The allowances are determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. As of August 31, 2017 and 2016, management deemed all accounts receivable to be collectible and, as such, no allowance for doubtful accounts has been provided for in these financial statements. Bad debt expense related to accounts receivable was \$5,000 and \$0 as of August 31, 2017 and 2016, respectively.

Pledges receivable

Pledges receivable represent unconditional promises to give from donors to contribute monies to YWCA USA. Unconditional promises to give from donors are recorded when the promise is made. Unconditional promises to give from donors where payments are due in the next year are reflected as current receivables and are recorded at their net realizable amount. Unconditional promises to give from donors where payments are due in the subsequent years are reflected as long-term pledges receivable and are reflected at the present value of their net realizable amounts using a discount rate of 1.44 percent. The amortization of the discount on long-term pledges receivable is recorded as contributions and bequests in the statements of activities and change in net assets. The need for an allowance is determined based on a review of the estimated collectability of specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. As of August 31, 2017 and 2016, management deemed all pledges receivable to be collectible and, as such, no allowance for doubtful accounts has been provided for in these financial statements. Bad debt expense related to pledges receivable was \$0 for each of the years ended August 31, 2017 and 2016.

Investments

Investments are stated at fair value. The valuation of the investments is based upon quotations obtained from national securities exchanges where securities are listed on an exchange, or Net Asset Values ("NAVs") provided by investment managers. Interest and dividend income, and realized and unrealized gain (loss) on investments are recorded as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with the donor's designation. However, interest and dividend income, and realized and unrealized gain (loss) on investments are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the investment earnings are recognized. Management intends to hold investments for long-

YWCA USA, Inc.

**Notes to Financial Statements
August 31, 2017**

term purposes. Investments include funds with an investment manager employing a variety of strategies to achieve investment objectives. Investment objectives are consistent with YWCA USA's Investment Policy. Accrued interest is included in receivables and totaled \$83,460 and \$84,699 as of August 31, 2017 and 2016, respectively.

Property and equipment

Property and equipment in excess of \$1,000 with an estimated useful life of more than one year is capitalized and stated at cost. Depreciation and amortization is provided over the estimated useful lives of the respective assets, ranging between 3 and 40 years, on a straight-line basis. Leasehold improvements are amortized over the shorter of the useful life or the term of the lease.

Revenue recognition

Contributions of cash, other assets and unconditional promises to give are reported as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and change in net assets as net assets released from restrictions. Contributions and bequests and related investment income which are both received and released from restriction in the same year are reported as unrestricted revenue in that year.

Support fees consist of fees from local YWCA associations and are recognized as revenue on a pro rata basis over the period to which the membership relates which coincides with YWCA USA's fiscal year.

Net assets

Unrestricted net assets:

Unrestricted net assets are net assets that are neither temporarily restricted nor permanently restricted by donor stipulations for a time or purpose restriction.

YWCA USA segregates its unrestricted net assets into the following fund categories:

Operating Funds - Represents the portion of expendable funds that are available for support of YWCA USA operations.

Board-Designated Endowment Funds - Represents assets that have been internally designated by the Board of Directors as a general endowment fund to support the mission of YWCA USA. Board-designated endowment net assets were \$53,722,110 and \$50,580,547 at August 31, 2017 and 2016, respectively.

Temporarily restricted net assets:

Temporarily restricted net assets result from contributions and bequests, investment income earned on temporarily restricted contributions, and investment income earned and appropriated from temporarily and permanently restricted endowments. Use of temporarily restricted net assets is limited by donor-imposed purposes or time restrictions that have not yet been fulfilled by actions of YWCA USA pursuant to these stipulations or by the passage of time.

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**Notes to Financial Statements
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Permanently restricted net assets:

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by YWCA USA's actions. The donors of these assets permit YWCA USA to use the income and gains earned on related investments for operations or for specific purposes stipulated by the donors.

Donated services

Donated services are recorded as revenue and expenses at fair value when received and have been presented in the statements of activities and change in net assets as donated services and expensed in the appropriate functional category. These donated services required specialized skills which would typically need to be purchased if not donated. YWCA USA recorded donated services for the years ended August 31, 2017 and 2016 in the amounts of \$50,925 and \$96,758, respectively.

Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Costs incurred by a program service or supporting service are charged directly to that service. Other management and general administrative expenses are allocated based on the percentage of time spent by each person on each service.

Prior year information

The financial statements include certain prior year summarized comparative totals as of and for the year ended August 31, 2016. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended August 31, 2016, from which the summarized information was derived.

Reclassification

Certain reclassifications have been made to the 2016 amounts to conform to the 2017 presentation.

