



THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
The Young Men's Christian Association Retirement Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of The Young Men's Christian Association Retirement Fund, which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of operations and changes in fund deficit, and statements of 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 Young Men's Christian Association Retirement Fund as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

August 11, 2020

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Balance Sheets

June 30, 2020 and 2019

(Dollar amounts in thousands)

	<u>2020</u>	<u>2019</u>
Assets:		
Investments and cash, at fair value:		
Cash and cash equivalents	\$ 594,670	422,603
Assets held under securities lending agreement	88,839	102,658
Domestic equities	211,429	295,748
Foreign equities	352,328	384,299
Government and agency bonds	—	53,615
Corporate bonds	1	342
Common/collective trusts:		
Domestic equities	525,121	530,074
Foreign equities	539,727	511,613
Fixed maturities	519,122	593,338
Alternative investments:		
Hedge funds	1,867,176	2,219,422
Private equity	1,384,191	1,230,737
Real estate	317,612	249,635
Private energy	286,533	381,353
Distressed debt	346,181	212,931
Master limited partnerships	—	14,745
Other investment assets	11,595	3,417
Total investments and cash	<u>7,044,525</u>	<u>7,206,530</u>
Amounts due from brokers	35,811	23,538
Investment income receivable	2,173	3,210
Variation margin receivable	4,086	1,254
Other assets	16,786	16,469
Total assets	<u>\$ 7,103,381</u>	<u>7,251,001</u>
Liabilities and fund deficit:		
Investment liabilities:		
Payable under securities lending agreement	\$ 88,839	102,658
Total investment liabilities	<u>88,839</u>	<u>102,658</u>
Accumulated account balances and reserves:		
Accumulated account balances of the retirement plan	3,627,342	3,579,081
Accumulated account balances of the tax-deferred savings plan	905,331	875,236
Liabilities for future annuity benefits	3,272,642	2,876,037
Death and disability benefit reserves	239,565	229,358
Total accumulated account balances and reserves	<u>8,044,880</u>	<u>7,559,712</u>
Amounts due to brokers	7,478	943
Variation margin payable	14,956	4,671
Other liabilities	20,709	15,045
Total liabilities	<u>8,176,862</u>	<u>7,683,029</u>
Fund deficit	<u>(1,073,481)</u>	<u>(432,028)</u>
Total liabilities and fund deficit	<u>\$ 7,103,381</u>	<u>7,251,001</u>

See accompanying notes to financial statements.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Statements of Operations and Changes in Fund Deficit

Years ended June 30, 2020 and 2019

(Dollar amounts in thousands)

	<u>2020</u>	<u>2019</u>
Revenues:		
Consideration received to purchase life annuities	\$ 225,232	190,535
Net investment income:		
Interest and dividends	26,605	32,588
Investment expenses	<u>(27,837)</u>	<u>(23,681)</u>
Net investment (loss)/ income	(1,232)	8,907
Net realized gain on investments	124,340	239,813
Net unrealized (loss)/gain on investments	<u>(122,700)</u>	<u>114,459</u>
Total revenues	<u>225,640</u>	<u>553,714</u>
Benefits and expenses:		
Interest credited to accumulated account balances of plan participants	325,742	377,239
Participant dividends incurred	—	(39,504)
Death and disability benefits	12,377	1,347
Future annuity benefits incurred	504,100	256,245
Administrative expenses	<u>24,874</u>	<u>24,932</u>
Total benefits and expenses	<u>867,093</u>	<u>620,259</u>
Net loss	(641,453)	(66,545)
Fund deficit:		
Fund deficit, beginning of year	<u>(432,028)</u>	<u>(365,483)</u>
Fund deficit, end of year	\$ <u><u>(1,073,481)</u></u>	\$ <u><u>(432,028)</u></u>

See accompanying notes to financial statements.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(Dollar amounts in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net loss	\$ (641,453)	(66,545)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net unrealized loss/(gain) on investments classified as trading	122,700	(114,459)
Net realized gains on investments	(124,340)	(239,813)
Net bond discount amortization	(894)	(2,362)
Interest credited to accumulated account balances	325,742	377,239
Actuarial change in future annuity benefits incurred	265,824	55,391
Actuarial change in death and disability benefits	25,421	11,666
Depreciation and amortization	674	576
Change in assets and liabilities net of effects from:		
Proceeds from sale of investments sold, redeemed, or matured classified as trading:		
Fixed maturities	214,406	135,025
Equities	627,782	1,158,539
Alternative investments	787,008	1,414,581
Gain on sale of derivatives	57,316	9,690
Cost of investments purchased classified as trading:		
Fixed maturities	(159,887)	(153,609)
Equities	(419,040)	(866,828)
Alternative investments	(789,082)	(1,398,506)
(Increase) in amounts due from brokers	(12,273)	(20,064)
Decrease/ (increase) in amounts due to brokers	6,524	(845)
(Increase)/ decrease in variation margin receivable	(2,833)	5,869
Increase/ (decrease) in variation margin payable	10,285	(2,763)
Decrease in investment income receivable	1,037	63
Annuity benefits paid	(290,795)	(275,135)
Death benefits paid	(9,553)	(10,261)
Net participant loan activity	(294)	(1,032)
(Decrease) in participant dividends payable	—	(39,504)
Other	9,443	(2,992)
Net cash provided by/ (used in) operating activities	<u>3,718</u>	<u>(26,079)</u>
Cash flows from investing activities:		
Net fixed asset purchases	<u>(797)</u>	<u>(103)</u>
Net cash used in investing activities	<u>(797)</u>	<u>(103)</u>
Cash flows from financing activities:		
Contributions from retirement plans	277,098	295,408
Lump-sum distributions	<u>(107,952)</u>	<u>(272,107)</u>
Net cash provided by financing activities	<u>169,146</u>	<u>23,301</u>
Net increase/ (decrease) in cash and cash equivalents	172,067	(2,881)
Cash and cash equivalents, beginning of year	<u>422,603</u>	<u>425,484</u>
Cash and cash equivalents, end of year	\$ <u><u>594,670</u></u>	<u><u>422,603</u></u>

