Kishwaukee Family YMCA

DeKalb, Illinois

Financial Report

Years Ended December 31, 2019 and 2018

WIPFLI

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Independent Auditor's Report

To the Board of Directors
Kishwaukee Family YMCA
Rockford, Illinois

We have audited the accompanying financial statements of Kishwaukee Family YMCA (the "Association"), which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kishwaukee Family YMCA as of December 31, 2019 and 2018, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Association adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities-Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended December 31, 2018. The ASU has been applied on a retrospective basis with the exception of the omission of certain information as permitted by the ASU.

Wipfli LLP

Wipfli LLP

July 21, 2020
Rockford, Illinois

Kishwaukee Family YMCA

Statements of Financial Position

December 31, 2019 and 2018

	2019	2018
Assets		
Cash on hand	$ 400	$ 400
Cash and cash equivalents	245,229	263,154
Restricted cash - campaign	21,400	22,003
Cash in certificate of deposit	153,721	150,000
Inventory	1,000	-
Investments - DCCF	36,528	33,986
Pledges receivable	9,000	31,040
Accounts receivable - operations	47,561	20,159
Total current assets	514,839	520,742
Property and Equipment - Net	6,636,204	5,386,166
Total assets	$ 7,151,043	$ 5,906,908
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 64,461	$ 43,936
Member overpayments	125	6,124
Accrued expenses payable	172,621	89,088
Deferred revenue	60,964	48,112
Capital lease obligations	55,957	41,475
Notes payable	59,598	-
Mortgage payable	133,825	94,865
Total current liabilities	547,551	323,600
Long-term liabilities:		
Capital lease obligations, less current maturities	130,795	14,489
Long-term debt, less current maturities	1,887,162	1,850,777
Total liabilities	2,565,508	2,188,866
Net Assets:		
Without donor restrictions	4,454,506	3,606,332
With donor restrictions	131,029	111,710
Total net assets	4,585,535	3,718,042
Total liabilities and net assets	$ 7,151,043	$ 5,906,908

See accompanying notes to financial statements.

Kishwaukee Family YMCA

Statements of Activities

Years Ended December 31,	2019	2018
Net Assets Without Donor Restrictions		
Revenue, Gains, and Other Support		
Contributions	$ 423,848	$ 308,720
Inherent contribution	1,033,128	-
United Way Allotments	6,417	6,500
Regular Membership	1,818,133	2,122,506
Program Fees	1,187,733	1,154,563
Service Fees	35,601	64,137
Investment income	6,147	-
Gain (loss) on disposal of fixed assets	(79,436)	-
Sales to Public Net	(3,861)	(2,972)
Total revenue, gains, and other support	4,427,710	3,653,454
Net assets released from donor restriction	47,678	2,500
Total revenues, gains, other support and net assets released from restrictions	4,475,388	3,655,954
Expenses		
Program Services Expense	2,848,472	2,779,222
Support services - management and general	625,143	617,904
Support services - fundraising	92,705	145,511
Total program and Support services	3,566,320	3,542,637
Fair Share		
Fair share to YMCA of USA	60,894	62,113
Total fair share	60,894	62,113
Total expenses	3,627,214	3,604,750
Change in Net Assets Without Donor Restrictions	848,174	51,204
Net Assets with Donor Restrictions		
Contributions	66,997	20,000
Net assets released from restrictions	(47,678)	(2,500)
Change in Net Assets With Donor Restrictions	19,319	17,500
Total Change in Net Assets	867,493	68,704
Net Assets, Beginning of Year as Restated	3,718,042	3,649,338
Net Assets, End of Year	$ 4,585,535	$ 3,718,042

See accompanying notes to financial statements.

