Young Men's Christian Association of Greater Richmond

Financial Statements

As of and for the Years Ended December 31, 2019 and 2018

And Report of Independent Auditor

Contents

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors of
Young Men's Christian Association
of Greater Richmond
Richmond, Virginia

We have audited the accompanying financial statements of Young Men's Christian Association of Greater Richmond (the "Association"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Emphasis of a Matter
As discussed in Note 13 to the financial statements, as a result of the spread of COVID-19 in early 2020, economic uncertainties have arisen which are likely to negatively impact the operating results of the Association. Given the uncertainty of the situation, the duration of any business disruption and related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Richmond, Virginia
May 28, 2020

Young Men's Christian Association of Greater Richmond

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	**$ 19,244,016**	$ 8,369,071
Prepaid expenses	**226,216**	237,500
Other receivables	**452,564**	431,257
Contributions receivable, net (Note 3)	**7,750,109**	2,817,304
Investments (Notes 4 and 5)	**8,452,575**	7,288,936
Land, buildings and equipment, net (Note 6)	**75,646,238**	70,792,335
	$ 111,771,718	$ 89,936,403
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 4,133,106**	$ 4,725,652
Deferred membership and program fees	**960,922**	962,616
Debt (Note 7)	**36,732,430**	26,261,018
Total liabilities	**41,826,458**	31,949,286
Commitments (Note 8)		
Net assets (Notes 10, 11 and 12):		
Without donor restrictions:		
Board-designated	**21,611,997**	9,864,986
Undesignated	**31,805,480**	36,527,280
Total without donor restrictions	**53,417,477**	46,392,266
With donor restrictions:		
Subject to purpose restrictions	**10,744,545**	6,262,480
Subject to passage of time	**1,074,993**	1,258,447
Endowments	**4,708,245**	4,073,924
Total with donor restrictions	**16,527,783**	11,594,851
Total Net Assets	**69,945,260**	57,987,117
Total Liabilities and Net Assets	**$ 111,771,718**	$ 89,936,403

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

Young Men's Christian Association of Greater Richmond

Statements of Activities
Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restriction	**With Donor Restriction**	**Total**	**Without Donor Restriction**	**With Donor Restriction**	**Total**
Revenues and public support:						
United Way Services	**$ 202,919**	**$ -**	**$ 202,919**	$ 200,943	$ -	$ 200,943
Contributions	**2,940,083**	**1,995,103**	**4,935,186**	2,765,825	1,765,103	4,530,928
Endowment contributions	**10,497**	**28,303**	**38,800**	2,052	12,345	14,397
Capital campaign contributions	**-**	**11,186,691**	**11,186,691**	-	1,032,845	1,032,845
Total public support	**3,153,499**	**13,210,097**	**16,363,596**	2,968,820	2,810,293	5,779,113
Membership fees	**25,925,179**	**-**	**25,925,179**	24,598,716	-	24,598,716
Program fees	**15,807,447**	**-**	**15,807,447**	14,472,405	-	14,472,405
Rental of facilities	**150,796**	**-**	**150,796**	148,883	-	148,883
Merchandise sales	**45,860**	**-**	**45,860**	36,017	-	36,017
Other income	**67,439**	**-**	**67,439**	244,472	-	244,472
Investment gain (loss) (Note 4)	**610,208**	**801,852**	**1,412,060**	(250,516)	(318,307)	(568,823)
Net assets released from restrictions (Note 11)	**9,079,017**	**(9,079,017)**	**-**	2,455,569	(2,455,569)	-
Total revenues and public support	**54,839,445**	**4,932,932**	**59,772,377**	44,674,366	36,417	44,710,783

(Continued)

Young Men's Christian Association of Greater Richmond

Statements of Activities (Continued)
Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restriction	**With Donor Restriction**	**Total**	Without Donor Restriction	With Donor Restriction	Total
Expenses:						
Program services:						
Healthy living	**$ 18,989,869**	**$ -**	**$ 18,989,869**	**$ 18,977,441**	**$ -**	**$ 18,977,441**
Youth development	**16,114,908**	**-**	**16,114,908**	**14,280,352**	**-**	**14,280,352**
Social responsibility	**6,617,655**	**-**	**6,617,655**	**5,389,391**	**-**	**5,389,391**
Total program services	**41,722,432**	**-**	**41,722,432**	**38,647,184**	**-**	**38,647,184**
Supporting services:						
General administration	**4,474,087**	**-**	**4,474,087**	**4,499,034**	**-**	**4,499,034**
Fundraising	**1,618,630**	**-**	**1,618,630**	**1,522,004**	**-**	**1,522,004**
Total supporting services	**6,092,717**	**-**	**6,092,717**	**6,021,038**	**-**	**6,021,038**
Total expenses	**47,815,149**	**-**	**47,815,149**	**44,668,222**	**-**	**44,668,222**
Gain/(Loss) on sale of fixed assets	**(18,860)**	**-**	**(18,860)**	**28,361**	**-**	**28,361**
Change in net assets before other change	**7,005,436**	**4,932,932**	**11,938,368**	**34,505**	**36,417**	**70,922**
Amortization of prior service cost related to postretirement benefit obligation (Note 8)	**19,775**	**-**	**19,775**	**19,775**	**-**	**19,775**
Change in net assets	**7,025,211**	**4,932,932**	**11,958,143**	**54,280**	**36,417**	**90,697**
Net assets:						
Beginning	**46,392,266**	**11,594,851**	**57,987,117**	**46,337,986**	**11,558,434**	**57,896,420**
Ending	**$ 53,417,477**	**$ 16,527,783**	**$ 69,945,260**	**$ 46,392,266**	**$ 11,594,851**	**$ 57,987,117**