See accompanying notes to financial statements.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

(1) Organization and Description of the Fund

The Young Men's Christian Association (YMCA) Retirement Fund (Fund) was incorporated in New York in 1921. The Fund is a not-for-profit corporation that is exempt from Federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (Code). As a church pension fund under Section 414(e)(3)(A) of the Code, the Fund is organized and operated for the purpose of providing retirement and other benefits for employees of participating YMCAs throughout the United States. The Fund sponsors the YMCA Retirement Fund Retirement Plan (Retirement Plan), which is a defined contribution, money purchase, church pension plan that is intended to satisfy the qualification requirements of Section 401(a) of the Code. The Retirement Plan is subject to the Employee Retirement Income Security Act of 1974 pursuant to Section 410(d) of the Code. The Fund also sponsors The YMCA Retirement Fund Tax-Deferred Savings Plan (Tax-Deferred Savings Plan), which is a church retirement income account plan as defined in Section 403(b)(9) of the Code. These plans are multiple employer plans under which Young Men's Christian Associations have elected to participate in order to provide retirement benefits for their employees (YMCAs).

The Fund is registered with the New York State Charities Bureau with respect to the solicitation and receipt of contributions for YMCA related initiatives. During fiscal year 2020, the Fund raised \$270 and disbursed \$296 for related program and fund raising expenses during the same period. The \$26 distributed in excess of the fiscal year 2020 fund raising efforts reduced the residual value of prior year's fundraising efforts reflected in other operating liabilities on the Balance Sheets. All receipts and disbursements were recorded in administrative expenses.

The Fund is domiciled in the State of New York and is examined every five years by the New York State Department of Financial Services (NYSDFS). The Fund was last examined by NYSDFS for the five year period ended June 30, 2014 and it comprised a verification of assets and liabilities to determine whether the 2014 annual statement filed with the NYSDFS by the Fund fairly presented its financial condition. The final report, dated April 15, 2016, was issued on March 28, 2018 and indicated that the examiner's review did not reveal material differences in the Fund's financial statements filed with the NYSDFS. NYSDFS has contacted the Fund and advised that the examination for the period July 1, 2014 to June 30, 2019 is scheduled to commence later this year.

(2) Description of Plans

The following brief description of the plans is provided for general information purposes only. Participants should refer to the plan documents for complete information.

Participants do not direct the investment of their accounts. The Fund's Investment Committee and management to the extent delegated by the Board of Trustees of the Fund (Board of Trustees) are responsible for directing the investments of all assets of the plans sponsored by the Fund. Assets are commingled to achieve economies of scale and diversification. All contributions are received by the Fund and recorded in the accounts of participants. These amounts are reflected on the Balance Sheets of the Fund as accumulated account balances and reserves. Participant accounts earn interest credits as declared by the Board of Trustees in its sole discretion. The Fund also serves as plan administrator of the plans. However, YMCAs are responsible for timely enrollment of eligible employees and remittance of contributions.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

At June 30, 2020 and 2019, the Fund's liabilities exceeded assets by \$1,073,481 and \$432,028, respectively. In fiscal year 2020 the Board of Trustees passed several resolutions that had a direct effect on the Fund's deficit. The interest credit to account balances for the period July to December 2020 was reduced to 0%. This action reduced the Fund's liabilities for future annuity benefits and fund deficit by \$41,239. The second resolution reduced the interest crediting assumption on account balances and accumulated interest from 3% to 2% decreasing the Fund's deficit by \$469,425. The last change was a decrease in the interest rate discount associated with the liabilities for future annuity benefits and death and disability benefit reserves from 6% to 5%. This resulted in an increase in the Fund's deficit of \$774,116. The combination of these three changes resulted in an increase in the Fund's deficit of \$263,452. Management believes that these changes will better position the Fund to provide future benefits in a low investment return environment. In addition, investment returns in fiscal year 2020 were lower than the composite interest rate discount (see note 3h) and operating expenses further increasing the deficit. The extended payout period of the Fund's benefit liabilities should provide adequate time for the asset base to recover. Management closely monitors cash flows and reserve requirements for benefit payments as well as investment market activity and believes that the Fund's assets will be sufficient over time to pay all obligations as they become due.

YMCAs have the option of selecting contribution rates which are based on a percentage of compensation for the Retirement Plan. The options range from 8% to 12%. A YMCA may also elect for its employees to participate on a noncontributory basis by remitting the total contribution or on a contributory basis by requiring mandatory payroll deduction. In response to the impact of the COVID-19 pandemic on participating YMCA's on March 20, 2020, the Board of Trustees passed a resolution permitting YMCAs to reduce their contribution rate to 1% if needed for economic reasons. The ability to use this rate is due to expire at the end of December 2020.