Kishwaukee Family YMCA

Statements of Cash Flows

Years Ended December 31,		2019		2018
Cash Flows From Operating Activities				
Change in Net Assets	$	867,493	$	68,704
Adjustments to reconcile change in net assets to cash provided by operating activities:				
Depreciation		409,113		399,908
Noncash inherent contributions		(1,033,128)		-
Net (increase) decrease in current assets other than cash		(8,904)		19,242
Net increase (decrease) in current liabilities other than bank loans		110,911		(16,896)
Loss (gain) on sale of fixed assets		79,436		-
Net cash provided by operating activities		424,921		470,958
Cash Flows From Investing Activities				
Purchase of property and equipment		(705,460)		(173,702)
Net cash (used in) investing activities		(705,460)		(173,702)
Cash Flows From Financing Activities				
Borrowings from capital lease		174,815		-
Principal payments on capital lease		(44,027)		(98,221)
Borrowings from line of credit		54,198		-
Borrowings from long-term bank loans		181,189		-
Principal payments on long-term bank loans		(100,443)		(91,353)
Net cash (used in) financing activities		265,732		(189,574)
Net Increase (Decrease) in Cash and Cash Equivalents		(14,807)		107,682
Cash and Cash Equivalents - beginning of year		435,557		327,875
Cash and Cash Equivalents - end of year	$	420,750	$	435,557
Supplemental cash flow disclosures:				
Cash paid for interest	$	77,073	$	81,221

A capital lease obligation of $174,815 was incurrend when the Association entered into a lease for equipment in 2019.

Kishwaukee Family YMCA
Statements of Cash Flows(Continued)

Cash and cash equivalents are presented in the Statement of Financial Position for the years ended December 31, as follows:

Years Ended December 31,	2019	2018
Cash on hand	$ 400	$ 400
Cash and cash equivalents	245,229	263,154
Restricted cash - campaign	21,400	22,003
Cash in certificate of deposit	153,721	150,000
Total	$ 420,750	$ 435,557

The Association acquired Rochelle Daycare during fiscal year ending December 31, 2019. In conjunction with the acquisition, liabilities were assumed and a contribution was received from Rochelle Daycare as follows:

Years Ended December 31,	2019
Fair value of assets acquired	$ 1,347,800
Liabilities assumed	(314,672)
Contribution received in acquisition of Rochelle Daycare	$ 1,033,128

See accompanying notes to financial statements.

Kishwaukee Family YMCA

Statements of Functional Expenses

Years Ended December 31, 2019	Program Services	Management and General	Fundraising	Total
Other program expenses	$ 240,117	$ -	$ -	$ 240,117
Salaries and wages - Other	1,496,333	308,268	58,148	1,862,749
Payroll taxes	114,109	20,549	4,297	138,955
Workers compensation	17,309	3,055	-	20,364
Health insurance	65,850	11,859	2,480	80,189
Fundraising expense	-	-	27,179	27,179
Retirement plan contributions	52,274	8,298	-	60,572
Other employee expenses	23,981	3,979	-	27,960
Utilities	186,533	29,612	-	216,145
Janitorial expenses	19,453	3,088	-	22,541
Maintenance contract	44,570	7,075	-	51,645
Maintenance repairs	41,076	6,521	-	47,597
Supplies	53,476	5,548	-	59,024
Postage and shipping	3,093	491	-	3,584
Dues and subscriptions	-	3,614	-	3,614
Contract services	-	55,091	-	55,091
Conferences, conventions and meetings	15,948	2,873	601	19,422
Bank charges	-	29,324	-	29,324
Insurance	29,698	4,714	-	34,412
Bad debt expense	-	-	-	-
Interest expense	66,514	10,559	-	77,073
Equipment expense	6,419	1,019	-	7,438
Printing and publications	13,861	2,200	-	16,061
Telephone	10,112	1,605	-	11,717
Software support	-	44,434	-	44,434
Total expense before depreciation	2,500,726	563,776	92,705	3,157,207
Depreciation	347,746	61,367	-	409,113
Total functional expenses	$ 2,848,472	$ 625,143	$ 92,705	$ 3,566,320

See accompanying notes to financial statements.