Subsequent events

YWCA USA has evaluated events and transactions for potential recognition or disclosure through January 12, 2018, the date the financial statements were available to be issued.

YWCA USA, Inc.

**Notes to Financial Statements
August 31, 2017**

Note 2 - Pledges receivable

Pledges receivable consist of the following:

	August 31,	
	2017	2016
Pledges receivable in less than one year	\$ 539,810	\$ 67,151
Pledges receivable in one to five years	337,500	-
Total pledges receivable	877,310	67,151
Less: discount to net present value	(1,065)	-
	\$ 876,245	\$ 67,151

Note 3 - Investments

Investments, which include split-interest agreements, consist of the following:

	August 31,	
	2017	2016
Equity securities - domestic	\$ 6,942,240	\$ 6,076,603
Equity securities - foreign	2,738,689	2,783,802
Equities - mutual funds and ETFs	33,682,522	29,283,745
Fixed income - mutual funds and ETFs	6,472,686	6,494,404
Fixed income - U.S. Treasury notes	2,534,135	1,812,497
Fixed income - U.S. Government agency notes	1,637,087	2,157,086
Fixed income - corporate bonds	3,928,755	4,322,258
Real estate funds	1,290,551	1,677,736
Alternative investments	2,428,484	2,343,193
	\$ 61,655,149	\$ 56,951,324

Alternative investments are comprised of an investment in a fund of funds (the "Fund"), which is reported at net asset value. This investment objective is to achieve above-average appreciation by opportunistically trading and investing in a wide variety of securities, instruments, and other investment opportunities and engaging in a broad array of trading and investment strategies. The Fund requires a 60-day prior written notice to redeem all or any portion of its common shares, and redemptions are made as of the last business of any calendar quarter. The minimum redemption amount is \$100,000. Net asset value per share is calculated based on measurement of all the underlying investments in the funds in accordance with FASB Accounting Standards Codification ("FASB ASC") Topic 820, *Fair Value Measurement*. As of August 31, 2017, there are no unfunded commitments.

YWCA USA, Inc.

**Notes to Financial Statements
August 31, 2017**

Investment income consists of the following:

	Year Ended August 31,	
	2017	2016
Interest and dividends	\$ 1,287,251	\$ 1,477,054
Unrealized gains on investments	5,164,820	2,856,281
Realized gains (losses) on investments	192,509	(85,823)
	\$ 6,644,580	\$ 4,247,512

Note 4 - Property and equipment

Property and equipment consist of the following:

	August 31,	
	2017	2016
Building and improvements	\$ 5,205,439	\$ 5,205,439
Leasehold improvements	3,601	1,021
Office furniture and equipment	535,998	314,221
	5,745,038	5,520,681
Less: accumulated depreciation and amortization	(4,098,340)	(3,880,025)
	1,646,698	1,640,656
Land	1,146,065	1,146,065
	\$ 2,792,763	\$ 2,786,721

Note 5 - Split-interest agreements

Pooled income fund

YWCA USA manages a pooled income fund in which it shares a beneficial interest with member YWCAs. The fund is divided into units, and contributions from several donors are pooled. Donors are assigned a specific number of units based on the proportion of the fair market value of their contribution to the total fair market value of the fund. The beneficiary will receive the actual income earned on his or her units during their lifetime. The assets contributed are invested in the fund until the beneficiary's death. At that time, the value of the units assigned to the beneficiary will revert to YWCA USA and its members as specified in the underlying agreement. The fair market value of the pooled income fund as of August 31, 2017 and 2016 was \$662,586 and \$930,428, respectively, and is included in investments on the statements of financial position (see Note 3). The actuarial present value of YWCA USA's interest in such funds as of August 31, 2017 and 2016 was \$534,587 and \$799,207, respectively, and was computed using a discount rate of 2.4 percent and 1.4 percent for the years ended August 31, 2017 and 2016, respectively, compounded annually.

YWCA USA, Inc.

**Notes to Financial Statements
August 31, 2017**

Gift annuities

YWCA USA gift annuity program includes both gift annuities and deferred payment gift annuities. These assets are segregated as separate and distinct funds, independent from other funds and cannot be applied to payment of the debts and obligations of YWCA USA or any other purpose other than annuity benefits specified in the agreements. YWCA USA agrees to pay a stated dollar amount annually to the beneficiaries as long as they live, after which time the remaining assets are available for unrestricted use of YWCA USA. As of August 31, 2017 and 2016, the total assets, at fair market value, were \$67,453 and \$78,465, respectively. The actuarial present value of YWCA USA's interest in such funds as of August 31, 2017 and 2016 was \$32,909 and \$30,321, respectively, and were computed using an interest rate of 2.4 percent and 1.4 percent for the years ended August 31, 2017 and 2016, respectively, compounded annually.