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

Young Men's Christian Association of Greater Richmond

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

		2019		2018
Cash flows from operating activities:				
Change in net assets	**$**	**11,958,143**	$	90,697
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		**3,476,345**		3,372,554
Discount for net present value of pledges and provision for uncollectible contributions receivable, net		**(35,160)**		(49,044)
Realized gain on sale of investments		**(7,746)**		(356,630)
(Gain) loss on disposal of equipment and other assets		**18,860**		(28,361)
Contributed property and equipment		**-**		(170,000)
Unrealized (gain) loss on investments		**(1,190,649)**		1,162,268
Contributions restricted for construction		**(11,186,691)**		(1,032,845)
Contributions restricted for long-term investments		**(28,303)**		(12,345)
Changes in assets and liabilities:				
Prepaid expenses		**11,284**		(32,801)
Other receivables		**(21,308)**		(297,393)
Contributions receivable		**(70,867)**		(6,641)
Accounts payable and accrued expenses		**(1,168,650)**		426,880
Deferred membership and program fees		**(1,694)**		(6,116)
Net cash provided by operating activities		**1,753,564**		3,060,223
Cash flows from investing activities:				
Proceeds from sales of investments		**2,326,931**		3,366,001
Proceeds from sales of equipment and other assets		**119,683**		4,329
Purchases of investments		**(2,289,565)**		(3,378,480)
Acquisition and construction of land, buildings and equipment		**(7,883,748)**		(12,235,762)
Net cash used in investing activities		**(7,726,699)**		(12,243,912)
Cash flows from financing activities:				
Proceeds from long-term debt		**17,400,000**		3,497,728
Proceeds from short-term debt		**2,428,913**		2,200,000
Principal payments on notes payable		**(9,294,526)**		(1,220,864)
Payments of debt issuance costs		**(70,980)**		-
Principal payments on capital lease obligations		**(934)**		(922)
Contributions restricted for construction		**6,361,304**		2,228,646
Contributions restricted for long-term investments		**24,303**		15,195
Net cash provided by financing activities		**16,848,080**		6,719,783
Net change in cash and cash equivalents		**10,874,945**		**(2,463,906)**
Cash and cash equivalents:				
Beginning		**8,369,071**		10,832,977
Ending	**$**	**19,244,016**	$	8,369,071
Supplemental disclosure of cash flow information:				
Cash payments for interest	**$**	**759,581**	$	570,003
Noncash investing and financing activities:				
Property and equipment included in accounts payable/accrued expenses	**$**	**576,104**	**$**	**1,144,370**

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

Young Men's Christian Association of Greater Richmond

Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services				Supporting Services			
	Healthy Living	Youth Development	Social Responsibility	Total	General Administration	Fund Raising	Total	Total
Salaries and Wages	$ 9,972,815	$ 7,573,777	$ 3,024,956	$ 20,571,548	$ 2,028,650	$ 993,891	$ 3,022,541	$ 23,594,089
Employee Benefits	881,251	790,967	336,728	2,008,946	309,352	152,174	461,526	2,470,472
Payroll Taxes and Workers' Compensation	892,273	671,451	268,751	1,832,475	170,014	74,444	244,458	2,076,933
	11,746,339	9,036,195	3,630,435	24,412,969	2,508,016	1,220,509	3,728,525	28,141,494
Professional Fees and Contract Services	454,722	333,554	187,530	975,806	625,071	131,457	756,528	1,732,334
Supplies	557,415	1,225,891	436,049	2,219,355	49,038	140,745	189,783	2,409,138
Telephone	113,888	106,395	45,183	265,466	52,297	-	52,297	317,763
Postage and Shipping	12,986	7,295	2,914	23,195	25,146	790	25,936	49,131
Occupancy	3,746,614	2,751,965	967,563	7,466,142	78,752	10,001	88,753	7,554,895
Transportation and Travel	69,257	333,782	118,390	521,429	27,661	7,184	34,845	556,274
Conferences and Training	183,823	308,597	155,979	648,399	238,573	22,512	261,085	909,484
Printing, Promotion and Publicity	197,313	188,246	72,067	457,626	701,635	13,397	715,032	1,172,658
National Support	115,854	174,542	64,278	354,674	41,727	20,863	62,590	417,264
Specific Assistance	-	-	298,479	298,479	-	-	-	298,479
Bad debt	23,807	20,203	8,296	52,306	-	10,000	10,000	62,306
Miscellaneous	243,761	334,891	99,372	678,024	28,311	11,249	39,560	717,584
	17,465,779	14,821,556	6,086,535	38,373,870	4,376,227	1,588,707	5,964,934	44,338,804
Depreciation and Amortization	1,524,090	1,293,352	531,120	3,348,562	97,860	29,923	127,783	3,476,345
	$ 18,989,869	$ 16,114,908	$ 6,617,655	$ 41,722,432	$ 4,474,087	$ 1,618,630	$ 6,092,717	$ 47,815,149