The Board of Trustees, also voted to change the frequency of setting the interest credit rate from twice a year to once a year effective January 1, 2021. The interest credit rate may include special dividends to retirees and additional interest credits to participants based on portfolio performance. When additional interest credits, identified below, are declared, such amounts are reported as participant dividends incurred in the Statements of Operations and Changes in Fund Deficit. Interest is credited to participant accounts daily. Account balance interest credits declared for the periods beginning July 2018 were as follows:

Declaration period	Total interest credits⁽¹⁾	Additional interest credits⁽²⁾
July 2018–December 2018	5 %	2 %
January 2019–June 2019	4	1
July 2019–December 2019	3	—
January 2020–June 2020	3	—
July 2020–December 2020	—	—

(1) Interest credits are stated in annual terms.

(2) Additional interest credits are stated in annual terms and are included in total interest credits.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

A participant's contributions and interest thereon are maintained in the participant's Personal Account. In addition, each participant has an account attributable to YMCA contributions made on the participant's behalf, referred to as the YMCA Account. Contributions and interest thereon are maintained in accounts based upon the source of the contribution. Mandatory participant contributions and interest thereon are maintained in the participant's Personal Account. All employer contributions and interest thereon are maintained in the YMCA Account. Participants are immediately vested in contributions made on or after July 1, 2006. For calendar years 2020 and 2019, federal law limits total contributions to all Plan (Retirement Plan and Tax-Deferred Savings Plan) accounts to the lesser of \$57 and \$56, respectively, or 100% of a participants' annual compensation.

Normal retirement occurs when participants retire at age 62 or older. Early retirement occurs on or after age 55 but before age 62. Retirement benefits are based on the participant's Personal and YMCA Account balances plus any voluntary accounts. At retirement, the account balances (except for certain small balances which may be paid in a lump-sum) are converted into a life annuity using annuity purchase tables then in effect.

In addition, the Retirement Plan provides a permanent disability retirement benefit for participants under the age of 60 with five or more years of Retirement Plan participation who become permanently and totally disabled. The pre-retirement permanent disability benefit is based on projections of contributions to age 60, with compensation fixed at the average of the five years immediately preceding the disability. Interest credits during this projected period are deemed to be at the regular rate, which is set at 3% per annum.

The Retirement Plan also provides death benefits. The pre-retirement benefit for active participants provides the greater of \$10 or the sum of the basic Personal and YMCA accounts at the time of death. The post-retirement death benefit is an additional amount based on the maximum annual retirement benefit derived from basic Personal Account and YMCA Account balances as determined at retirement. The Retirement Plan permits participants at retirement to use up to 90% of their post-retirement death benefit to permanently increase their retirement annuity. The remaining balance is payable as a death benefit. The plan was amended to state that any participant under age 55 as of January 1, 2019 will not be eligible to use up to 90% of the death benefit to permanently increase their retirement annuity. Instead the entire balance will be payable as a lump-sum distribution upon death. In addition, all new participants entering the plan on or after January 1, 2019 will not be entitled to any death benefit.

The Tax-Deferred Savings Plan permits YMCA employees to make pre-tax elective deferrals and rollover contributions. The Fund has a loan program permitting participants in the Tax-Deferred Savings Plan to borrow from their accounts a minimum of \$1 up to a maximum equal to the lesser of \$50 or 50% of their Tax-Deferred Savings Account balances. The loans are secured by the balances in participants' accounts. The loan balance is reflected in other assets on the Balance Sheets. Principal and interest is paid ratably through payroll deductions. Participants in the Tax-Deferred Savings Plan can elect separate benefit distributions with respect to their account balances under the Retirement Plan and the Tax-Deferred Savings Plan. In response to the Coronavirus Aid Relief and Economic Security Act the maximum amount of a participant loan has been increased to the lesser \$100 or 100% of their Tax-Deferred Savings Account balances. This provision expires on September 22, 2020.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

Participants who have severed employment from YMCAs may request a distribution of their account balances subject to conditions and circumstances described in the Plan documents.

During fiscal year 2019 the Retirement Plan was amended to open a portability window allowing participants who severed employment prior to April 30, 2019 with account balances of \$100 or less to withdraw their account balance as a lump-sum. As a result \$141,500 was disbursed from the Retirement Plan (see note 4b).

(3) Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

(a) Use of 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 that affect the reported amounts of revenues, benefits and expenses during the reporting period. Current market conditions increase the risk and complexity of the judgments in these estimates. The global pandemic caused by COVID-19 has had an effect on the operations of the Fund. Participating employers have had to cease operations due to governmental orders. Participating employees have been furloughed or terminated resulting in an increase in requests for lump sum benefit payments and many YMCAs elected to reduce their contribution rates for their employees to 1%. While we believe these are all temporary conditions, they have the potential to effect the estimates of our liabilities if they were to become permanent. Actual results could differ from the estimates.

(b) Investment and Derivative Valuation and Income Recognition

Investments and derivatives are classified as trading and are stated at fair value in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 820), *Fair Value Measurements and Disclosures*. See note 5 for further information on fair value.

Alternative investments that are not readily marketable primarily consist of limited partnerships, limited liability companies, private equity investments, diversified investment companies, and offshore funds whose portfolios comprise domestic and foreign, publicly and privately traded equity and debt securities, real estate, options, and commodities. The fair value of alternative investments that are not readily marketable are reported at net asset value (NAV), as a "practical expedient," in conformity with the provision of the FASB Accounting Standards Update (ASU) No. 2009-12 and No. 2015-07, *Fair Value Measurements and Disclosures (Topic 820): Investment in Certain Entities That Calculate Net Assets per Share (or Its Equivalent)*. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Liquidity of individual hedge funds vary based upon a number of factors and may include "gates," "holdbacks" and "side pockets" imposed by the manager of the hedge fund. The Fund does not consider redemption rights, including any restrictions on redemptions, in its determination of fair value.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

Costs of equity securities sold are determined on the basis of average cost. Costs of fixed maturities are based on amortized value. Purchases and sales of investments are recorded on a trade-date basis. Amortization of discount or premium for fixed maturities is calculated on a straight-line basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

(c) Cash and Cash Equivalents

Cash equivalents consist of short-term investments such as commercial paper and U.S. Treasury Bills and U.S. Agencies with a maturity of three months or less.