Kishwaukee Family YMCA

Statements of Functional Expenses

Years Ended December 31, 2018	Program	Management and General	Fundraising	Total
Other program expenses	$ 250,890	$ -	$ -	$ 250,890
Salaries and wages - Other	1,407,431	292,765	68,875	1,769,071
Payroll taxes	109,760	22,831	5,371	137,962
Workers compensation	26,160	4,616	-	30,776
Health insurance	67,860	14,116	3,321	85,297
Fundraising expense	-	-	67,483	67,483
Retirement plan contributions	48,314	7,670	-	55,984
Other employee expenses	30,407	4,827	-	35,234
Utilities	192,024	30,484	-	222,508
Janitorial expenses	21,024	3,337	-	24,361
Maintenance contract	36,772	5,838	-	42,610
Maintenance repairs	40,458	6,423	-	46,881
Supplies	63,868	6,626	-	70,494
Postage and shipping	3,238	514	-	3,752
Dues and subscriptions	-	5,040	-	5,040
Contract services	-	55,145	-	55,145
Conferences, conventions and meetings	9,428	1,961	461	11,850
Bank charges	-	31,914	-	31,914
Insurance	25,931	4,117	-	30,048
Bad debt expense	-	-	-	-
Interest expense	70,094	11,127	-	81,221
Office equipment expense	11,315	1,796	-	13,111
Printing and publications	16,928	2,687	-	19,615
Telephone	7,398	1,175	-	8,573
Software support	-	42,909	-	42,909
Total expense before depreciation	2,439,300	$ 557,918	$ 145,511	$ 3,142,729
Depreciation	339,922	59,986	-	399,908
Total functional expenses	$ 2,779,222	$ 617,904	$ 145,511	$ 3,542,637

See accompanying notes to financial statements.

Note 1: Summary of Significant Accounting Policies

Nature of Activities

The Kishwaukee Family YMCA (Association) is a nonprofit corporation organized under the laws of the State of Illinois for the purpose of providing health and welfare facilities, programs, and services. The Association is a member of the national YMCA of which it pays dues annually to support the operations of this National Council. The Association primarily serves residents of Dekalb County, Illinois. The mission is to promote Christian principles by enriching the spirit, mind and body of all those in our community, especially families and children, regardless of ability to pay. The Kishwaukee Family YMCA builds Strong Kids, Strong Families and Strong Communities. The Association's programs focus on four core values-caring, honesty, respect, and responsibility. It serves men, women, and children of all ages, abilities, incomes, races, and religions. It provides financial assistance to those who need it. It identifies needs within the community and responds to them so that the entire community benefits from its efforts. The majority of its funding comes from membership and program fees, contributions, and endowments.

Fund Accounting

The accounts of the Association are organized on the basis of funds, each of which is considered a separate entity. The Operating Funds are used to record normal operating revenues and disbursements and for various special purposes. The Capital Campaign Funds are used to track contributions relating to facility equipment and grounds improvements.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Donated Services

Standards state that for donated services to be recognized in the financial statements, the services must either (a) create or enhance a non-financial asset or (b) be specialized skills, provided by entities or persons possessing those skills that would be purchased if not donated. For the years ending December 31, 2019 and 2018, there were no donations meeting the above criteria.

The Association receives donated services generally in the form of contributed time by volunteers. However, these donated services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services.

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Association includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid investments with a maturity of three months or less as cash and cash equivalents.

Investments

Investments are stated at the year end market value. Unrealized gain or loss on the year end aggregate market value of the investments is reflected in the current year's activity. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Pledges Receivable

Pledges made to the Association are recorded as receivables in the year the pledge was made. Pledges and other promises to give whose eventual uses are restricted by the donor are recorded as increases in temporarily restricted net assets. Unrestricted pledges to be collected in future periods are also recorded as an increase in temporarily restricted net assets and reclassified to unrestricted net assets when received.

Pledges to give are reported in the statement of financial position net of unamortized discounts and an allowance for uncollectible pledges. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows using a discount rate that approximates the rate of government securities. Amortization of the discount is recorded as an increase or decrease in contribution revenue. An allowance for uncollectible accounts is determined by management based on past collection history. There was no allowance for uncollectible accounts as of December 31, 2019 and 2018.

Accounts Receivable

Accounts receivable are generally uncollateralized client obligations net of allowances for uncollectible accounts. Management individually reviews all past due accounts receivables and estimates the portion, if any, of the balance that will not be collected. Management believes all accounts receivables currently shown to be collectible.

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Association, as a nonprofit charitable organization, is exempt from federal income taxes under Internal Revenue Code Section (501)(c)(3).