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

Young Men's Christian Association of Greater Richmond

Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				Supporting Services			
	Healthy Living	Youth Development	Social Responsibility	Total	General Administration	Fund Raising	Total	Total
Salaries and Wages	$ 9,916,232	$ 6,582,576	$ 2,358,258	$ 18,857,066	$ 2,061,969	$ 905,635	$ 2,967,604	$ 21,824,670
Employee Benefits	980,648	769,092	306,500	2,056,240	338,938	140,242	479,180	2,535,420
Payroll Taxes and Workers' Compensation	915,708	608,962	211,511	1,736,181	166,714	70,193	236,907	1,973,088
	11,812,588	7,960,630	2,876,269	22,649,487	2,567,621	1,116,070	3,683,691	26,333,178
Professional Fees and Contract Services	419,153	271,203	96,381	786,737	624,785	94,895	719,680	1,506,417
Supplies	522,467	1,135,340	392,962	2,050,769	48,647	169,456	218,103	2,268,872
Telephone	66,650	64,322	27,677	158,649	153,905	-	153,905	312,554
Postage and Shipping	11,976	7,757	2,698	22,431	22,576	848	23,424	45,855
Occupancy	3,709,168	2,387,188	743,538	6,839,894	87,645	11,961	99,606	6,939,500
Transportation and Travel	66,582	351,668	118,169	536,419	22,403	5,561	27,964	564,383
Conferences and Training	201,794	284,739	124,770	611,303	175,005	24,377	199,382	810,685
Printing, Promotion and Publicity	183,167	138,014	52,650	373,831	605,335	15,477	620,812	994,643
National Support	131,003	166,966	59,140	357,109	42,013	21,006	63,019	420,128
Specific Assistance	-	-	313,894	313,894	-	-	-	313,894
Bad debt	20,703	15,580	5,880	42,163	-	-	-	42,163
Miscellaneous	245,843	303,233	124,857	673,933	44,474	24,989	69,463	743,396
	17,391,094	13,086,640	4,938,885	35,416,619	4,394,409	1,484,640	5,879,049	41,295,668
Depreciation and Amortization	1,586,347	1,193,712	450,506	3,230,565	104,625	37,364	141,989	3,372,554
	$ 18,977,441	$ 14,280,352	$ 5,389,391	$ 38,647,184	$ 4,499,034	$ 1,522,004	$ 6,021,038	$ 44,668,222

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

Note 1. Nature of Activities and Significant Accounting Policies

Mission and nature of activities: The mission of the Young Men's Christian Association of Greater Richmond (the Association) is to put Christian principles into practice through programs that build healthy spirit, mind and body for all. The Association is a not-for-profit charitable organization, which promotes healthy living, youth development and social responsibility throughout the Richmond, Virginia metropolitan area and Petersburg, Virginia.

The significant accounting policies followed by the Association are described below:

Basis of accounting: The accompanying financial statements are presented on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred. Unconditional public support is recognized when notification of the support is received by the Association.

Basis of presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Resources are classified into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Association. These net assets may be used at the discretion of the Association's management and Board of Directors. The Association has chosen to provide further classification information about net assets without donor restrictions. The sub classifications are as follows:

Board-Designated – Comprised of funds set aside by the Board of Directors to be used for specific activities within general guidelines established by the Association.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those resources in board-designated.

Net Assets with Donor Restriction – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Contributions whose restrictions are satisfied in the same reporting period in which the contribution was received are reported as without donor restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit the Association to use all or part of the income earned on any related investments for operating or specific purposes, such as the Learn To Swim program and staff education.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which are resource was restricted has been fulfilled, or both.

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

Contributions: Contributions and public support are recognized when cash, other assets or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions receivable are carried at net present value less an estimate made for potentially uncollectible accounts based on a review of all outstanding amounts on a regular basis. Management determines the allowance by regularly evaluating individual donor receivables and considering a donor's payment history and current economic conditions. The allowance was $200,000 at December 31, 2019 and 2018. Contributions receivable are written off when deemed uncollectible. Recoveries of receivables are recorded when received.

The Association reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use or timing of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements of activities. All contributions to be received within one year are considered to be available without restriction regarding use unless specifically restricted by the donor. Gifts of property and equipment are reported as without donor-imposed restrictions unless explicit donor stipulations specify how the donated assets must be used.

Accounting estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributed services: Contributed services are recorded at their fair value if such services create or enhance non-financial assets, would have been purchased if not provided by contribution, require specialty skills and are provided by individuals possessing such specialized skills. A substantial number of volunteers contribute significant amounts of time and services to the Association's program operations, fund raising campaigns and boards and committees of the Association. Such contributed services do not meet the criteria for recognition of contributed services and are not reflected in the accompanying financial statements.

Membership and program fees: Membership and program fees are recognized as revenue over the membership or program period. Such fees received in advance are recorded as deferred membership and program fees. Annual maintenance fees are non-refundable and are recognized as revenue when received.

Cash and cash equivalents: For purposes of reporting cash flows, the Association considers all highly liquid debt instruments with maturity, when acquired, of three months or less, to be a cash equivalent. Cash and cash equivalents maintained in the investment account until suitable investments are purchased are considered investments.

Investments: Equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Interest and dividends, realized gains and losses, and unrealized gains and losses are reported in the statement of activities as investment gain (loss). In calculating realized gains and losses, the cost of securities sold is determined by the specific-identification method. Investments received by gift are recorded at the fair value on the date received.

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

Financial risk: The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. The Association from time to time may have amounts on deposit in excess of the insured limits. The Association had $18,904,166 and $7,816,846 in deposits that exceeded these insured amounts as of December 31, 2019 and 2018, respectively. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and temporary cash investments.