(d) Assets Held under Securities Lending

The Fund participates in a securities lending program with its custodian bank which requires the custodian bank to hold collateral for securities loaned. The collateral is held in the form of cash, cash equivalents, fixed maturities and equities. In accordance with ASC 860, *Transfers and Servicing*, the Fund's share of collateral within the custodian bank's securities lending activities is recorded as an asset with a corresponding liability in the Balance Sheets.

(e) Fixed Assets

Purchases of furniture and fixtures, computer equipment, software and leasehold improvements in excess of \$10 are recorded at cost in the other asset line of the Balance Sheets. Depreciation and amortization are provided on the straight-line method based on the estimated useful lives of the related assets or, in the case of leasehold improvements, the term of the lease, if shorter.

(f) Accumulated Account Balances

Accumulated account balances are equal to contributions received and allocated to participant accounts plus interest credited on those accounts less lump-sum distributions. At retirement, participants elect a form of annuity benefit, the consideration for which is provided from the respective accumulated account balances. Such amounts increase the liability for future annuity benefits.

(g) Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires a lessee to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The standard is effective for the Fund after December 15, 2021, with early adoption permitted. The Fund is in the process of evaluating the impact of this new guidance.

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for the Long Duration Contracts (Topic 944)*, this changes how entities recognize, measure, present and disclose long duration contracts. The standard applies to companies that issue long duration contracts such as life insurance, disability income, long-term care and annuities. The standard is effective for the Fund on July 1, 2024, with early adoption permitted. The Fund has not yet determined the method or timing for adoption or estimated the effect on the Fund's financial statements.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

(h) Actuarial Assumptions

The following interest rates and mortality tables are used when determining the present value of the estimated future benefits:

	<u>2020</u>	<u>2019</u>
Valuation assumptions:		
Composite interest rate discount for pre and post-retirement	5.0%	5.6 %
Mortality table: RP-2014 blend of 75% Blue Collar and 25% White Collar Mortality Tables using the 2014 Buck Modified Improvement Scale for projection	✓	✓
Annuity conversion factors:		
Account balances pre '96 and subsequent interest accrued:		
Interest rate	8.0 %	8.0 %
Mortality table: 1951 Group Annuity Male Mortality table rated back 3 years	✓	✓
Account balances post '95 and subsequent interest earned:		
Interest rate	7.0 %	7.0 %
Mortality table: 1995 Buck Mortality table weighted 50% male/50% female	✓	✓
Rollover contribution received after March 1, 2003 and held by the Fund for less than 10 years and subsequent interest earned:		
Interest rate	5.0 %	5.0 %
Mortality table: 1995 Buck Mortality table weighted 50% male/50% female	✓	✓
Interest crediting rates:		
Interest crediting rate for pre '96 account balance and subsequent interest	5.0 %	5.0 %
Interest crediting rate for post '95 contribution and subsequent interest	2.0 %	3.0 %

When determining the actuarial liabilities, the Fund's actuary employed a composite discount rate of 5.0% and 5.6% along with the RP-2014 blend of 75% Blue Collar and 25% White Collar Mortality Tables using the 2014 Buck Modified Improvement Scale for projection for the fiscal years ended June 30, 2020 and 2019, respectively. Consideration given to purchase life annuities is accepted from participants after reaching retirement age and is converted to a life annuity based on mortality tables and interest rates in effect. Account balances are projected to grow by the regular interest crediting rates of 5% and 2%.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

During fiscal year 2020 the Board of Trustees passed two resolutions effecting the actuarial assumptions used to value future liabilities in the June 30, 2020 actuarial valuation report. The first resolution reduced the interest crediting assumption on account balances and accumulated interest from 3% to 2% decreasing the Fund's deficit by \$469,425. The second resolution was a decrease in the interest rate discount associated with the liabilities for future annuity benefits and death and disability reserves from 6% to 5%. This resulted in an increase in the Fund's deficit of \$774,116.

(i) Death and Disability

The death benefit reserve is determined by using the RP-2014 blend of 75% Blue Collar and 25% White Collar Mortality Tables with the mortality improvements projected based upon the 2014 Buck Modified Improvement Scale used for both males and females. This table was modified based upon the actual experience of the Retirement Plan.

The disability reserve is based upon 20% of the disability rates New York State Teachers Retirement system. This table, with the adjustment, best reflects the actual experience of the Retirement Plan. An interest factor of 5.0% and 5.6% was used when valuing this reserve for the fiscal years ended June 30, 2020 and 2019, respectively.

The actual results of both benefits are closely monitored annually to determine if an adjustment to the assumption is needed.

(j) Tax Status

The Fund is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Retirement Plan received a favorable determination letter, dated April 24, 2014, from the Internal Revenue Service (IRS) indicating that it meets all of the requirements of a qualified pension plan under the Internal Revenue Code. GAAP requires the Fund's management to evaluate tax positions taken by the Fund and recognize a tax liability (or asset) if the Fund has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the Fund's tax positions, and has concluded that as of June 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the Fund's financial statements. The IRS generally has the ability to examine an organization's activity for up to three years. There are no IRS audits, of the Fund, currently in progress.