The Association accounts for income taxes in accordance with Financial Accounting Standards Board *Accounting for Uncertainty Income Taxes*. The standard provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements and requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Association had determined there are no amounts to record as assets or liabilities related to uncertain tax positions. The federal forms (Form 990) remain open for examination by taxing authorities through their statutory periods.

Net Assets

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

Net assets without donor restrictions: net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions: net assets subject to donor or certain grantor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be net by the passage of time, long-lived assets placed in service, or other events specified by the donor. Other explicit donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Deferred revenue represents membership dues, program fees, and grants which have been received, but for which the prescribed services have not yet been completed. These fees will be recognized in income when these services are provided.

Revenue Recognition

The YMCA has multiple revenue streams that are accounted for as reciprocal exchange transactions including membership and program fees. Contributions are recorded as revenue when an unconditional promise to give has been made. Contributions are recorded as with donor restrictions or without donor restriction, depending on donor intent. Membership revenue, program fees, and daycare fees are recognized evenly over the period of membership and programs.

Because the YMCA's performance obligations relate to contracts with a duration of less than one year, the YMCA has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), *Revenue from Contracts with Customers*, and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. There are no incremental costs of obtaining a contract and no significant financing components.

<u>Membership dues and program fees</u>: Membership dues and program fees consist of amounts that families and individuals pay to participate in health, fitness, education and recreation activities and programs. Members join for varying lengths of time. Members generally pay a onetime joining fee plus monthly dues in advance. Memberships provide use of the recreation facilities, access to free classes, programs and activities, and discounts to fee-based programs. The YMCA offers a variety of programs including family, child care, day camp, resident camp, teen, scholastic, fitness, aquatics, health, immigration, and international services. Fee-based programs are available to the public. Program fees for short duration programs of two months or less, such as aquatics classes, are typically paid in advance at the time of registration. Program fees for longer duration programs, such as fee-based childcare, are usually paid monthly in advance. Cancellation provisions vary by program, but most transactions are not cancelable. Refunds may be available for services not provided. Financial assistance is available to members and program participants. Such financial assistance is reflected as a reduction of gross membership dues and program fees.The YMCA has multiple revenue streams that are accounted for as reciprocal exchange transactions including membership and program fees, residence program and related services, and government contract revenues

Membership dues and program fees are recognized ratably over the period the membership or program service is provided on a straight-line basis in an amount that reflects the consideration the YMCA expects to be entitled to in exchange for those services. All the YMCA's revenue from contracts with customers are from performance obligations satisfied over time. Prices are specific to a distinct performance obligation and do not consist of multiple transactions. Membership joining fees are ratably recognized over a one-year period from the membership start date.

Membership dues and program fees paid to the YMCA in advance represent contract liabilities and are recorded as other deferred revenue. Amounts billed but unpaid are contract assets and recorded as accounts receivables.

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Because the YMCA's performance obligations relate to contracts with a duration of less than one year, the YMCA has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), *Revenue from Contracts with Customers*, and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. There are no incremental costs of obtaining a contract and no significant financing components.

Government Contract Revenues: The YMCA has contracts with city, state, and federal agencies to provide a variety of program services to the public based on contract requirements. Such contracts from government agencies are recorded as revenue as performance obligations are satisfied, which is generally when the related expenditures are incurred over the period the service is provided.

Advances are recorded as deferred revenue from government contracts upon receipt. Included in government receivables are contract assets for unbilled services and receivables for billed unpaid services.

For government receivables, the allowance for doubtful accounts is determined by a monthly and semi-annual review of account balances, including the age of the balance, historical collection experience and specific identification of uncollectible accounts. Uncollectible receivables are charged to the allowance. An expense is recorded at the time the allowance is adjusted.

Change in Accounting Policies

In 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-profit Entities. This ASU provides for certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance was adopted effective January 1, 2018.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers Topic (606)*. This ASU supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The YMCA adopted this ASU on January 1, 2019.

The YMCA implemented ASU 2014-09 using a full retrospective method of application. The adoption of ASU 2014-09 resulted in changes to the disclosure of revenue. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2014-09. As a result, no cumulative effect adjustment was recorded upon adoption.