The Association invests in a professionally managed portfolio that contains various securities. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments, and the uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Land, buildings, and equipment: Land, buildings, and equipment are stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Parking lots	5 – 20
Buildings and land improvements	15 – 39
Other recreational facilities	10 – 20
Furniture, equipment and vehicles	3 – 15

Valuation of long-lived assets: Long-lived assets, such as buildings and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the accompanying statements of financial position and reported at the lower of the carrying amount or fair value less costs to sell.

Functional expenses: The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by functions. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages, Employee benefits, Payroll Taxes and Worker's Compensation, Occupancy and Depreciation	Time and effort

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

Income taxes: The Association has been recognized by the Internal Revenue Service as tax exempt under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for charitable contribution deductions under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). As a nonprofit organization, the Association is subject to unrelated business income tax (UBIT), if applicable. The Association did not have any unrelated business income for the years ended December 31, 2019 and 2018.

Management evaluated the Association's positions and concluded that the Association had taken no uncertain tax positions that require adjustment to the financial statements to comply with the accounting standard on accounting for uncertainty in income taxes. The Association files an informational Form 990 in the U.S. federal jurisdiction.

Advertising: Advertising costs are expensed as incurred and totaled $982,472 and $808,027, respectively, for the years ended December 31, 2019 and 2018.

Reclassification: Certain prior year balances have been reclassified to conform with the current year presentation. These reclassifications did not have an impact on the change in net assets for the year ended December 31, 2018.

New Accounting Pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09*, Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. The Association adopted this ASU during 2019.

The Association implemented ASU 2014-09 using a full retrospective method of application. There are 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) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the factors and criteria to consider when determining whether (1)a transaction should be characterized as an exchange transaction or as a contribution, and (2) a contribution is, or is not, conditional.

The characterization of a transaction as either an exchange transaction or a contribution is determined by whether the resource provider is receiving commensurate value in return for those resources. Examples of resource providers include government agencies, foundations, corporations or other entity. However, the type of resource provider does not determine whether a transaction is an exchange transaction or contribution.

The Association implemented ASU 2018-08 using a full retrospective method of application. There are 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.

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

Recent accounting pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2022, with early adoption permitted. The Association is in the process of evaluating the impact of this new guidance.

Note 2. Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents	$ 19,244,016	$ 8,369,071
Other receivables	452,564	431,257
Contributions receivable, net	7,750,109	2,817,304
Investments	8,452,575	7,288,936
Total financial assets at year-end	35,899,264	18,906,568
Less amounts not available to be used for general expenditures within one year:		
Board-designated endowment, net of annual spending rate	1,991,480	1,718,393
Board-designated reserves for operating, bond repayment, and capital projects	19,553,028	8,080,117
Restricted by donors for capital projects	6,787,674	2,482,756
Operating pledges subject to timing restrictions	131,950	243,213
Cumulative earnings on endowment, net of annual spending rate	1,596,537	994,344
Portion of donor-restricted endowment to be retained in perpetuity	2,937,691	2,909,389
Financial assets not available to be used within one year	32,998,360	16,428,212
Financial assets available to meet general expenditures within one year	$ 2,900,904	$ 2,478,356

Note 2. Liquidity and Availability (Continued)

The Association has certain board-designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year. The Association considers general expenditures to include program expenses, supporting services, and any commitments or liabilities to be paid in the subsequent year.

The Board has designated a portion of its net assets without donor restrictions for strategic opportunities, debt service, capital reinvestment and contingencies. These remain available and may be spent at the discretion of the Board. The Board has also designated funds to be invested long-term as part of the association's endowment. Although management does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation) these amounts could be made available if necessary. These assets, limited to use, are more fully described in Note 10 and Note 11.

Per its Fiscal Management Policy, the Association operates annually on a balanced budget, where donor contributions, membership and program fees, and investment income equal its operating expenses. The Association has established and maintains funds to adhere to its external debt covenants, support its capital needs, and provide for contingencies in support of its Mission. These funds and its operating performance are reviewed on a monthly basis by Association management and its Fiscal Management Committee.

Additionally, the Association maintains a line of credit of $750,000, as discussed in more detail in Note 7. This facility had not been fully utilized as of December 31, 2019. As of December 31, 2018, the Association had fully utilized this line of credit.

Note 3. Contributions Receivable

Anticipated collections of contributions receivable at December 31, 2019 and 2018, are as follows:

	2019	2018
Within one year	$ 7,122,588	$ 1,554,195
One to five years	881,417	1,552,165
	8,004,005	3,106,360
Less		
Discounts for the time-value of money at 2.5% in 2019 and 2018	(53,896)	(89,056)
Allowance for uncollectible contributions receivable	(200,000)	(200,000)
	$ 7,750,109	$ 2,817,304

Included in the balances above are amounts of $376,974 and $455,327 at December 31, 2019 and 2018, respectively, which are due from members of the Board of Directors and members of management. For the years ended December 31, 2019 and 2018, there were approximately $388,255 and $111,201 in gift revenues from those directors and members, respectively.

Note 4. Investments

Investments are composed of the following at December 31, 2019 and 2018:

	2019	
	Cost	Fair Value
Common stocks	$ 3,993,064	$ 4,897,469
Corporate bonds	1,939,967	1,936,153
Other equity securities	726,245	746,818
Cash and cash equivalents	367,946	367,946
Cash surrender value of life insurance	296,583	504,189
	$ 7,323,805	$ 8,452,575

	2018	
	Cost	Fair Value
Common stocks	$ 4,233,380	$ 4,142,083
Corporate bonds	1,498,080	1,431,112
Other equity securities	756,280	738,611
Cash and cash equivalents	577,895	577,895
Cash surrender value of life insurance	283,583	399,235
	$ 7,349,218	$ 7,288,936

Components of investment gain/(loss) for the years ended December 31, 2019 and 2018, consist of the following:

	2019	2018
Realized gain	$ 7,463	$ 356,630
Unrealized gain/(loss)	1,190,649	(1,162,268)
Investment income (net of fees)	213,948	236,815
	$ 1,412,060	$ (568,823)

Note 5. 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. In accordance with the Fair Value Measurement Topic of the ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a 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). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives. As required, the Association does not adjust the quoted price for these investments, even in situations where the Association holds a large position and a sale could reasonably impact the quoted price.

Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include certain corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and general and limited partnership interests in corporate private equity and real estate funds, debt funds, and distressed debt.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

In determining the appropriate levels, the Association performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

Publicly traded securities, both equity and debt securities, are classified as Level 1 instruments because they comprise assets traded on public exchanges with readily determinable fair values and observable market-based inputs.

Cash values of life insurance policies are presented at fair value based on the amount available in cash upon cancellation of the insurance policy before maturity as of the reporting period. The fair value is determined by the insurer and represents the exit price from the perspective of the Association. However, since the valuation is considered unobservable, the cash surrender value calculation is considered a Level 3 input.

Note 5. Fair Value Measurements (Continued)

The following tables summarize, by level within the fair value hierarchy, the assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

		Fair Value Measurements Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Common stocks	$ 4,897,469	$ 4,897,469	$ -	$ -
Corporate bonds	1,936,153	1,764,592	171,561	-
Other equity securities	746,818	746,818	-	-
Cash surrender value of life insurance	504,189	-	-	504,189
	$ 8,084,629	$ 7,408,879	$ 171,561	$ 504,189
2018				
Assets				
Common stocks	$ 4,142,083	$ 4,142,083	$ -	$ -
Corporate bonds	1,431,112	1,431,112	-	-
Other equity securities	738,611	738,611	-	-
Cash surrender value of life insurance	399,235	-	-	399,235
	$ 6,711,041	$ 6,311,806	$ -	$ 399,235

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended December 31, 2019 and 2018:

	Cash Surrender Value of Life Insurance	
	2019	2018
Balance, January 1	$ 399,235	$ 407,632
Increase/(decrease) in cash surrender value	104,954	(8,397)
Balance, December 31	$ 504,189	$ 399,235

Note 6. Land, Buildings and Equipment

Land, buildings and equipment as of December 31, 2019 and 2018, consist of the following:

	2019	2018
Land	$ 7,804,801	$ 7,804,801
Parking lots	2,869,519	2,792,082
Buildings and land improvements	96,665,308	85,726,944
Other recreational facilities	1,797,121	1,742,721
Furniture, equipment and vehicles, including assets under capital leases 2019 $6,408 and 2018 $6,408	11,553,749	12,331,399
Construction in progress	7,005,424	10,222,299
	127,695,922	120,620,246
Less accumulated depreciation, including amortization applicable to assets under capital leases 2019 $4,641 and 2018 $3,757	(52,049,684)	(49,827,911)
	$ 75,646,238	$ 70,792,335

Included in construction in progress above are amounts of $576,104 and $835,977 at December 31, 2019 and 2018, respectively, which are accrued in accounts payable and accrued expenses.

The Powhatan and Goochland facilities are constructed on leased land with initial terms of 50 and 99 years, respectively. Both leases contain provisions for extension of the initial terms.

Note 7. Debt

At December 31, 2019 and 2018, long-term debt consisted of the following:

	2019	2018
Note payable pursuant to loan agreement with the Economic Development Authority of the Town of Ashland, Virginia, dated May 2, 2016	$ 18,474,963	$ 19,375,683
Note payable pursuant to loan agreement with the Virginia Small Business Financing Authority dated December 1, 2019	17,400,000	-
Note payable to TowneBank	994,443	1,261,609
Pledge note payable to Capital One	-	2,883,942
Notes Payable to TowneBank 2018	-	1,450,000
Line of credit to Capital One	-	750,000
Line of credit to Capital One	-	613,786
Capital lease obligations	1,905	2,838
	36,871,311	26,337,858
Less unamortized bond issuance costs	(138,881)	(76,840)
	$ 36,732,430	$ 26,261,018

Note payable pursuant to loan agreement with the Economic Development Authority of the Town of Ashland, Virginia, dated May 2, 2016: The Association entered into a transaction with TowneBank and the Economic Development Authority (EDA) of the Town of Ashland, Virginia in which the EDA issued its Health and Community Services Facilities Revenue and Refunding Bond (2016 Bond) in the amount of $20,726,690, to TowneBank (Bank). The Bank loaned the 2016 Bond proceeds to the EDA and the EDA in turn loaned the proceeds to the Association. The Association used the 2016 Bond proceeds to refund outstanding 2010 Bonds and to pay related bond issuance costs. The Association's obligations regarding the 2016 Bond are evidenced by a bond purchase and loan agreement between the Association, the EDA and the Bank and an unsecured note in the principal amount of the 2016 Bond.

The EDA assigned the unsecured note, and all principal and interest payments to be made pursuant thereto, to the Bank (except for certain fees and expenses of the EDA). Interest on the 2016 Bonds is excludable from gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended.