Note 6 - Payable to beneficiaries

In connection with the split-interest agreements, YWCA USA holds certain assets on behalf of member YWCAs. Such amounts are included in investments and in the payable to beneficiaries' liability on the accompanying statements of financial position.

Payable to beneficiaries consists of the following:

	August 31,	
	2017	2016
Payable to beneficiaries	\$ 116,138	\$ 104,396
Payable to member YWCAs	46,405	80,428
	<u>\$ 162,543</u>	<u>\$ 184,824</u>

The amount payable to beneficiaries is the present value of the expected future cash flows to be paid to the beneficiaries. The amount payable to member YWCAs is the shared beneficial interest due to member YWCAs.

Note 7 - Leadership development center

In fiscal year 2001, YWCA USA, as lessor, entered into a non-cancelable operating lease for the Leadership Development Center facility, expiring in June 2011. During the year ended August 31, 2011, the lease was amended and extended through July 31, 2019. The amendment included "renewal term improvement credits," whereby the tenant will pay for certain improvements in exchange for rent for the duration of the lease. The total amount of improvements that YWCA USA has received is approximately \$1.2 million. Rental income under this arrangement is recognized based on straight-line amortization of the amount of the improvements over the extended lease term. Deferred rental income represents the amount of the improvements provided by the tenant, net of rental income recognized to date.

For the years ended August 31, 2017 and 2016, total rental income was \$160,000 and \$162,750, respectively, and is included in net Leadership Development Center revenue in the accompanying statements of activities and change in net assets.

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**Notes to Financial Statements
August 31, 2017**

Note 8 - Retirement plan

YWCA USA participates in the Young Women's Christian Association Retirement Fund, Inc.'s (the "Retirement Fund") multiemployer sponsored cash balance defined-benefit pension plan (the "Plan"). The Retirement Fund is a separate legal entity from YWCA USA. Employees are eligible to participate in the Plan after meeting certain service requirements. Participants are 100 percent vested immediately upon enrollment into the Plan. An employer's risks of participating in a multiemployer plan are different from a single employer plan in that the assets contributed to a multiemployer plan may be used to provide benefits to employees of other participating employers; and if a participating employer stops contributing to the Plan, unfunded obligations, if any, of the Plan may be borne by the remaining participating employers.

For the years ended August 31, 2017 and 2016, YWCA USA's contributions to the Retirement Fund at a rate of 7.5 percent of compensation, were \$101,543 and \$99,874, respectively.

Note 9 - Commitments

YWCA USA was a lessor of office space in Washington, DC under an amended lease that ran through February 28, 2017. In August 2016, YWCA USA signed a second amendment to the sublease, which had an effective date of September 1, 2016 and an expiration date of February 28, 2017. YWCA USA terminated the lease in November 2016 by providing proper notice as provided for under the amended lease.

In October 2016, YWCA USA entered into a lease agreement for office space in Washington, DC. The lease term runs from December 1, 2016 through November 30, 2021, with a renewal option of two additional years. The lease contains a clause for additional rent payments in lieu of YWCA USA's pro rata share of operating expenses and real estate taxes.

Minimum rental payments on an annual basis are as follows:

<u>Year Ending August 31,</u>	
2018	\$ 150,799
2019	154,946
2020	159,207
2021	163,586
2022	<u>41,172</u>
	<u>\$ 669,710</u>

Rent expense for the years ended August 31, 2017 and 2016 was \$220,347 and \$347,524, respectively.

In September 2013, YWCA USA entered into an indemnification agreement, whereby YWCA USA has a total indemnification obligation up to \$750,000. No claims for indemnification have been made under this agreement through the date these financial statements were available to be issued and no amounts have been recorded in these financial statements related to any potential indemnification obligation.

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Note 10 - Risks and uncertainties

YWCA USA invests in a variety of investment vehicles, including, but not limited to U.S. and international mutual funds and exchange-traded funds, equity securities, fixed income securities, and other investments. Such investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to the changes in value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect the investment balances.