(k) Subsequent Events

Management has evaluated subsequent events through August 11, 2020 the date the financial statements were available to be issued.

With the government still restricting the operations of many of our participating employers there has been a decrease in the number of participating employees due to terminations. A number of YMCAs continue to make contributions for their employees at the 1% level due to financial hardship. We are also seeing an increase in the number of retirements and lump sum benefit payments. It is our belief that when YMCAs are able to resume normal operations these trends will return to levels experienced prior to the onset of the pandemic.

THE YOUNG MEN'S CHRISTIAN ASSOCIATION RETIREMENT FUND

Notes to Financial Statements

June 30, 2020 and 2019

(Dollar amounts in thousands)

The financial statements at June 30, 2020 utilize a number of estimates for the valuation of alternative assets. These estimates include the financial statement values of limited partnerships on March 31, 2020 adjusted for any distributions, contributions or permanent impairments. By the date of the issuance of the Fund's financial statements a small number of limited partnerships issued their June 30, 2020 financial statements which indicated a recovery in asset value for the quarter ended June 30, 2020. Given that a majority of the alternative asset investments have not distributed their financial statements for the quarter ended June 30, 2020 management has taken a conservative approach and not changed the estimates used to develop the Fund's financial statements. Any increase in value due to the difference between the estimates used to prepare the Fund's financial statements and the actual values will be reflected in the subsequent reporting period.

(4) Accumulated Account Balances and Reserves

(a) Changes in Future Annuity Benefits

The following table represents changes to the liabilities for future annuity benefits:

	<u>2020</u>	<u>2019</u>
Balance, beginning of period	\$ 2,876,037	2,720,426
Interest credit allocations	183,300	174,500
Annuity benefits paid	(290,795)	(275,135)
Consideration received to purchase life annuities	225,232	190,535
Death benefits converted to life annuities	13,044	10,319
Actuarial adjustments: ⁽¹⁾		
Annuity reserves ⁽²⁾	323,452	39,210
Annuity purchase rate differential ⁽³⁾	586,762	10,197
Account valuation discount ⁽⁴⁾	<u>(644,390)</u>	<u>5,985</u>
Balance, end of period	\$ <u>3,272,642</u>	<u>2,876,037</u>

(1) The Actuarial adjustments for fiscal year 2020 are the result of the valuation assumption changes discussed in note 2 and 3(h).

(2) The Annuity Reserve is the actuarially estimated cost to provide life annuities to current retirees based upon mortality and monthly annuity amount. At June 30, 2020 and 2019, the balance in this reserve was \$3,453,845 and \$2,999,612, respectively.

(3) The Annuity Purchase Rate Differential is a provision for the difference between the annuity conversion interest rate and discount rate at the time of annuity conversion. This reserve is for participants who are not currently retired. At June 30, 2020 and 2019, the balance in this reserve was \$1,593,116 and \$1,006,354, respectively.

(4) The Account Valuation Discount represents the combined effect of the interest rate discount and the interest crediting rate assumptions. Since the interest crediting rate is lower than the interest

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rate discount, the combined effect reduces the reserve requirement needed to support benefit payments. Both of these interest rates are discussed in note 3. At June 30, 2020 and 2019, the balance in this reserve was (\$1,733,080) and (\$1,129,929), respectively. The effect of 0% interest declaration for the period July 1 through December 31, 2020 of (\$41,239) is also included in the Account Valuation Discount.

(b) Changes in Accumulated Account Balances for the Retirement Plan and the Tax-Deferred Savings Plan

The following table reflects the changes in the accumulated account balances of the Plans sponsored by the Fund:

	2020		2019	
	Retirement Plan ⁽¹⁾	Tax-Deferred Savings Plan ⁽²⁾	Retirement Plan ⁽¹⁾	Tax-Deferred Savings Plan ⁽²⁾
Balance, beginning of period	\$ 3,579,081	875,236	3,617,818	808,642
Interest credit allocations	115,729	26,713	165,271	37,468
Contributions to participant accounts	189,481	87,617	197,492	97,916
Consideration given to purchase life annuities	(181,071)	(44,161)	(157,236)	(33,299)
Lump-sum distributions ⁽³⁾	(69,571)	(38,381)	(237,831)	(34,276)
Account balances transferred to the death benefit reserves	(6,307)	(1,078)	(6,433)	(818)
Participant loan defaults	—	(1,148)	—	(856)
Net participant loan interest and fees	—	533	—	459
Balance, end of period	\$ <u>3,627,342</u>	<u>905,331</u>	<u>3,579,081</u>	<u>875,236</u>

(1) The Retirement Plan is a defined contribution, money purchase, church pension plan which is the primary vehicle used during the savings period of participants prior to retirement.

(2) The Tax-Deferred Savings Plan is a church retirement income account plan providing additional opportunities for participants to save tax deferred for retirement through elective, pre-tax contributions and rollover contributions.

(3) Includes \$141,500 of lump-sum payments made during the fiscal year 2019 as a result of the portability window (see note 2).

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(c) Changes in Death and Disability Benefit Reserves

The following table represents changes to the death and disability benefit reserves:

	<u>2020</u>	<u>2019</u>
Balance, beginning of period	\$ 229,358	231,021
Death benefit payments	(9,553)	(10,261)
Account balances transferred to the death benefit reserve	7,385	7,251
Death benefits converted to life annuities	(13,044)	(10,319)
Actuarial adjustments:		
Death benefit reserve	25,272	11,620
Disability benefit reserve	<u>147</u>	<u>46</u>
Balance, end of period	\$ <u>239,565</u>	<u>229,358</u>

This reserve is the actuarial estimate of the amounts required to pay future death and disability benefits.