Proceeds of the 2016 Bonds were applied as follows:

Refund note payable pursuant to loan agreement with the Economic Development Authority of the Town of Ashland, Virginia, dated November 23, 2010	$ 20,628,000
Issuance costs	98,690
	$ 20,726,690

Note 7. Debt (Continued)

Special covenants of the 2016 Bonds provide for an adjustment to the stated interest rate of the Bond in the event of an increase or decrease in the current maximum Federal corporate tax rate. The Yield Protection Provisions establish that such an adjustment will be made in order for TowneBank to maintain the same after-tax yield on the Bond as provided on the date of issuance.

With the approval of the Tax Cuts and Jobs Act, the maximum Federal corporate tax rate decreased from 35% to 31%, effective January 1, 2018. As a result of such decrease and in accordance with the terms of the Bond, effective May 1, 2018, the interest on the Bond increased to 2.64% from 2.18% as of December 31, 2017. The interest rate otherwise borne by the Bond shall be adjusted automatically as of the effective date of each change in the maximum Federal corporate tax rate.

The 2016 Bonds have a scheduled maturity of December 1, 2036. The Bank and the Association agreed to an amortization schedule that provides for quarterly principal payments.

Note payable pursuant to loan agreement with the Virginia Small Business Financing Authority, dated December 1, 2019: The Association entered into a transaction with TowneBank and the Virginia Small Business Financing Authority (VSBFA) in which the VSBFA issued its Health and Community Services Facilities Revenue and Refunding Bond (2019 Bond) in the amount of $17,400,000, to TowneBank (Bank). The Bank loaned the 2019 Bond proceeds to the VSBFA and the VSBFA in turn loaned the proceeds to the Association. The Association used the 2019 Bond proceeds to refund outstanding credit facilities and to pay related bond issuance costs. The remaining proceeds will be used to fund the renovation and expansion of Association facilities, including Manchester, Swift Creek and Petersburg. The Association's obligations regarding the 2019 Bond are evidenced by a bond purchase and loan agreement between the Association, the VSBFA and the Bank and an unsecured note in the principal amount of the 2019 Bond.

The VSBFA assigned the unsecured note, and all principal and interest payments to be made pursuant thereto, to the Bank. Interest on the 2019 Bonds is excludable from gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended.

Proceeds of the 2019 Bond were applied as follows:

Refund non-revolving note payable pursuant to pledge loan agreement with Capital One, dated December 19, 2017	$ 1,346,791
Refund non-revolving line of credit pursuant to loan agreement with Capital One, dated December 19, 2017	3,000,521
Refund non-revolving note payable pursuant to loan agreement with TowneBank dated December 19, 2018	1,450,550
Refund revolving line of credit pursuant to loan agreement with Capital One, dated July 23, 2018	749,574
Deposit to project fund to be used for facility development projects	10,764,184
Issuance costs	88,380
	$ 17,400,000

Note 7. Debt (Continued)

The 2019 Bonds have a scheduled maturity of December 1, 2039 and bear a fixed interest rate of 2.44% through December 1, 2033. The interest rate will reset to an agreed upon variable rate or fixed rate for the remainder of the term. The Bank and the Association agreed to an amortization schedule that provides for quarterly principal payments beginning in 2021.

Notes payable to TowneBank: In 2016, the Association borrowed $1,748,747 to consolidate notes payable to Wells Fargo Bank used to finance capital improvements to a branch facility into a single note payable to TowneBank. The note payable is unsecured, bears a fixed interest rate of 3.19% and is payable in monthly installments through January 1, 2024. In the event of prepayment or acceleration of amounts due, the note provides for potential additional compensation to the lending institution.

In 2018, the Association borrowed $1,450,000 payable to TowneBank to fund the acquisition of commercial property for the Atlee Station branch. The note payable is unsecured, has a 12-month term and bears a variable interest rate of one-month LIBOR plus 1.65% (4.17% at December 31, 2018). On December 23, 2019, the note payable to TowneBank was paid off with proceeds from the 2019 Bonds.

Other credit facilities: In 2017, the Association established a $3,000,000 unsecured non-revolving pledge loan note with Capital One to provide construction financing to fund the renovation of the Northside and Petersburg branch locations. The outstanding principal balance of the pledge loan shall not exceed the lesser of (a) the pledge loan committed amount, and (b) seventy five percent (75%) of the uncollected amount of all eligible project pledges. Borrowing on the pledge loan note has a 36-month term and bears variable interest at one-month LIBOR plus 1.25% (3.77% at December 31, 2018). As of December 31, 2018, $2,883,942 has been drawn on this pledge loan note. On December 23, 2019, the note payable to Capital One was paid off with proceeds from the 2019 Bonds and the note payable was extinguished.

In 2017, the Association established a $3,000,000 unsecured non-revolving line of credit with Capital One to provide construction financing to fund the renovation of the Northside and Petersburg branch locations. Borrowing on the line of credit has a 36-month term and bears variable interest at one-month LIBOR plus 1.25% (3.77% at December 31, 2018). As of December 31, 2018, $613,786 has been drawn on this line of credit. On December 23, 2019, the line of credit with Capital One was paid off with proceeds from the 2019 Bonds and, per the covenants of the line of credit agreement, the line of credit was extinguished.

In 2018, the Association established a $750,000 unsecured, revolving line of credit with Capital One for general Association purposes. Borrowing on the line of credit has a 12-month term and bears a variable interest rate of one-month LIBOR plus 1.25% (3.05% and 3.77% at December 31, 2019 and 2018, respectively). As of December 31, 2018, $750,000 has been drawn on this line of credit to purchase land for the future expansion of the Atlee Station branch. On December 23, 2019, the line of credit with Capital One was paid off with proceeds from the 2019 Bonds and has a zero balance as of December 31, 2019. The revolving line of credit has an expiration date of July 23, 2020.