In June 2018, the FASB issued (ASU) 2018-08, *Not-for-Profit Entities: Topic 958*. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Policies (Continued)

606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The YMCA adopted this ASU on January 1, 2019.

The YMCA implemented ASU 2018-08 using a full retrospective method of application. The adoption of ASU 2018-08 resulted in changes to the disclosure of revenue. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2018-08. As a result, no cumulative effect adjustment was recorded upon adoption.

Pending Accounting Pronouncements

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting on leasing transactions. ASU 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and finance leases under terms greater than 12 months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. ASU 2016-02 must be applied modified retrospectively. Management is evaluating what impact this new standard will have on its financial statements.

Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure in the financial statements through July 21, 2020, which is the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. Later, on March 11, 2020, the World Health Organization made the assessment that COVID-19 was a global health pandemic.

The YMCA primarily provides in-person programming, thus the outbreak of COVID-19 may adversely impact the ability of the YMCA to conduct its operations and/or the cost of operations. The global outbreak of COVID-19 continues to rapidly evolve, and the ultimate impact of the pandemic is highly uncertain. To date, management has applied for and received a $400,705 forgivable loan under the Paycheck Protection Program of the CARES Act, applied for an SBA Emergency Disaster Loan, and drawn on its available line of credit to manage cash flows and meet expenditures as they come due. The YMCA will continue to work with its stakeholders to develop solutions and strategies for addressing these financial and operational challenges, though the outcome of these matters cannot be predicted at this time.

Note 2: Liquidity and Availability of Financial Assets

The Association monitors its liquidity so that it is able to meet its operating needs and other grant commitments while maximizing the investment of its excess operating cash. The YMCA has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

	2019	2018
Cash and cash equivalents	$ 245,229	$ 263,154
Accounts receivable - operations	47,561	20,159
Total	$ 292,790	$ 283,313

The YMCA meets general expenditures over the year by collecting sufficient revenues from membership, programs and donations. The statement of cash flows identifies the sources and uses of the YMCA's cash and shows positive cash generated by operations of $424,921 and $470,958 for fiscal years ending Years Ended December 31, 2019 and 2018 , respectively.

Note 3: Changes in Fixed Assets

Marketable securities consist of the following as of December 31:

	2018	Additions	Disposals	2019
Land	$ 61,654	$ 101,428	$ -	$ 163,082
Buildings and improvements	10,085,927	1,395,100	(144,857)	11,336,170
Equipments	1,138,344	242,060	(158,953)	1,221,450
Total	11,285,925	1,738,588	(303,810)	12,720,702
Less accumulated depreciation and amortization	5,899,759	409,113	(224,374)	6,084,498
Total	$ 5,386,166	$ 1,329,475	$ (79,436)	$ 6,636,204

Improvements and equipment over $2,000 are capitalized at cost. Purchases under $2,000 are expensed as maintenance and repair. Donated assets are capitalized at fair market value as of the date received. Depreciation and amortization is provided over the estimated useful lives of the assets on the straight-line method. Buildings and improvements are depreciated over 15 - 40 years, equipment is depreciated over 3 - 10 years, and leasehold improvements are amortized over 20 years.

Depreciation expense for December 31, 2019 and 2018 was $409,113 and $399,908, respectively.

Note 4: Pledges

Pledges receivable consist of the following as of December 31:

Years Ended December 31,		2019		2018
Less than one year	$	9,000	$	31,040
One to five years		-		-
Pledges receivable	$	9,000	$	31,040

Note 5: Notes Payable

On May 2, 2013, the Association obtained a loan from National Bank and Trust Company of Sycamore, Illinois in the amount of $2,357,000. The note matures on August 2, 2027 with an interest rate of 3.95% until August 2, 2020, at which time it will adjust. Monthly payments of $14,265.52, including interest, began September 2, 2013. The balance due as of December 31, 2018 was $1,945,462. The balance due as of December 31, 2019 was $1,850,558.

During 2011, the Association obtained a $200,000 Line of Credit from National Bank and Trust Company of Sycamore, Illinois. The Line of Credit matures September 10, 2020 with an interest rate of 5.25%. The balance due as of December 31, 2019 and 2018 was $0.