(5) Investments

(a) General

The Fund invests in a variety of investment asset classes. These include domestic equities, foreign equities, fixed maturity securities, common/collective trusts, alternative investments, futures, options, and swaps. Investment securities, in general, are exposed to various risks, such as interest rate, credit, foreign exchange and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonable to expect that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment assets and liabilities of the Fund. The Fund's exposure to a concentration of risk is mitigated by the diversification of investments and limits on sector and individual company holdings.

(b) Fair Value Measurement

FASB ASC 820 establishes 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 I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

Level I – Investments that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. The types of investments generally included in this category are exchange traded equities or debt, short-term money market instruments or actively traded U.S. Government or corporate obligations, common/collective trusts, master limited partnerships and exchange traded derivatives. The fair value of these securities is generally based on quotations obtained from national securities exchanges or based on the estimated fair value of the trust.

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Level II – Investments valued using observable inputs such as quoted prices for identical securities in inactive markets or quoted prices for similar securities in active markets. Where securities are not listed on an exchange, quotations are obtained from brokerage firms. Level II investments generally included in this category are bonds, cash invested in short-term investment funds, and certain over-the-counter derivatives.

Level III – Unobservable inputs that are not corroborated by market data.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities. Investments measured at NAV are not classified. There have been no changes in the methodologies used at June 30, 2020 and June 30, 2019 and there were no transfers between fair value hierarchy levels for the year ended June 30, 2020.

The following table summarizes the valuation of the Fund's portfolio investments based on the provisions of FASB ASC 820 fair value hierarchy levels as of June 30, 2020:

<u>2020</u>	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Assets:				
Cash equivalents	\$ 381,059	54,000	327,059	—
Assets held under securities	—		—	—
lending agreement	88,839	88,839	—	—
Domestic equities	211,429	211,429	—	—
Foreign equities	352,328	352,328	—	—
Corporate bonds	1	—	1	—
Derivative contracts	18,945	18,945	—	—
	<u>1,052,601</u>	<u>725,541</u>	<u>327,060</u>	<u>—</u>
Investments measured at NAV:				
Common/collective trusts:				
Domestic equities	525,121			
Foreign equities	539,727			
Fixed maturities	519,122			
Hedge funds	1,867,176			
Private equity	1,384,191			
Real estate	317,612			
Private energy	286,533			
Distressed debt	346,181			
	<u>5,785,663</u>			
Total	\$ <u>6,838,264</u>	<u>725,541</u>	<u>327,060</u>	<u>—</u>
Liabilities:				
Derivative contracts	\$ (7,350)	(7,350)	—	—

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The following table summarizes the valuation of the Fund's portfolio investments based on the provisions of FASB ASC 820 fair value hierarchy levels as of June 30, 2019:

<u>2019</u>	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Assets:				
Cash equivalents	\$ 192,536	67,851	124,685	—
Assets held under securities lending agreement	102,658	102,658	—	—
Domestic equities	295,748	295,748	—	—
Foreign equities	384,299	384,299	—	—
Government and agency bonds	53,615	—	53,615	—
Corporate bonds	342	—	342	—
Master limited partnerships	14,745	14,745	—	—
Derivative contracts	6,286	6,286	—	—
	<u>1,050,229</u>	<u>871,587</u>	<u>178,642</u>	<u>—</u>
Investments measured at NAV:				
Common/collective trusts:				
Domestic equities	530,074			
Foreign equities	511,613			
Fixed maturities	593,338			
Hedge funds	2,219,422			
Private equity	1,230,738			
Real estate	249,635			
Private energy	381,353			
Distressed debt	212,931			
	<u>5,929,104</u>			
Total	\$ <u>6,979,333</u>	<u>871,587</u>	<u>178,642</u>	<u>—</u>
Liabilities:				
Derivative contracts	\$ (2,869)	(2,869)	—	—

The following table summarizes the unfunded commitments for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Private equity	\$ 816,510	846,054
Real estate	479,330	239,523
Energy	130,283	134,973
Distressed debt	169,193	244,484
Total	\$ <u>1,595,316</u>	<u>1,465,034</u>

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These amounts represent the total unfunded commitments that could be called by the general partner. The Fund does not anticipate that the total unfunded commitments will be called.

(c) Alternative Investments

The Fund's alternative investments are diversified across a number of strategies and consist of domestic and foreign limited partnerships and limited liability companies. The strategies employed by these investments are detailed below:

(i) Hedge Funds

The Hedge Funds investments are separated into two distinct strategies:

- a) Directional strategies pursue strong alpha combined with some exposure to equity or credit markets. The Directional portfolio will be a net-long biased portfolio that, when combined with the Fund Long-Only Equity and Credit portfolios, optimizes to the Fund targeted amount of Equity and Credit risk. The major strategies are:

Long/Short Equity – invests primarily in funds that, in turn, invest in liquid, marketable securities, attempting to realize gains through the identification of mispriced securities.

Credit – strategies include directional and hedged investments in debt securities, credit derivatives and related instruments. The investment approaches include directional credit, both long and short, and credit arbitrage.

Event Driven – a hedge fund strategy in which the manager takes positions in a certain number of companies with “special situations.” These “special situations” could include distressed stocks, mergers, takeovers, and big news stories.

- b) Diversifying strategies pursue absolute returns and have little or no correlation to equity or credit markets. The major types of strategies are:

Global Macro – a strategy that typically bases its holdings, such as long and short positions in various equity, fixed income, currency, and futures markets, primarily on overall economic and political views of various countries.