The Association loan agreements contain various restrictive covenants, including limitations on additional indebtedness, the ability to encumber assets and revenues, and the maintenance of a minimum debt service coverage ratio. In addition, the loan agreements require the Association to deliver audited financial statements to the lending institutions within 180 days of the Association's year-end.

Note 7. Debt (Continued)

At December 31, 2019, long-term debt matures as follows:

Years Ending December 31:	
2020	$ 1,357,295
2021	2,027,587
2022	2,004,190
2023	1,889,664
2024	1,790,275
Thereafter	27,802,300
	36,871,311
Less unamortized bond issuance costs	(138,881)
	$ 36,732,430

Total interest expense incurred was $772,400 in 2019 and $580,861 in 2018. In 2019 and 2018, interest expense of $35,306 and $19,462, respectively, was capitalized.

Note 8. Commitments and Contingencies

Leases: The Association leases various facilities and equipment under operating leases with terms of one to ten years. Total rent expense was $943,861 in 2019 and $968,519 in 2018. The total minimum rental commitment at December 31, 2019, is due as follows:

Years ending December 31:	
2020	$ 1,065,930
2021	1,022,246
2022	861,910
2023	668,100
2024	390,563
Thereafter	896,079
	$ 4,904,828

Construction Contracts: The Board of Directors approved the construction of the Henrico YMCA Aquatics Center in 2018 and the renovation of the Manchester and Swift Creek branch locations in 2019. The Association has entered into contracts for construction services for these locations. The estimated construction costs of the facilities are approximately $17,856,200 of which $5,887,670 has been paid as of December 31, 2019.

Note 8. Commitments and Contingencies (Continued)

Pension plan: The Association participates in the YMCA Retirement Fund Retirement Plan which is a defined contribution, money purchase, church plan that is intended to satisfy the qualification requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended and The YMCA Retirement Fund Tax-Deferred Savings Plan which is a retirement income account plan as defined in section 403(b)(9) of the code. Both Plans are sponsored by The Young Men's Christian Association Retirement Fund (Fund). The Fund is a not-for-profit, tax-exempt pension fund incorporated in the State of New York (1922) organized and operated for the purpose of providing retirement and other benefits for employees of YMCAs throughout the United States. The plans are operated as church pension plans. Participation is available to all duly organized and reorganized YMCAs and their eligible employees. As a defined contribution plan, the Retirement Plan and Tax-Deferred Savings Plan have no unfunded benefit obligations.

In accordance with our agreement, contributions for the YMCA Retirement Fund Retirement Plan are a percentage of the participating employees' salary. These amounts are paid by the Association, and contributions to the Fund are 12% of covered employees' annual salaries. The total expense to the Association was $1,376,046 and $1,414,442 in 2019 and 2018, respectively.

Contributions to the YMCA Retirement Fund Tax-Deferred Savings Plan are withheld from employees' salaries and remitted to the YMCA Retirement Fund. There is no matching employer contribution to this plan.

Postretirement benefit plan: Effective January 1, 2013, the Association adopted a postretirement medical benefit plan. The plan allows for the payment of $100 per month to a limited number of retirees who meet certain eligibility requirements. Upon plan initiation, the previously unrecognized prior service costs of $147,175 were recognized as a separate line item within changes in net assets without donor restriction. The amortization of prior service costs was $19,775 in 2019 and $19,775 in 2018. The accumulated postretirement benefit obligation under the plan included in accounts payable and accrued expenses was $341,791 and $231,162 at December 31, 2019 and 2018, respectively.

Note 9. Related Parties

The Association conducts business with financial institutions and other service providers throughout the Richmond and Petersburg areas. Certain members of the Association's Board of Directors, volunteers and donors are employed by such entities.

Note 10. Board-Designated Net Assets

Certain net assets without donor restrictions at December 31, 2019 and 2018 have been designated by the Board of Directors for the following purposes:

	2019	2018
Capital Reinvestment Fund	$ 2,222,361	$ 1,504,722
Debt Service Fund	13,989,386	4,219,878
Contingency Fund	1,000,000	1,000,000
Opportunity Fund	2,341,281	1,355,517
Endowment Funds	2,058,969	1,784,869
Total board-designated net assets	$ 21,611,997	$ 9,864,986

The purpose of the capital reinvestment fund is to provide funds for major repairs of the Association's facilities. The fund is utilized for individual expenditures exceeding $10,000, and maintains a minimum balance of $1 million.

The purpose of the debt service fund is to provide funds to service the Association's debt obligations, facility and equipment leases, and other related financing costs. The goal of the fund is to accumulate and maintain an amount commensurate with annual principal and interest payments as well as payments under facility and equipment leases.

The Contingency Fund was established by the Association to provide resources to fund major emergency or short-term cash flow needs for unanticipated events that would necessitate the use of reserves to continue the operations and mission of the Association. The goal of the fund is to maintain a balance of $1 million which approximates one payroll.

The opportunity fund was established by the Association to accumulate savings from operations to fund specifically identified purchases, and to provide the Association with flexibility to finance purchases of long-term assets to support branch operations. The fund does not maintain a minimum balance requirement.

The board-designated quasi endowment was established by the Board of Directors and its purpose and use are more fully explained in Note 12.