Note 11 - Temporarily restricted net assets

As of August 31, 2017 and 2016, temporarily restricted net assets were available for the following purposes:

	August 31,	
	2017	2016
Scholarships	\$ 504,775	\$ 411,924
Domestic training	1,254,309	227,541
International training	607,351	487,620
International travel	440,828	326,792
Word service council	297,963	315,911
Split-interest agreements	525,269	793,102
Other	428,201	223,180
	<u>\$ 4,058,696</u>	<u>\$ 2,786,070</u>

For the years ended August 31, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

	Year Ended August 31,	
	2017	2016
Scholarships	\$ 10,391	\$ 2,946
International training	53,598	51,382
Word service council	99,212	92,247
Split-interest agreements	283,493	-
International/foreign workers	-	195,303
Other	177,900	196,334
	<u>\$ 624,594</u>	<u>\$ 538,212</u>

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Note 12 - Permanently restricted net assets

Permanently restricted net assets consisted of the following as of August 31, 2017 and 2016:

	August 31,	
	2017	2016
Scholarships	\$ 644,000	\$ 644,000
Domestic training	302,233	302,233
International training	1,283,067	1,283,067
International travel	840,208	840,208
World relations	200,000	200,000
General operations	2,755,768	2,755,768
Other	575,283	575,283
	<u>\$ 6,600,559</u>	<u>\$ 6,600,559</u>

Note 13 - Endowments

YWCA USA's endowment consists of funds established for a variety of purposes. Its endowments consist of both donor-restricted endowment funds and funds designated by the Board of Directors to function as a quasi-endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

Effective September 17, 2010, YWCA USA became subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted by the State of New York ("NYPMIFA"). YWCA USA classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. 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 purpose and timing restrictions are met and amounts are appropriated for expenditure by YWCA USA. In accordance with NYPMIFA, YWCA USA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The preservation of YWCA USA and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of YWCA USA;

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- (7) An asset's special relationship or special value, if any, to the purposes of YWCA USA;
- (8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the Endowment Fund, giving due consideration to the effect that such alternatives may have on YWCA USA; and
- (9) The investment policies of YWCA USA.

Funds with deficiencies

From time-to-time, the fair value of the assets associated with individual donor-restricted endowments may fall below the level that the donor or NYPMIFA requires YWCA USA to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, appropriations to fund the deficiencies come first from temporarily restricted balances not appropriated and then unrestricted net assets. If losses reduce the net assets of a donor-restricted endowment fund below the level required by the donor stipulations or the law, gains that restore the fair value of the net assets of the endowment fund to the required level shall be classified as increases in unrestricted net assets. There were no deficiencies of this nature at August 31, 2017 and 2016.

Return objectives and risk parameters

YWCA USA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by endowments. The endowment assets are invested in a manner that is intended to achieve appreciation of assets without exposure to undue risk.

To satisfy its long-term rate-of-return objectives, YWCA USA 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). YWCA USA 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.

Spending policy

YWCA USA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that YWCA USA must hold in perpetuity or for donor specified periods, as well as board endowment funds. With respect to the appropriation for expenditure or accumulation of a donor restricted endowment fund, subject to the intent of a donor expressed in the gift instrument, and subject to the timely direction of a donor that YWCA USA not spend below the original dollar value of a gift made prior to September 17, 2010, YWCA USA may appropriate for expenditure or accumulate so much of the donor restricted endowment fund as YWCA USA determines is prudent for the uses, benefits, purposes, and duration for which each of the donor restricted endowment funds is established.

YWCA USA adopted a policy of budgeting for distribution of 5 percent of its Board Designated Endowment Fund's moving average fair value over the prior 12 quarters in the preceding fiscal years in which the distribution is planned. In establishing this policy, YWCA USA considered the long-term expected returns on its Board Designated endowment funds. This distribution formulation was selected as it is highly-likely to generate a gradually increasing payout amount each year. This is consistent with YWCA USA's objective to maintain the purchasing power of the endowment

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assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

YWCA USA expects its endowment assets, over a market cycle, to return at least a nominal payout percentage (defined as the actual payout amount as a percentage of the current market value of the fund) on the current market value plus the annual rate of inflation. Actual returns in any given year may vary from this amount.

Endowment net asset composition by type of fund as of August 31, 2017 and 2016 was as follows:

August 31, 2017	Board-Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,225,464	\$ 6,600,559	\$ 8,826,023
Board-designated endowment funds	<u>53,722,110</u>	<u>-</u>	<u>-</u>	<u>53,722,110</u>
	<u>\$ 53,722,110</u>	<u>\$ 2,225,464</u>	<u>\$ 6,600,559</u>	<u>\$ 62,548,133</u>
August 31, 2016				
Donor-restricted endowment funds	\$ -	\$ 1,660,932	\$ 6,600,559	\$ 8,261,491
Board-designated endowment funds	<u>50,580,547</u>	<u>-</u>	<u>-</u>	<u>50,580,547</u>
	<u>\$ 50,580,547</u>	<u>\$ 1,660,932</u>	<u>\$ 6,600,559</u>	<u>\$ 58,842,038</u>