Trend-Following – a strategy based on systematically capturing the momentum risk premium exhibited across the broad universe of futures markets (typically, global fixed income, currency, commodity, and equity futures markets). In general, trend-following strategies are liquid, transparent, and flexible in terms of targeted level of risk (i.e., volatility can be easily scaled up or down).

Various “Relative Value” and “Arbitrage” strategies that try to capitalize on price differences across a variety of asset classes including but not limited to Convertible Arbitrage, Merger Arbitrage, Fixed Income Arbitrage and Equity Market Neutral.

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(ii) *Private Equity*

Private equity consists of three major strategies, Buyout, Growth Capital and Venture Capital. Buyout funds typically purchase significant equity stakes in established companies with the goal of increasing value through financial, operational, and strategic changes. Growth funds typically invest in rapidly growing but established businesses. Venture Capital funds provide capital and professional expertise to early stage businesses in exchange for equity ownership with the potential for significant growth and value creation.

(iii) *Private Real Estate*

Private real estate consists of two major strategies, Core/Core Plus and Value Added/Opportunistic. Core/Core Plus assets typically have low operational risk by virtue of being well occupied by creditworthy tenants. Value Added/Opportunistic invests in a broad range of property types with an objective of maximizing value through repositioning and/or enhancing properties.

(iv) *Private Energy*

Private energy consists of two major approaches: Resource-Based funds and Private Equity funds. Resource-based funds invest in oil and gas wells and attempt to improve production based on modern techniques. Private Equity-oriented funds invest in companies throughout the spectrum with the intent of improving value through management and process improvements, and accretive acquisitions.

(v) *Distressed Debt*

This strategy involves purchasing debt of companies in financial distress and holding that debt until settlement with the belief that the final value will be greater than the existing market value at the time of purchase.

(vi) *Commodity Fund and Futures*

These investments provide exposure to the U.S. commodity markets through Commodity Index Funds and other commodity related investments, providing additional diversification to the portfolio and some protection against inflation.

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(d) Redemption periods for Alternative Investments and Common/Collective Trusts

The following table summarizes the investments at fair value by the various redemption and lock-up periods as of June 30:

Redemption period	2020	2019
Daily	\$ 607,311	662,437
Monthly	852,301	926,867
Quarterly	1,522,482	1,024,681
Annual	414,028	435,613
Lock-up ⁽¹⁾	2,389,541	2,894,251
Total	\$ 5,785,663	5,943,849

⁽¹⁾ The amount subject to redemption lock-up is set to expire as follows:

Fiscal year ending	2020	2019
2020	\$ —	784,721
2021	87,329	198,165
2022	214,288	129,008
2023	241,231	194,827
2024 and thereafter	1,846,693	1,587,530
Total	\$ 2,389,541	2,894,251

(6) Securities Lending

The Fund's investment activities include participation in the security lending program of its custodian bank. This program involves the lending of securities to institutional investors in exchange for collateral in the form of cash, securities and letters of credit of at least 103% of the fair value of the loaned instruments.

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While these financial instrument lending transactions may expose the Fund to credit and market risks in the event that the borrower is unable to fulfill its contractual obligations, the collateral held and the nature of the bank's program of oversight and controls provide risk management features. The collateral held is invested during the period securities are on loan. At June 30, 2020 and 2019, the value of the collateral held, and the value of the collateral to be repaid, as well as the fair values of loaned securities were as follows:

	<u>2020</u>	<u>2019</u>
Collateral to be repaid	\$ 88,839	102,658
Fair value of loaned securities:		
Domestic equities	\$ 75,053	98,879
Foreign equities	<u>11,494</u>	<u>1,501</u>
Total fair value of loaned securities	<u>\$ 86,547</u>	<u>100,380</u>

At June 30, 2020 and 2019, collateral held was reinvested in the following: Bank Deposits 10.1% and 17.1%, respectively; Corporate Bonds and Asset Backed Securities 18.1% and 32.3%, respectively; Government and Agency Bonds 71.8% and 50.6%, respectively. The fair value of the invested collateral was \$42 less than the collateral to be repaid, at June 30, 2020.

(7) Derivatives

Derivatives are financial arrangements among two or more parties with returns linked to or "derived" from some underlying equity, debt, commodity or other asset, liability, or index. Derivative payments may be based on interest rates and exchange rates and/or prices of certain securities, commodities, or financial or commodity indices or other variables.

The Fund holds investments in futures, option, and foreign currency contracts. These instruments are acquired and held to add incremental value and to hedge or reduce investment risk. Although the contract or notional amounts of these instruments are not recorded on the financial statements, these instruments are recognized as either an asset or a liability depending on the rights or obligations of the contract measured at fair value.

These instruments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized in the financial statements. The Fund minimizes the credit (or repayment) risk in these instruments by entering into transactions with high-quality counterparties. The Fund manages market risk by establishing and monitoring limits as to the type and degree of risk that may be undertaken.

The Fund uses forward foreign currency contracts to facilitate transactions in foreign securities, and as a hedge against specific transactions. Such contracts are valued based upon the applicable foreign exchange rates and any resulting unrealized gains or losses are recorded in the Fund's financial statements. Realized gains or losses are recorded at the time the forward contract is closed or the currency is delivered. Risks in foreign currency contracts are managed through careful selection of counterparties.

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The following is a summary of the fair value, realized gains and losses and changes in of the derivative instruments utilized by the Fund, categorized by risk exposure as of June 30, 2020 and 2019.