On December 1, 2019, the Association acquired the assets and liabilities of Rochelle Daycare. The Association assumed liability of the mortgage with Stillman Banccorp N.A. The note requires monthly payments of $3,478 including interest at the rate of 4.25% per annum and matures June 23, 2024. The balance on the mortgage was $167,979 as of December 31, 2019 and was refinanced into a new loan subsequent to year end. The Association assumed a loan with Stillman Banccorp N.A. in the amount of $6,198 with interest at a rate of 2.25% above the Wall Street Prime Rate and was refinanced into a new loan subsequent to year end. The Association assumed a loan with Central Bank Illinois which matures on August 25, 2022. The note requires monthly payments of $117, including 0% per annum interest rate. The balance on the note was $3,850 as of December 31, 2019. The Association assumed a loan from an individual in the amount of $6,000 at 0% interest. During the year ended December 31, 2019, $2,000 of this loan was forgiven and the balance on the note was $4,000 as of December 31, 2019. This is a non interest bearing note and is due on demand.

On December 1, 2019, the Association assumed a line of credit with Stillman Banccorp N.A. in the amount of $48,000 with interest at 2.25% above Wall Street Prime rate with an initial interest rate of 7.75%. The effective Wall Street Prime rate at December 31, 2019 was 4.75 %. The line of credit matures on December 15, 2019 and was refinanced into a new loan subsequent to year end. The line of credit is collateralized by all assets of the Association. The Association had an outstanding balance of $48,000 as of December 31, 2019.

On January 31, 2020, the three loans at Stillman Banccorp N.A. in the amount of $167,979, $48,000, and $6,198 were refinanced into a new mortgage loan.

Note 5: Notes Payable (Continued)

Estimated annual principal payments for each of the next five years are:

2020	$ 198,423
2021	140,981
2022	146,419
2023	151,396
2024	133,028
Thereafter	1,315,338
Total	$ 2,085,585

Note 6: Leases

Capital Leases

The Association has capital lease agreements with an imputed interest rate ranging from 4.33% to 5.297%. Monthly payments of principal and interest range from $625 to $4,493 with a balloon payment of $25,000 paid in 2019 funded by a contribution. The assets and liabilities under capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The net capitalized cost of the leased property at December 31, 2019 and 2018 was $252,368 and $76,878, respectively. Assets are amortized over their estimated productive lives, for leases that transfer ownership or contain bargain purchase clauses. Amortization expense on capital leases is included in depreciation expense. Accumulated amortization was $37,935 and $24,432 as of December 31, 2019 and 2018, respectively.

Operating Leases

The Association leases various office and fitness equipment. These leases are accounted for as operating leases. Rent expense on the operating leases was $7,438 and $13,111 for the years ended December 31, 2019 and 2018, respectively.

The following is a schedule of future minimum lease payments under all leases with an initial term in excess of one year at December 31, 2019:

	Capital Leases	Operating Leases
2020	$ 63,021	$ 6,970
2021	61,421	6,970
2022	53,921	6,970
2023	22,467	5,809
Total future minimum lease payments	200,830	$ 26,719
Less - Amount representing interest	(14,078)	
Present value of future minimum lease payments	186,752	
Less - current portion	(55,957)	
Long-term capital lease obligation	$ 130,795	

Note 7: Fees to National Office

In accordance with the affiliation agreement between the Association and its National Office, $60,894 and $62,113 from the General Operating funds was remitted to the National Office for support of national research and other activities during 2019 and 2018, respectively.

Note 8: Pension Plan

The Association is a participant in the YMCA Retirement Fund. The Fund provides defined contribution, money purchase pension plans and serves YMCA Associations only. Each employee who has worked over 1,000 hours during the year, has been employed for two full years, and is 21 years of age or older is required to participate by contributing a minimum of 5% of their wages to the plan. The Association is required to contribute 7% of each qualified employee's wages. Normal retirement is at age 60 with early retirement at age 55 with five years of service.

For the years ending December 31, 2019 and 2018, the Association contributed $60,572 and $55,984 to the plan, respectively .

Note 9: Concentration of Credit Risk

At various times during the year ended December 31, 2019, the bank balances exceeded FDIC insurance.