From time to time, the Board may designate other net assets without donor restrictions for specific purposes. In 2019, the Board designated $650,000 to be expended from the opportunity fund to:

Prepare document design and construction documents for the renovation of the Manchester, Swift Creek and Tuckahoe facilities	$ 650,000
	$ 650,000

Note 11. Net Assets With Donor Restriction

	2019	2018
Subject to purpose restriction:		
Capital projects	$ 10,744,545	$ 6,262,480
Total subject to purpose restriction	10,744,545	6,262,480
Subject to time restriction:		
Operating contributions for future periods	1,074,993	1,258,447
Total subject to the passage of time	1,074,993	1,258,447
Endowments		
Cumulative earnings on endowment funds	1,770,554	1,164,535
Volunteer and employee training	57,508	56,508
Human Opportunity Program Endowment (H.O.P.E)	300,000	300,000
Art education program	3,000	3,000
Northside youth program	1,615,987	1,615,987
Learn To Swim program	56,980	56,980
Financial assistance	192,059	170,756
General purposes	638,282	633,283
Youth and Teen programs	73,875	72,875
Total endowments	4,708,245	4,073,924
Total net assets with donor restrictions	$ 16,527,783	$ 11,594,851

Net assets were released from donor restrictions by incurring expenses or the expiration of time satisfying restrictions specified by donors as follows for the years ending December 31:

	2019	2018
Satisfaction of purpose restriction	$ 6,730,248	$ 248,453
Satisfaction of time restriction	2,178,577	2,037,817
Appropriation for expenditure	170,192	169,299
Total net assets released from restrictions	$ 9,079,017	$ 2,455,569

Note 12. Endowment Funds

The Association's endowment consists of 34 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and board-designated endowment funds. As required by GAAP, 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: The Association has interpreted the Commonwealth of Virginia enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring 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 retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts, including promises to give at fair value) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purposes of the Association and the donor-restricted endowment fund
c. General economic conditions
d. The possible effects of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the Association
g. The investment policies of the Association

Return objective and risk parameters: The Association's objective is to earn a reasonable, long-term, risk-adjusted total rate of return to support the designated programs. The Association recognizes and accepts that pursuing a reasonable rate of return involves risk and potential volatility. The generation of current income is a secondary consideration. 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 established a policy portfolio, or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-term horizons based upon long-term expected returns.

Spending policy: Spending is first governed by donor stipulations associated with specific gifts with respect to both purpose and amount. Otherwise, the Association will appropriate for expenditure in its annual budget a maximum of 4% of the rolling average of the market value of the endowment assets over the preceding 12 quarters. There may be times when the Association may opt not to take the maximum spending rate but rather to reinvest some of the annual return. No distribution is permitted if the distribution would decrease the contributed principal of the respective component of the endowment fund.

Note 12. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of December 31, 2019 and 2018 was as follows:

	Without Donor Restriction	With Donor Restriction	Total
2019			
Board-designated endowment funds	$ 2,058,969	$ -	$ 2,058,969
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,937,691	2,937,691
Accumulated investment gains	-	1,770,554	1,770,554
Endowment net assets, December 31, 2019	$ 2,058,969	$ 4,708,245	$ 6,767,214
2018			
Board-designated endowment funds	$ 1,784,869	$ -	$ 1,784,869
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,909,389	2,909,389
Accumulated investment gains	-	1,164,535	1,164,535
Endowment net assets, December 31, 2018	$ 1,784,869	$ 4,073,924	$ 5,858,793

Note 12. Endowment Funds (Continued)

The Association had the following endowment-related activities for the years ended December 31, 2019 and 2018:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, December 31, 2017	$ 2,007,294	$ 4,574,985	$ 6,582,279
Investment return:			
Investment income (net of fees)	61,332	139,696	201,028
Net loss (realized and unrealized)	(208,969)	(483,803)	(692,772)
Total investment return	(147,637)	(344,107)	(491,744)
Additions	2,052	12,345	14,397
Appropriation of endowment assets for expenditure	(76,840)	(169,299)	(246,139)
Endowment net assets, December 31, 2018	1,784,869	4,073,924	5,858,793
Investment return:			
Investment income (net of fees)	50,449	114,377	164,826
Net gain (realized and unrealized)	290,762	661,833	952,595
Total investment return	341,211	776,210	1,117,421
Additions	10,497	28,303	38,800
Appropriation of endowment assets for expenditure	(77,608)	(170,192)	(247,800)
Endowment net assets, December 31, 2019	$ 2,058,969	$ 4,708,245	$ 6,767,214

Note 12. Endowment Funds (Continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Association has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019, funds with original gift values of $78,026, fair values of $61,798 and deficiencies of $16,228 were reported in net assets with donor restrictions. At December 31, 2018, funds with original gift values of $129,599, fair values of $117,158 and deficiencies of $12,441 were reported in net assets with donor restrictions.

Note 13. Subsequent Events

The Association evaluated subsequent events for potential required disclosures through May 28, 2020, which is the date the financial statements were available to be issued. The Association determined that the following subsequent event needs to be disclosed:

The COVID-19 outbreak in the United States has disrupted business operations for the Association, as federal, state, and local authorities have mandated closures of fitness centers and daycare centers beginning in March 2020. As of May 28, 2020, a large portion of the Association's operations remain closed and timing of resuming full operations remains uncertain.

While the business disruption is expected to be temporary, the impact on operating results is likely to be more protracted. The Association has gained the approval from its Board of Directors to use up to $2.5 million in liquidity over the remainder of 2020 to offset projected operating losses. In addition, the Board approved the acquisition of a $4 million line of credit, subsequently procured from TowneBank.