<u>2020</u>	<u>Risk</u>	<u>Asset</u>	<u>Liability</u>	<u>Net</u>	<u>Realized gains</u>
Futures contracts	Interest rate	\$ 243	—	243	13,429
Futures contracts	Foreign currency	2	(530)	(528)	789
Futures contracts	Equity markets	14,106	(3,557)	10,549	37,485
Futures contracts	Commodity markets	606	—	606	789
Written option contracts	Foreign currency	1,526	—	1,526	4,354
Written option contracts	Equity markets	2,462	(3,263)	(801)	470
Total derivative instruments		<u>\$ 18,945</u>	<u>(7,350)</u>	<u>11,595</u>	<u>57,316</u>

<u>2019</u>	<u>Risk</u>	<u>Asset</u>	<u>Liability</u>	<u>Net</u>	<u>Realized gains/ (losses)</u>
Futures contracts	Interest rate	\$ 2,632	—	2,632	3,714
Futures contracts	Foreign currency	485	(172)	313	9,479
Futures contracts	Equity markets	3,168	(2,696)	472	(3,503)
Total derivative instruments		<u>\$ 6,285</u>	<u>(2,868)</u>	<u>3,417</u>	<u>9,690</u>

Generally, the Balance Sheet location for asset derivatives is other investment assets and for liability derivatives is other investment liabilities.

Future contracts include cumulative gains and losses as reported in the notes. Only current day's variation margin is reported on the Balance Sheets.

The Fund's future contracts mature in December 2020.

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(8) Investment and Administrative Expenses

(a) Investment Expenses

External management fees are paid to various investment managers in a variety of asset classes. They are typically based on the value of the assets under management. Internal investment expenses consists of the other costs related to investing the Fund's assets including but not limited to salaries, custodial costs and investment consulting costs. A summary of investment expenses is as follows:

	<u>2020</u>	<u>2019</u>
External management fees	\$ 18,472	14,952
Internal investment expenses	9,365	8,729
Total	\$ <u>27,837</u>	<u>23,681</u>

(b) Administrative Expenses

A summary of administrative expenses is as follows:

	<u>2020</u>	<u>2019</u>
Technology	\$ 6,658	5,851
Occupancy	1,898	1,842
Administration	15,644	16,663
Depreciation	674	576
Total	\$ <u>24,874</u>	<u>24,932</u>

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(9) Fixed Assets

Office furniture and fixtures, computer equipment, and leasehold improvements are reflected in other assets on the Balance Sheets. At June 30, 2020 and 2019 the value of these assets are:

	<u>2020</u>	<u>2019</u>	<u>Estimated useful lives</u>
Furniture and fixtures	\$ 1,163	1,163	5 to 10 years
Computer equipment	1,156	359	3 to 5 years
Software	1,616	1,616	5 year life
Office equipment	165	165	5 year life
Leasehold improvements	<u>5,072</u>	<u>5,072</u>	Life of lease
	9,172	8,375	
Less accumulated depreciation and amortization	<u>4,472</u>	<u>3,798</u>	
Total net fixed assets	\$ <u><u>4,700</u></u>	<u><u>4,577</u></u>	

(10) Employee Pensions

The Fund's employees participate in the Retirement Plan and the Tax-Deferred Savings Plan. Fund contributions to the Retirement Plan are a percentage of the participating employees' compensation. Participating employees can also contribute to the Tax-Deferred Savings Plan with pre-tax contributions. All contributions are credited to the employees' accounts semi-monthly. Total Fund contributions for all eligible employees for the years ended June 30, 2020 and 2019 aggregated \$1,442 and \$1,355, respectively.

(11) Commitments and Contingencies

Leases

In March 2013, the Fund entered into a non-cancelable operating lease agreement for office space at 120 Broadway, New York, NY. Lease payments commenced in January 2015 after a ten month free rent period. The lease will expire in December 2029. In addition to office space at 120 Broadway, the Fund has a non-cancelable operating lease agreement for storage space in the basement. This lease is also due to expire in December 2029.

On January 9, 2007, the Fund entered into a non-cancelable operating lease agreement for office space at 200 Metroplex Drive, Edison, NJ. The Metroplex facility was developed as a continuity site to ensure uninterrupted operation in the event the New York office becomes inaccessible. Lease payments commenced in April 2007 with an expiration date in April 2015. This lease was modified extending the expiration date to December 2024.

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Future annual rent commitments are as follows:

	<u>Office Space New York, NY</u>	<u>Continuity Site Edison, NJ</u>	<u>Storage Space New York, NY</u>
Year ending June 30:			
2021	\$ 1,978	81	16
2022	1,978	81	16
2023	1,978	81	16
2024	1,978	81	16
2025	2,077	43	17
Thereafter	<u>9,793</u>	<u>—</u>	<u>79</u>
Total	\$ <u>19,782</u>	<u>367</u>	<u>160</u>

Total rental expenses including deferred rent expense for 120 Broadway amounted to \$2,146 in 2020 and \$2,037 in 2019. The free rent period at 120 Broadway started in March 2014 and ended in December 2014. The rent attributable to this period was recorded as rent expense with a corresponding deferred credit. This credit is being amortized to rent expense at the rate of \$104 per year over the life of the lease starting in January 2015.

Letter of Credit

Under the terms of the 120 Broadway lease agreement, the Fund secured a letter of credit for \$300 in favor of the landlord, 120 Broadway Holdings, LLC which is collateralized by a Certificate of Deposit. This letter of credit expires in May 2030. The annual fee for this letter of credit is 1/2 of 1%.