Changes in endowment net assets for the years ended August 31, 2017 and 2016 were as follows:

	Board-Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, August 31, 2015	\$ 48,889,923	\$ 1,351,354	\$ 6,600,559	\$ 56,841,836
Contributions	706,567	-	-	706,567
Investment income				
Interest and dividends	1,300,025	177,029	-	1,477,054
Realized and unrealized gains	<u>2,364,243</u>	<u>338,687</u>	<u>-</u>	<u>2,702,930</u>
Total investment income	3,664,268	515,716	-	4,179,984
Appropriation for expenditure	(2,680,211)	(206,138)	-	(2,886,349)
Release to undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, August 31, 2016	50,580,547	1,660,932	6,600,559	58,842,038
Contributions	67,535	-	-	67,535
Investment income				
Interest and dividends	1,117,730	169,294	-	1,287,024
Realized and unrealized gains	<u>4,664,542</u>	<u>636,002</u>	<u>-</u>	<u>5,300,544</u>
Total investment income	5,782,272	805,296	-	6,587,568
Appropriation for expenditure	(2,708,244)	(240,764)	-	(2,949,008)
Release to undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, August 31, 2017	<u>\$ 53,722,110</u>	<u>\$ 2,225,464</u>	<u>\$ 6,600,559</u>	<u>\$ 62,548,133</u>

During the years ended August 31, 2017 and 2016, YWCA USA did not release any board designated unrestricted net assets to unrestricted net assets.

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Note 14 - Fair value measurement

YWCA USA has determined the fair value of certain assets through FASB Accounting Standards Codification ("FASB ASC") Topic 820, *Fair Value Measurement*. Fair values of assets measured on a recurring basis at August 31, 2017 and 2016 are as follows:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>August 31, 2017</u>				
<u>Assets</u>				
Equity securities - domestic	\$ 6,942,240	\$ 6,942,240	\$ -	\$ -
Equity securities - foreign	2,738,689	2,738,689	-	-
Equities - Mutual Funds and ETFs	33,682,522	33,682,522	-	-
Fixed Income - Mutual Funds and ETFs	6,472,686	6,472,686	-	-
Fixed income - U.S. Treasury notes	2,534,135	-	2,534,135	-
Fixed income - U.S. Government agency notes	1,637,087	-	1,637,087	-
Fixed income - corporate bonds	3,928,755	-	3,928,755	-
Real estate funds	1,290,551	1,290,551	-	-
Alternative investment	2,428,484	-	-	2,428,484
Total assets	\$ 61,655,149	\$ 51,126,688	\$ 8,099,977	\$ 2,428,484
<u>Liabilities</u>				
Payable to beneficiaries	\$ 162,543	\$ -	\$ 162,543	\$ -
<u>August 31, 2016</u>				
<u>Assets</u>				
Equity securities - domestic	\$ 6,076,603	\$ 6,076,603	\$ -	\$ -
Equity securities - foreign	2,783,802	2,783,802	-	-
Equities - Mutual Funds and ETFs	29,283,745	29,283,745	-	-
Fixed Income - Mutual Funds and ETFs	6,494,404	6,494,404	-	-
Fixed income - U.S. Treasury notes	1,812,497	-	1,812,497	-
Fixed income - U.S. Government agency notes	2,157,086	-	2,157,086	-
Fixed income - corporate bonds	4,322,258	-	4,322,258	-
Real estate funds	1,677,736	1,677,736	-	-
Alternative investment	2,343,193	-	-	2,343,193
Total assets	\$ 56,951,324	\$ 46,316,290	\$ 8,291,841	\$ 2,343,193
<u>Liabilities</u>				
Payable to beneficiaries	\$ 184,824	\$ -	\$ 184,824	\$ -

The FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide the highest quality inputs; Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets in active or inactive markets or other significant market observable inputs; Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. YWCA USA uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, YWCA USA measures fair value using Level 1 inputs

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because they generally provide the most reliable evidence of fair value. There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach.

Investment in alternative investments consist of private investment funds, which meet the criteria under GAAP for investments that calculate net asset value per share. The net assets of alternative investments are valued based on each underlying investment within the alternative investment funds, incorporating valuations that consider the ownership interest and financial position of the alternative investment funds, and changes in equity and fixed income markets, among other factors.

The following table reconciles the changes in Level 3 assets at fair value for the year ending August 31, 2017:

Balance at August 31, 2016	\$ 2,343,193
Purchases	-
Gains and Losses	<u>85,291</u>
Balance at August 31, 2017	<u><u>\$ 2,428,484</u></u>