Note 10: Investments

The investments of the YMCA are handled by the Investment Advisors of the Dekalb County Community Foundation (DCCF). The YMCA funds are accounted for separately on the books of the DCCF and have an annual audit of their records. YMCA funds are invested along with other entities that are part of DCCF. The Association's investments are presented in the financial statements in the aggregate at their fair market value as determined by the recognized exchanges. The following were the investment balances as of December 31:

	2019	
	Cost	**Market Value**
Investments	$36,528	$36,528

	2018	
	Cost	**Market Value**
Investments	$33,986	$33,986

Note 11: Fair Value

Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy under *Fair Value Measurements* are described as follows:

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

Level 2: Inputs to the valuation methodology include; quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable market data by correlation or other means.

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

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

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

Note 11: Fair Value (Continued)

The following table presents the Association's approximate fair value hierarchy for the assets measured at fair value on a recurring basis at December 31:

		2019		
Description	Fair Value	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value on a recurring basis: Investments held by Community Foundation	$36,528	$	$	$36,528

		2018		
Description	Fair Value	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value on a recurring basis: Investments held by Community Foundation	$33,986	$	$	$33,986

Reconciliation of assets measured using Level 3 inputs as of December 31,:

	2018	Gains (losses)	Purchases	Distributions	2019
Investment held by DCCF	$ 33,986	$ 2,542	$ -	$ -	$ 36,528

	2017	Gains (losses)	Purchases	Distributions	2018
Investment held by DCCF	$ 34,223	$ (237)	$ -	$ -	$ 33,986

Note 12: Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of December 31:

	2019	2018
Subject to expenditure for specified purpose:		
Scholarship fund	$ 5,000	$ 5,000
Day care center	44,334	20,000
Subject to passage of time:	74,195	79,210
Not subject to spending policy or appropriation:		
Initial contribution of the Dekalb County Community Foundation into the charitable fund	7,500	7,500
Net assets with donor restrictions	$ 131,029	$ 111,710

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	2019	2018
Expiration of time restrictions	$ 47,678	$ 2,500
Net assets released from donor restrictions	$ 47,678	$ 2,500

Note 13: Restatement of Previously Issued Financial Statement [Prior Period Adjustment]

The financial statements as of and for the year ended December 31, 2019, have been restated to correct an error that was detected during the audit for the year ended December 31, 2019.

To correct this error of properly recording deferred revenue for memberships, program fees, and contributions, the beginning temporarily restricted net assets as of December 31, 2019, were increased by $77,208 and the beginning unrestricted net assets was decreased by $48,113. The total effect on the ending net assets as of December 31, 2019, was an increase of $29,095. The deferred revenue as of December 31, 2018 was reduced $29,095 to reflect this prior period adjustment.

Note 13: Restatement of Previously Issued Financial Statement [Prior Period Adjustment] (Continued)

Net assets at December 31, 2018 were changed as follows:

		2019
Net Assets, December 31, 2018	$	3,688,947
Recognition of contribution revenue previously shown as deferred		77,208
Recognition of deferred revenue for memberships and programs		(48,113)
Net Assets, December 31, 2018 as restated	$	3,718,042

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Note 14: Acquisition of Rochelle Daycare

Effective December 1, 2019, the Board of Directors of Rochelle Daycare voted to transfer all its assets, liabilities, and operations to the Association. Under the terms of the transaction, no consideration was transferred and Rochelle Daycare was dissolved. The Association accounted for the transaction as an acquisition recognizing the underlying assets and liabilities acquired at fair value in excess of the amount recognized as a contribution of $1,033,128 on the accompanying Statements of Activities.

Assets and liabilities acquired and related contribution recognized upon acquisition for the year ended December 31, 2019, are as follows:

Years Ended December 31,		2019
Cash	$	16,126
Land		100,000
Building and improvements		1,180,000
Equipment		17,210
Inventory		1,000
Accounts receivable		33,464
Accounts payable		(19,131)
Line of credit payable		(53,338)
Notes payable		(11,367)
Mortgage note payable		(170,872)
Accrued expenses payable		(59,964)
Total	$	1,033,128